

FOX CHAPEL AUTHORITY
(Water Works System)

Financial Statements

December 31, 2019

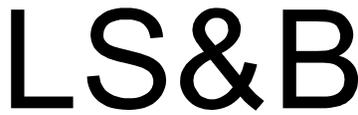
FOX CHAPEL AUTHORITY

(Water Works System)

DECEMBER 31, 2019

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Fox Chapel Authority
Pittsburgh, Pennsylvania

We have audited the accompanying financial statements of Fox Chapel Authority Water Works System, which comprise the statements of net position as of December 31, 2019 and December 31, 2018, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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 audits. We conducted our audits 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 of 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 organization'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 Authority'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 opinion.

Opinion

In our opinion, the financial statements referred to on page 1 present fairly, in all material respects, the financial position of Fox Chapel Authority as of December 31, 2019 and December 31, 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the supplementary information on pages 3 through 10 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management and the actuary about the methods of preparing the information and comparing the information for consistency with management's and the actuary's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Love, Scherle + Bauer, P.C.
Certified Public Accountants

Pittsburgh, Pennsylvania
June 1, 2020

REQUIRED SUPPLEMENTARY INFORMATION

FOX CHAPEL AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Authority's financial performance provides an overview of the Authority's financial activities for the year ended December 31, 2019. Please read it in conjunction with the Authority's financial statements.

GENERAL:

The Fox Chapel Authority was created by Fox Chapel Borough and the Townships of Harmar, Indiana and O'Hara in accordance with the Pennsylvania Municipality Authorities Act of June 28, 1935 for a term of 50 years. The Authority was incorporated on September 23, 1938 and is authorized to operate water treatment, supply and distribution systems. On June 30, 2012, the Authority's life was extended to December 31, 2050.

The Authority currently serves 5,504 accounts with the following breakdown: 5,265 residential, 214 commercial, 22 municipal, 1 industrial and 2 bulk customers. The system consists of approximately 113 miles of pipe ranging in size from 2" to 16" in diameter. The system has five storage facilities with a capacity of 3.63MG. The Authority is constantly upgrading its distribution system and storage facilities.

In July of 1995, the Authority entered into a 30 year water supply agreement with Pittsburgh Water and Sewer Authority to supply up to 10MG. The Fox Chapel Authority water treatment plant ceased operating in November 1997.

FINANCIAL HIGHLIGHTS:

The Authority's net position increased by \$363,985 for 2019 as a result of operations. The Authority's operating revenues increased by \$637,137 while operating expenses increased by \$326,396 for 2019. The increase in operating revenues resulted principally from an increase in water rates adopted March 1, 2019. The increase in operating expenses resulted from increased distribution system expenses. Capital expenditures totaled \$434,335 for 2019, exclusive of \$304,965 in capital contributions.

OVERVIEW:

This annual report contains both the Required Supplementary Information and the Financial Statements. The Financial Statements also include the Independent Auditor's Report and Notes to Financial Statements that offer a more detailed explanation of those Statements.

The Financial Statements of the Authority are compiled using the enterprise fund method of accounting which is similar to the methods used by the private sector. The statement of net position reports all of the Authority's assets, deferred outflows of resources, liabilities, deferred inflows of resources and resulting net position. The overall condition of the Authority is viewed in this statement. The Statement of Revenues, Expenses and Changes in Net Position reports the revenues and expenses of the Authority. This statement shows the year's activity. The statement can be used to view the Authority's ability to meet expenses, profitability, and help determine its credit worthiness. The third financial statement is the Statement of Cash Flows. Information is provided within this statement as to the Authority's cash receipts and cash payments for the reporting period. The statement further illuminates the net changes in investing activities and financing activities. This statement can be used to view where the cash comes from, what the cash is used for, and the increase or decrease in cash for the reporting period.

