

EBENSBURG MUNICIPAL AUTHORITY
EBENSBURG, PENNSYLVANIA

Financial Statements
December 31, 2017 and 2016

EBENSBURG MUNICIPAL AUTHORITY
FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

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INDEPENDENT AUDITOR'S REPORT

January 26, 2018

The Members of the Board
Ebensburg Municipal Authority
Ebensburg, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Ebensburg Municipal Authority (the Authority), a component unit of Ebensburg Borough, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Authority's financial statements.

Management's Responsibility for the Financial Statements

Ebensburg Municipal Authority's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Ebensburg Municipal Authority as of December 31, 2017 and 2016, and the respective changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the Management Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.



WESSEL & COMPANY
Certified Public Accountants

EBENSBURG MUNICIPAL AUTHORITY
STATEMENTS OF NET POSITION
DECEMBER 31, 2017 AND 2016

	<u>ASSETS</u>	<u>Business-Type Activities</u>	
		<u>2017</u>	<u>2016</u>
Current Assets			
Cash		\$ 122,102	\$ 136,530
Total Current Assets		<u>122,102</u>	<u>136,530</u>
Capital Assets -			
Net of accumulated depreciation		<u>15,111,623</u>	<u>15,427,790</u>
Total Assets		<u>\$ 15,233,725</u>	<u>\$ 15,564,320</u>
 <u>LIABILITIES AND NET POSITION</u> 			
Current Liabilities			
Current portion of notes payable		\$ 608,982	\$ 597,400
Total Current Liabilities		608,982	597,400
Long-term portion of notes payable		<u>7,059,791</u>	<u>7,668,772</u>
Total Liabilities		<u>7,668,773</u>	<u>8,266,172</u>
Net Position			
Invested in capital assets, net of related debt		7,442,850	7,161,618
Unrestricted		<u>122,102</u>	<u>136,530</u>
Total Net Position		<u>7,564,952</u>	<u>7,298,148</u>
Total Liabilities and Net Position		<u>\$ 15,233,725</u>	<u>\$ 15,564,320</u>

See Independent Auditor's Report and
Accompanying Notes to Financial Statements

EBENSBURG MUNICIPAL AUTHORITY
 STATEMENTS OF REVENUES, EXPENSES, & CHANGES IN NET POSITION
 FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>Business-Type Activities</u>	
	<u>2017</u>	<u>2016</u>
<u>Operating Revenues</u>		
Rental income	\$ 9,448	\$ 8,645
Rental income - Ebensburg Borough	<u>1,392,455</u>	<u>760,623</u>
Total Operating Revenues	<u>1,401,903</u>	<u>769,268</u>
<u>Operating Expenses</u>		
Professional fees	47,093	2,043
Depreciation expense	598,037	598,037
Miscellaneous	<u>5,401</u>	<u>151</u>
Total Operating Expenses	<u>650,531</u>	<u>600,231</u>
Operating Income	<u>751,372</u>	<u>169,037</u>
<u>Non-Operating Revenues/(Expenses)</u>		
Intergovernmental Reimbursement	(347,716)	(28,270)
Interest income	399	173
Interest expense	<u>(137,251)</u>	<u>(147,297)</u>
Total Non-Operating (Expenses)	<u>(484,568)</u>	<u>(175,394)</u>
Change in Net Position	266,804	(6,357)
Net Position - Beginning of Year	<u>7,298,148</u>	<u>7,304,505</u>
Net Position - End of Year	<u>\$ 7,564,952</u>	<u>\$ 7,298,148</u>

See Independent Auditor's Report and
 Accompanying Notes to Financial Statements

EBENSBURG MUNICIPAL AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash Flows From Operating Activities:		
Payments received from lessees	\$ 1,401,903	\$ 769,268
Payments to suppliers for goods and services	<u>(52,494)</u>	<u>(2,194)</u>
Net Cash Provided By Operating Activities	<u>1,349,409</u>	<u>767,074</u>
Cash Flows From Capital and Related Financing Activities:		
Purchases of capital assets	(281,870)	-
Intergovernmental reimbursement	(347,716)	(28,270)
Proceeds from notes payable	-	28,270
Payments on notes payable	<u>(597,399)</u>	<u>(590,068)</u>
Net Cash (Used In) Capital and Related Financing Activities	<u>(1,226,985)</u>	<u>(590,068)</u>
Cash Flows From Investing Activities:		
Interest received	399	173
Interest paid	<u>(137,251)</u>	<u>(147,297)</u>
Net Cash (Used In) Investing Activities	<u>(136,852)</u>	<u>(147,124)</u>
Net (Decrease)/Increase in Cash and Cash Equivalents	(14,428)	29,882
Cash and Cash Equivalents - Beginning of the Year	<u>136,530</u>	<u>106,648</u>
Cash and Cash Equivalents - End of the Year	<u>\$ 122,102</u>	<u>\$ 136,530</u>