OVERVIEW (CONTINUED):

A summary of the Authority's statement of net position at December 31, 2019 and December 31, 2018 follows:

| | <u>2019</u> | <u>2018</u> | <u>Increase (Decrease)</u> |
|---|----------------------|----------------------|--------------------------------|
| ASSETS: | | | |
| Current assets | \$ 2,500,638 | \$ 2,615,379 | \$ (114,741) |
| Prepaid pension | 76,855 | - | 76,855 |
| Investment in facilities | <u>27,242,212</u> | <u>27,129,692</u> | <u>112,520</u> |
| Total Assets | <u>29,819,705</u> | <u>29,745,071</u> | <u>74,634</u> |
| DEFERRED OUTFLOWS OF RESOURCES | <u>180,497</u> | <u>274,642</u> | <u>(94,145)</u> |
| LIABILITIES: | | | |
| Pension payable | - | 159,803 | (159,803) |
| Current liabilities | 900,531 | 1,198,477 | (297,946) |
| Long-term debt | <u>5,945,260</u> | <u>6,363,161</u> | <u>(417,901)</u> |
| Total Liabilities | <u>6,845,791</u> | <u>7,721,441</u> | <u>(875,650)</u> |
| DEFERRED INFLOWS OF RESOURCES | <u>273,186</u> | <u>85,997</u> | <u>187,189</u> |
| NET POSITION: | | | |
| Invested in facilities, net of related debt | 20,879,051 | 20,359,157 | 519,894 |
| Unrestricted | <u>2,002,174</u> | <u>1,853,118</u> | <u>149,056</u> |
| Total Net Position | <u>\$ 22,925,901</u> | <u>\$ 22,212,275</u> | <u>\$ 668,950</u> |

While the statement of net position reflects the financial position of the Authority at December 31, 2019 and December 31, 2018 the statement of revenues, expenses and changes in net position reflects the activity of the Authority for a period of time. A condensed statement of revenues, expenses and changes in net position for the years ended December 31, 2019 and December 31, 2018 follows:

| | <u>2019</u> | <u>2018</u> | <u>Increase (Decrease)</u> |
|---|----------------------|----------------------|--------------------------------|
| REVENUE: | | | |
| Operating revenue | <u>\$ 5,369,112</u> | <u>\$ 4,731,975</u> | <u>\$ 637,137</u> |
| Total Revenue | <u>5,369,112</u> | <u>4,731,975</u> | <u>637,137</u> |
| EXPENSES: | | | |
| Operating expenses | 4,829,553 | 4,503,157 | 326,396 |
| Non-operating expenses | <u>175,574</u> | <u>186,282</u> | <u>(10,708)</u> |
| Total Expenses | <u>5,005,127</u> | <u>4,689,439</u> | <u>315,688</u> |
| Change in Net Position | 363,985 | 42,536 | 321,449 |
| CONTRIBUTED CAPITAL | 304,965 | - | 304,965 |
| NET POSITION – BEGINNING OF YEAR | <u>22,212,275</u> | <u>22,169,739</u> | <u>42,536</u> |
| NET POSITION – END OF YEAR | <u>\$ 22,881,225</u> | <u>\$ 22,212,275</u> | <u>\$ 668,950</u> |

BUDGET HIGHLIGHTS:

The Authority's Board annually approves an operating budget. This budget is considered a management tool and is not revised during the year. The budgetary amounts are presented here and are not shown in the financial statement section of this report.

| | <u>2019</u> <u>Budget</u> | <u>2019</u> <u>Actual</u> | <u>Variance</u> <u>Positive</u> <u>(Negative)</u> |
|---|------------------------------|------------------------------|---|
| OPERATING REVENUES: | | | |
| Metered sales | \$ 4,847,700 | \$ 4,767,271 | \$ (80,429) |
| Fire protection | 287,000 | 282,669 | (4,331) |
| Other | <u>230,800</u> | <u>319,172</u> | <u>88,372</u> |
| Total Operating Revenue | <u>5,365,500</u> | <u>5,369,112</u> | <u>3,612</u> |
| OPERATING EXPENSES: | | | |
| Distribution system | 3,722,800 | 3,610,956 | 111,844 |
| General and Administrative | 602,900 | 591,817 | 11,083 |
| Depreciation | <u>645,500</u> | <u>626,780</u> | <u>18,720</u> |
| Total Operating Expenses | <u>4,971,200</u> | <u>4,829,553</u> | <u>141,647</u> |
| Income from Operations | <u>394,300</u> | <u>539,559</u> | <u>145,259</u> |
| NONOPERATING REVENUE (EXPENSES): | | | |
| Interest income | 6,000 | - | (6,000) |
| Interest expense | <u>(175,574)</u> | <u>(175,574)</u> | <u>-</u> |
| Total Non-operating Revenue (Expenses) | <u>(169,574)</u> | <u>175,574</u> | <u>(6,000)</u> |
| Unallocated Earnings | <u>\$ 224,726</u> | <u>\$ 363,985</u> | <u>\$ 139,259</u> |

OVERALL GENERAL ECONOMIC CLIMATE AND 2020 BUDGET:

Since 1994, the Authority has very actively pursued a program of capital renewal. As of the end of 2019, it has invested \$29,002,000 in replacement of facilities to improve the level of fire protection and public water supply services it provides. The Authority facilities are generally in good repair.