See Independent Auditor's Report and
Accompanying Notes to Financial Statements

EBENSBURG MUNICIPAL AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

Reconciliation of operating income to net cash provided by operating activities:

Operating income	\$ 751,372	\$ 169,037
	<u> </u>	<u> </u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	598,037	598,037
	<u> </u>	<u> </u>
Total Adjustments	598,037	598,037
	<u> </u>	<u> </u>
Net Cash Provided By Operating Activities	<u>\$ 1,349,409</u>	<u>\$ 767,074</u>

Disclosure of Accounting Policy:

The Authority considers all unrestricted, highly liquid investments with a maturity of three (3) months or less when purchased to be "cash equivalents."

EBENSBURG MUNICIPAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Ebensburg Municipal Authority (the Authority) was created by the Borough of Ebensburg, Cambria County, State of Pennsylvania under the Municipal Authorities Act of 1945 of the Commonwealth of Pennsylvania. The Authority is exercised by a governing body of five (5) members with varying terms.

The Authority is an enterprise operating entity whereby the costs to acquire its assets and run its operations are obtained from rental fees and capital grants.

The life of the Authority expires in 2040 under the present charter.

Basis of Accounting

The financial statements of the Authority have been prepared in conformity with generally accepted accounting principles (GAAP) in the United States as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's policies are described below.

A. Basic Financial Statements

The accounts of the Authority are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Authority's assets, deferred outflows, liabilities, deferred inflows, net position, revenues and expenses. Enterprise Funds account for activities that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

B. **Measurement Focus, Basis of Accounting, and Basis of Presentation**

The basic financial statements provide information about the Authority's business type activities. The financial statements for the business-type activities are also often referred to as enterprise fund financial statements.

"Measurement Focus" is an accounting term used to describe which transactions and types of balances are recorded within the various financial statements. The expression, "Basis of Accounting", refers to when transactions or events are recorded regardless of the measurement focus applied.

Because of the "businesslike" characteristics of the Authority's operations, the accompanying financial statements for business-type activities reflect the economic resources measurement focus and the accrual basis of accounting. The accounting objectives of the "economic resources" measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

Under full accrual accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred or economic asset used, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Authority reports the following funds:

Proprietary Funds

Enterprise Fund – the Enterprise Fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through rental fees; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability and other purposes.

Reporting Entity

The Authority follows the Statement of Governmental Accounting Standards Board No. 61, "The Financial Reporting Entity." The criteria for including organizations as component units with the Authority's reporting entity include whether:

- The organization is legally separate (can sue and be sued in their own name)
- The Authority holds the corporate powers of the organization
- The Authority appoints a voting majority of the organization's board
- The Authority is able to impose its will on the organization
- The organization has the potential to impose a financial benefit/burden on the Authority
- There is fiscal dependency by the organization on the Authority

Based on the aforementioned criteria, no entity has been included as a component unit of the Authority's reporting entity. The Authority is considered a component unit of Ebensburg Borough.

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable business-type activities column in the financial statements. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at their estimated fair market value on the date of the donation.

Expenditures that increase the life or extend the productivity of the asset are capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Depreciation of exhaustible assets is provided on the straight-line basis over the following estimated useful lives:

Construction In Progress	Not Depreciated
Land, Building and Rights of Way	Not Depreciated
Equipment	10 - 15 years
Sewage Treatment Plant, Upgrades and Improvements	40 years
Water Treatment Plant, Upgrades and Improvements	40 - 50 years

Capital Grants and Contributions

The Authority receives capital grants from certain governmental agencies to be used for various purposes connected with the planning, modernization, and expansion of sewer and water lines, facilities and equipment. Capital grants of the Authority are reported as revenue rather than contributed capital as required by GASB No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

Net Position

Net position represents the difference between assets, deferred outflows, liabilities and deferred inflows. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors, or laws or other regulations of other governments.

The Authority's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Significant Estimates

The Authority uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported carrying amounts of assets and liabilities, the disclosure of assets and liabilities, and reported revenues and expenses. Actual results could vary from estimates that management uses.

Pending Changes in Accounting Principles

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. The Authority is required to adopt Statement No. 83 for its fiscal year 2019 financial statements.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The Authority is required to adopt Statement No. 84 for its fiscal year 2020 financial statements.

In March 2017, the GASB issued Statement No. 85, Omnibus 2017. The Authority is required to adopt Statement No. 85 for its fiscal year 2018 financial statements.

In May 2017, the GASB issued Statement No. 86, Certain Debt Extinguishment Issues. The Authority is required to adopt Statement No. 86 for its fiscal year 2018 financial statements.

In June 2017, the GASB issued Statement No. 87, Leases. The Authority is required to adopt Statement No. 87 for its fiscal year 2021 financial statements.

The Authority has not completed the various analysis required to estimate the financial statement impact of these new pronouncements.

NOTE 2 - CASH AND INVESTMENTS

The Authority has a policy that requires all deposits and investments, other than U.S. government obligations, to be covered by Federal insurance or to be fully collateralized by the financial institution issuing the investment or acquiring the deposit. Deposits that are not insured by the Federal Deposit Insurance Corporation are collateralized using the pooled asset method to one hundred percent (100%) of value as required by Pennsylvania Law.

The securities pledged as collateral are held by the trust department of a financial institution or by its agents in the financial institution's name. When certificates of deposit are purchased, the Authority or its agent either holds the actual certificate of deposit or receives a safekeeping certificate as its proof of ownership.

Pennsylvania Law limits investment and deposit types the Authority may purchase as follows:

- (a) U.S. Treasury bills.
- (b) Short-term obligations of the U.S. government or its agencies.
- (c) Demand, savings and time deposits with institutions insured by the FDIC or the National Credit Union Share Funds or collateralized with securities as provided by law.
- (d) Obligations of the United States or any of its agencies, the Commonwealth of Pennsylvania or any of its agencies or any political subdivision of the Commonwealth of Pennsylvania or any of its agencies providing the obligations are backed by the full faith and credit of the political subdivision.

Deposits include items described in (c).

A. Deposits

As of December 31, 2017 and 2016, the carrying amount of the Authority deposits totaled \$122,102 and \$136,530, respectively, at one financial institution. At the financial institution, \$250,000 of the bank balances are covered by federal depository insurance and \$0 is collateralized using the pooled asset method at December 31, 2017 and 2016; however, because funds are not collateralized with securities registered in the Authority's name, they are considered uncollateralized. The amounts are included on the statements of net position as cash.

NOTE 3 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment assets consist of the following major classifications:

	Balance Dec. 31, 2016	Additions	Disposals	Balance Dec. 31, 2017
Capital Assets Not Being Depreciated:				
Land, building and rights of way	\$ 158,588	\$ ---	\$ ---	\$ 158,588
Construction in Progress	---	281,870	---	281,870
Total Capital Assets Not Being Depreciated	158,588	281,870	---	440,458
Capital Assets Being Depreciated:				
Equipment	49,499	---	---	49,499
Sewage treatment plant, upgrades and improvements	13,199,833	---	---	13,199,833
Water treatment plant, upgrades and improvements	13,136,955	---	---	13,136,955
Total Capital Assets Being Depreciated	26,386,287	---	---	26,386,287
Less Accumulated Depreciation for:				
Equipment	(49,499)	---	---	(49,499)
Sewage treatment plant, upgrades and improvements	(5,889,483)	(295,378)	---	(6,184,861)
Water treatment plant, upgrades and improvements	(5,178,103)	(302,659)	---	(5,480,762)
Total Accumulated Depreciation	(11,117,085)	(598,037)	---	(11,715,122)
Total Capital Assets Being Depreciated, Net	15,269,202	(598,037)	---	14,671,165
Total Capital Assets, Net	\$15,427,790	\$ (316,167)	\$ ---	\$15,111,623

The depreciation expense amounted to \$598,037 for each of the years ended December 31, 2017 and 2016.

NOTE 4 - NOTES PAYABLE

Changes during 2017 and balances at December 31, 2017, of long-term debt, including current portions of the Authority are as follows:

	Balance Dec. 31, 2016	Additions	Payments	Balance Dec. 31, 2017	Amounts Due Within One Year
Pennvest (2004) - Community water system	\$ 2,034,598	\$ ---	\$ (204,397)	\$ 1,830,201	\$ 210,026
Pennvest (2007) - Sewer system and sludge	1,251,127	---	(98,932)	1,152,195	101,488
Pennvest (2008) - WWTP upgrade	361,779	---	(28,944)	332,835	29,236
Pennvest (2012) Water Construction	4,114,790	---	(223,048)	3,891,742	225,305
Pennworks (2007) -WWTP upgrade	503,878	---	(42,078)	461,800	42,927
Long-term obligations	<u>\$ 8,266,172</u>	<u>\$ ---</u>	<u>\$ (597,399)</u>	<u>\$ 7,668,773</u>	<u>\$ 608,982</u>

On December 8, 2004, the Authority entered into an agreement with PENNVEST to borrow funds in order to construct additions and improvements to its community water system located in the Borough of Ebensburg and the Townships of Cambria, East Taylor and Jackson. Principal and interest are payable monthly through November 1, 2025. The loan bears interest at 1.38% per year for the first seventy-one (71) months and 2.72% per year for the remainder of the loan.