The Authority's 2020 budget reflects an increase in operating revenues of approximately \$263,000. The budget also has operating expenses decreasing by approximately \$231,000 below their 2019 levels.

The revenue estimate for 2020 is based upon conservative assumptions regarding customer growth and water sales and includes no increase in water rates.

The expense estimate includes provisions to accommodate inflation and no increase in water purchase expense from PWSA. The expense budget also includes the assumption that the rate of unaccounted-for water loss will be at 25%.

CONTACTING THE AUTHORITY'S MANAGEMENT:

This financial report is designed to provide our customers and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions regarding this report, please contact in writing the Authority's Manager at 255 Alpha Drive, Pittsburgh, Pennsylvania 15238.

SALARIED EMPLOYEES' PENSION PLAN

Under GASB No. 68 *Accounting and Financial Reporting of Pensions* the following supplementary information is required for The Authority's Salaried Employees Pension Plan.

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS:

| | <u>2019</u> | <u>2018</u> |
|---|---------------------|---------------------|
| TOTAL PENSION LIABILITY | | |
| Service cost | \$ 22,359 | \$ 23,426 |
| Interest | 159,166 | 157,550 |
| Changes of benefit terms | - | - |
| Differences between expected and actual experience | (40,732) | - |
| Changes of assumptions | 19,333 | - |
| Benefit payments, including refunds of employee contributions | <u>(141,712)</u> | <u>(129,384)</u> |
| NET CHANGES IN TOTAL PENSION LIABILITY | 18,414 | 51,592 |
| TOTAL PENSION LIABILITY - BEGINNING | <u>2,342,492</u> | <u>2,290,900</u> |
| TOTAL PENSION LIABILITY - ENDING (A) | <u>\$ 2,360,906</u> | <u>\$ 2,342,492</u> |
| PLAN FIDUCIARY NET POSITION | | |
| Contributions - employer | 17,692 | 8,126 |
| Contributions - employee | - | - |
| Net investment income | 399,934 | (116,484) |
| Benefit payments, including refunds of employee contributions | (141,712) | (129,384) |
| Administrative expense | (20,842) | (21,237) |
| Other | <u>-</u> | <u>-</u> |
| NET CHANGE IN PLAN FIDUCIARY NET POSITION | 255,072 | (258,979) |
| PLAN FIDUCIARY NET POSITION - BEGINNING | <u>2,182,689</u> | <u>2,441,668</u> |
| PLAN FIDUCIARY NET POSITION - ENDING (B) | <u>\$ 2,437,761</u> | <u>\$ 2,182,689</u> |
| NET PENSION LIABILITY (ASSET) - ENDING (A) - (B) | <u>\$ (76,855)</u> | <u>\$ 159,803</u> |
| PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY | 103.3 % | 93.2 % |
| COVERED EMPLOYEE PAYROLL | \$ 269,636 | \$ 283,606 |
| NET PENSION LIABILITY AS A PERCENTAGE OF COVERED EMPLOYEE PAYROLL | (28.5) % | 56.3 % |

See notes to the Supplementary Schedules for an explanation of changes to benefit actuarial

SCHEDULE OF CONTRIBUTIONS:

2011 - 2019

| <u>YEAR ENDED DECEMBER 31</u> | <u>ACTUARIALLY DETERMINED CONTRIBUTIONS</u> | <u>ACTUAL CONTRIBUTION</u> | <u>CONTRIBUTION DEFICIENCY (EXCESS)</u> | <u>COVERED-EMPLOYEE PAYROLL</u> | <u>CONTRIBUTIONS AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL</u> |
|--|--|---------------------------------------|--|--|---|
| 2011 | 80,230 | 80,232 | (2) | - | - |
| 2012 | 79,164 | 79,164 | - | 400,345 | 19.8 % |
| 2013 | 82,085 | 82,085 | - | - | - % |
| 2014 | 84,963 | 84,963 | - | 415,750 | 20.4 % |
| 2015 | 84,167 | 84,168 | (1) | 343,906 | 24.5 % |
| 2016 | 27,962 | 27,962 | - | 352,485 | 7.9 % |
| 2017 | 18,416 | 18,420 | (4) | 277,757 | 6.6 % |
| 2018 | 7,745 | 7,752 | (7) | 283,606 | 2.7 % |
| 2019 | 17,682 | 17,688 | (6) | 269,636 | 6.6 % |

See notes to the Supplementary Schedules for an explanation of changes to benefit actuarial assumptions.

SCHEDULE OF INVESTMENT RETURNS:

Annual money-weighted rate of return, net of investment expense not funded through MMO for the years ended December 31, 2019, 2018, 2017, 2016, 2015 and 2014.

| | |
|------|----------|
| 2019 | 18.90 % |
| 2018 | (4.91) % |
| 2017 | 12.84 % |
| 2016 | 6.55 % |
| 2015 | (0.22) % |
| 2014 | 7.74 % |

SCHEDULE OF FUNDING PROGRESS:

2009 - 2019

| ACTUARIAL VALUATION DATE | ACTUARIAL VALUE OF ASSETS (a) | ACTUARIAL ACCRUED LIABILITY (AAL) -ENTRY AGE (b) | UNFUNDED AAL (UAAL) (b-a) | FUNDED RATIO (a/b) | COVERED PAYROLL (c) | UAAL AS A PERCENTAGE OF COVERED PAYROLL [(b-a)/c] |
|---|--|---|--|-----------------------------------|------------------------------------|--|
| 01-01-09 | 1,223,005 | 1,460,867 | 237,862 | 83.7 % | 377,834 | 63.0 % |
| 01-01-11* | 1,448,048 | 1,597,128 | 149,080 | 90.7 % | 380,239 | 39.2 % |
| 01-01-13* | 1,645,037 | 1,899,537 | 254,500 | 86.6 % | 400,345 | 63.6 % |
| 01-01-15* | 2,075,295 | 1,976,014 | (99,281) | 105.0 % | 415,750 | N/A % |
| 01-01-17* | 2,356,977 | 2,227,078 | (129,899) | 105.8 % | 352,485 | N/A % |
| 01-01-19* | 2,331,572 | 2,321,093 | (10,479) | 100.5 % | 283,606 | N/A % |

*Assumption change pursuant to experience review.

See notes to the Supplementary Schedules for an explanation of changes to benefit actuarial assumptions.

NOTES TO THE SUPPLEMENTARY SCHEDULES:

Unless otherwise specified, the following actuarial methods and assumptions were used in the calculation of actuarially determined contributions reported in the supplementary schedules:

| | |
|-------------------------------|--|
| Actuarial valuation date | January 1, 2019 |
| Actuarial cost method | Entry age normal |
| Amortization method | Level dollar, open |
| Remaining amortization period | 14 years (aggregate) |
| Asset valuation method | 4-year smoothing |
| Inflation | 2.75% |
| Salary increases | 4.5% including inflation |
| Investment rate of return | 7.0% net of investment expenses not funded through the MMO, and including inflation |
| Mortality | RP-2014 Mortality Table with rates derived from long-range demographic assumptions for the 2015 SSA's Trustee Report and set forth 5 years for disabled lives. |
| Retirement Age | Latest of age 63 with 5 years of service, or attained age if currently eligible to retire. |

Changes to Benefits: None.

Changes to Assumptions:

Effective 1-1-11: Pre-retirement death benefit is valued directly.

Effective 1-1-13: The mortality assumption was updated to the RP-2000 Combined Healthy Mortality Table, with rates projected to improve at 75% scale AA.

Effective 1-1-15: The assumed interest rate was reduced from 7.5% to 7.0%, and the salary increase assumption was reduced from 5.5% to 5%.

Effective 1-1-17: The mortality assumption was updated to the RP 2014 Mortality Table. Mortality improvement projected with rates derived from long-range demographic assumptions for the 2015 SSA's trustee report.