On May 3, 2007, the Authority entered into an agreement with PENNVEST to borrow funds for the purpose of constructing Sanitary Sewer System Improvements and the Sludge Dewatering Improvements project. Principal and interest are payable monthly through January 1, 2028. The loan bears interest at 1.28% per year for the first sixty-eight (68) months and 2.55% per year for the remainder of the loan.

On February 26, 2008, the Authority entered into an agreement with PENNVEST to borrow funds for the purpose of constructing a Waste Water Treatment Upgrade Project. Principal and interest are payable monthly through October 1, 2028. The loan bears interest at the rate of 1.00% per year.

On August 27, 2007, the Authority entered into an agreement with the Water Supply and Wastewater Infrastructure Capitalization Program, otherwise known as Pennworks, to borrow funds for the purpose of expanding and upgrading the wastewater treatment facilities owned and operated by the Authority. Principal and interest are payable monthly through October 1, 2027. The loan bears interest at the rate of 2.00% per year.

On August 20, 2012, the Authority entered into an agreement with PENNVEST to borrow funds for the purpose of the Water Improvement project. Principal and interest are payable monthly through December 1, 2033. The loan bears interest at 1.01% per year for the first five (5) years and 2.01% per year for the remainder of the loan.

All loans are guaranteed by the Borough of Ebensburg.

Maturities of long-term debt for each of the next five (5) years and thereafter are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	608,982	125,605	734,587
2019	620,829	113,758	734,587
2020	632,946	101,641	734,587
2021	645,340	89,247	734,587
2022	658,019	76,568	734,587
2023-2027	2,931,440	197,043	3,128,483
2028-2032	1,308,966	46,145	1,355,111
2033	262,251	1,432	263,683
	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 7,668,773</u>	<u>\$ 751,439</u>	<u>\$ 8,420,212</u>

NOTE 5 - RELATED PARTY TRANSACTIONS

In December 2017, the Authority entered into a new, five (5) year term, Operating Agreement, replacing a prior agreement dated November 2012, with the Borough of Ebensburg, whereby the Borough is authorized to manage and operate the day to day operations of the sewer and water systems and to employ Borough personnel in connection with all routine procedures. Under the terms of the agreement, the Authority will compensate the Borough for administrative management services provided in the amount of \$201,000 annually, payable on a quarterly basis. As described in Note 1, the Authority is a component unit of Ebensburg Borough.

The Borough remits both principal and interest costs to the Authority related to all Municipal Authority loans, in addition to payments for certain other Authority obligations. In 2017 and 2016, payments made by the Borough amounted to \$751,964 and \$760,623, respectively, for debt service payments on the Authority's loans. In 2017, the Borough also made payments of \$640,491 to support the Waste Water Project.

In connection with the Pennsylvania Municipal Authorities' Act, the Borough appoints all members of the Authority board. However, the Authority retains all powers regarding the establishment of rates, regulations and major policies.

NOTE 6 - OPERATING LEASES

The Authority leases certain property to tenants with lease periods ranging from one to five years. The leases generally contain renewal options, as well as escalation provisions. Rental income from these leases was \$9,448 and \$8,645, respectively for 2017 and 2016.

The future minimum rentals for the next five (5) years on such leases as of December 31, 2017, are approximately as follows:

2018	\$ 9,522
2019	9,522
2020	9,522
2021	9,522
2022	9,522

NOTE 7 - COMMITMENTS AND CONTINGENCIES

Litigation

In the normal course of operations, the Authority is involved in various disputes and grievances. Management is of the opinion that any outcome resulting from these actions would not have a material effect on the Authority's financial position.

Other Capital Projects

Waste Water Project– The intention of the projection is to remove storm water and groundwater from sanitary sewer lines. This will include replacing 60,500 feet of main line piping. The project is currently under design and expected to begin construction in April 2018 and complete construction in June 2019. Engineering costs are included in Construction-In-Progress in the amount of \$281,870. Total expected construction costs are estimated at \$8,421,000.

A PennVest loan was approved for the project in the amount of \$9 million at a one percent (1%) interest rate over twenty-five (25) years to finance the project. The PennVest loan will not be closed until April 2018.

The Ebensburg Municipal Authority also received a proposal from 1st Summit Bank for a two (2) year \$1,000,000 revolving line of credit to be used for bridge financing during the term of the 2018 Waste Water Project. The Borough would guarantee the loan.

NOTE 8 - SUBSEQUENT EVENTS

Effective January 1, 2018, the Authority entered into an Agreement of Lease with the Borough of Ebensburg, whereby the Authority is the owner of and desires to lease to the Borough certain water distribution and treatment facilities, sanitary sewer collection and treatment facilities and stormwater management systems.

Subsequent events were considered through January 26, 2018, the date the financial statements were available to be issued.