Effective 1-1-19: Salary increase assumption was reduced from 5% to 4.5% and the retirement assumption was extended to deferred vested employees. Participants terminating with a deferred vested benefit will be assumed to commence payment at age 63 rather than age 65.

FINANCIAL STATEMENTS

FOX CHAPEL AUTHORITY
(Water Works System)

STATEMENTS OF NET POSITION

DECEMBER 31, 2019 AND DECEMBER 31, 2018

ASSETS

| | 2019 | 2018 |
|---|---------------|---------------|
| CURRENT ASSETS: | | |
| Cash | \$ 1,049,746 | \$ 1,291,610 |
| Receivables | 1,129,364 | 998,716 |
| Inventory | 313,898 | 317,423 |
| Prepaid expenses | 7,630 | 7,630 |
| Total Current Assets | 2,500,638 | 2,615,379 |
| PREPAID PENSION | 76,855 | - |
| INVESTMENT IN FACILITIES | 27,242,212 | 27,129,692 |
| Total Assets | \$ 29,819,705 | \$ 29,745,071 |
| DEFERRED OUTFLOWS OF RESOURCES - PENSION | 180,497 | 274,642 |

LIABILITIES

| | | |
|--|------------|------------|
| CURRENT LIABILITIES: | | |
| Current portion of long-term debt | \$ 417,901 | \$ 407,374 |
| Accounts payable | 481,610 | 790,083 |
| Consumers' and developers' deposits | 1,020 | 1,020 |
| Total Current Liabilities | 900,531 | 1,198,477 |
| PENSION PAYABLE | - | 159,803 |
| WATER REVENUE NOTE | 5,945,260 | 6,363,161 |
| Total Liabilities | 6,845,791 | 7,721,441 |
| DEFERRED INFLOWS OF RESOURCES - PENSION | 273,186 | 85,997 |

NET POSITION

| | | |
|---|---------------|---------------|
| Invested in facilities, net of related debt | 20,879,051 | 20,359,157 |
| Unrestricted | 2,002,174 | 1,853,118 |
| Total Net Position | \$ 22,881,225 | \$ 22,212,275 |

See Notes to Financial Statements.

FOX CHAPEL AUTHORITY
(Water Works System)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEARS ENDED DECEMBER 31, 2019 AND DECEMBER 31, 2018

| | <u>2019</u> | <u>2018</u> |
|---|--------------------------|--------------------------|
| OPERATING REVENUES: | | |
| Water sales | \$ 4,767,271 | \$ 4,225,103 |
| Fire protection | 282,669 | 262,389 |
| Other | <u>319,172</u> | <u>244,483</u> |
| Total Operating Revenues | <u>5,369,112</u> | <u>4,731,975</u> |
| OPERATING EXPENSES: | | |
| Distribution system | 3,610,956 | 3,160,406 |
| General and administrative | 591,817 | 669,285 |
| Depreciation | <u>626,780</u> | <u>673,466</u> |
| Total Operating Expenses | <u>4,829,553</u> | <u>4,503,157</u> |
| Income From Operations | 539,559 | 228,818 |
| INTEREST EXPENSE | <u>(175,574)</u> | <u>(186,282)</u> |
| Change in Net Position | 363,985 | 42,536 |
| CONTRIBUTED CAPITAL | 304,965 | - |
| NET POSITION – BEGINNING OF YEAR | <u>22,212,275</u> | <u>22,169,739</u> |
| NET POSITION - END OF YEAR | <u><u>22,881,225</u></u> | <u><u>22,212,275</u></u> |

See Notes to Financial Statements.

FOX CHAPEL AUTHORITY
(Water Works System)

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND DECEMBER 31, 2018

| | <u>2019</u> | <u>2018</u> |
|---|---------------------|---------------------|
| OPERATING ACTIVITIES: | | |
| Receipts from customers | \$ 4,990,414 | \$ 4,512,315 |
| Other receipts | 248,050 | 195,308 |
| Payments to suppliers, vendors and professionals | (3,228,756) | (1,823,106) |
| Payments to employees | (860,432) | (834,325) |
| Other payments | <u>(373,857)</u> | <u>(350,896)</u> |
| Net Cash Provided By Operating Activities | <u>775,419</u> | <u>1,699,296</u> |
| CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Principal payments on long-term debt | (407,374) | (396,666) |
| Acquisition and construction of capital assets | (434,335) | (474,289) |
| Interest paid on long-term debt | <u>(175,574)</u> | <u>(186,282)</u> |
| Net Cash Used By Capital and Related Financing Activities | <u>(1,017,283)</u> | <u>(1,056,270)</u> |
| Net Increase (Decrease) In Cash And Cash Equivalents | (241,864) | 643,026 |
| CASH – BEGINNING OF YEAR | <u>1,291,610</u> | <u>648,584</u> |
| CASH – END OF YEAR | <u>\$ 1,049,746</u> | <u>\$ 1,291,610</u> |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | |
| Income from operations | \$ 539,559 | \$ 228,818 |
| Adjustments to reconcile income from operations to net cash provided by operating activities: | | |
| Depreciation | 626,780 | 673,466 |
| Pension expense | 44,676 | 110,631 |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in receivables | (130,648) | (23,978) |
| (Increase) decrease in inventory | 3,525 | (9,219) |
| (Increase) decrease in prepaid expenses | - | 346,003 |
| Increase (decrease) in accounts payable | <u>(308,473)</u> | <u>373,575</u> |
| Net Cash Provided By Operating Activities | <u>\$ 775,419</u> | <u>\$ 1,699,296</u> |

See Notes to Financial Statements.

FOX CHAPEL AUTHORITY

(Water Works System)

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND DECEMBER 31, 2018

NOTE 1 — SIGNIFICANT ACCOUNTING POLICIES:

General Statement – The Authority is a public corporation existing under the laws of the Commonwealth of Pennsylvania, pursuant to Act 22 of 2001 which governs municipal authorities. The Authority provides water service to commercial and residential customers for four municipalities in Western Pennsylvania. The Authority has no stockholders, and revenue is disbursed for specific purposes in accordance with the provisions of the Security Agreement dated November 20, 2017 securing the Water Revenue Note Series of 2017 (See Note 4).

The Authority's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for government units through its pronouncements (Statements and Interpretations). In December 2010, GASB issued GASB Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB Statement No. 62 codifies the requirements of all Pre-November 30, 1989 FASB and AICPA pronouncements that the GASB considers to be applicable to state and local governments (that is, are relevant to governments and do not conflict with or contradict GASB pronouncements). As a result, governmental and business-type activities and proprietary funds will no longer have to consider pre-November 30, 1989 FASB or AICPA pronouncements nor will enterprise funds be permitted to apply "new" FASB pronouncements issued after November 30, 1989. The Authority adopted GASB Statement No. 62 for year ended December 31, 2011. The more significant accounting policies established in GAAP and used by the Authority are as follows.

Reporting Entity – The report includes all of the services provided by the Authority to residents and businesses within its boundaries. Authority services include providing water for consumption and fire protection and maintenance of water lines. The basic criterion for including a potential component unit within the Authority's reporting entity is the ability of the Authority to exercise oversight responsibly. In addition, criteria used in this determination includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. In addition, factors other than oversight which may significantly influence the entity relationship include the scope of public service and special financing relationships. Therefore, based upon these criteria, the Authority has no component units.

Basis of Presentation – The Authority's financial statement are presented in accordance with GASB Statement No. 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments." GASB Statement No. 34 created a financial reporting model for all governmental units such as Fox Chapel Authority. This reporting model requires management to provide a narrative and analysis to the ordinary user called "Management's Discussion and Analysis" (MD&A).

Fund Accounting – The accounts of the Authority are organized on the basis of a fund, which is considered a separate accounting entity. The operation of this fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net position, revenues and expenses. The fund is classified as a Proprietary Fund.

NOTE 1 — SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Enterprise Fund – The only fund of the Authority that is used to account for the operations of the Authority. Enterprise funds are to account for operations (a) which 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 user charges; or (b) where the governing body had decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Basis of Accounting – The Authority’s fund is reported as an enterprise fund on the accrual basis of accounting. The revenues are recognized when they are earned and the expenses are recognized when they are incurred. The Authority prepares a yearly operating budget. The operating budget is prepared by the Authority’s consulting engineer and adopted by the Authority’s Board of Directors.

Encumbrances – The Authority does not employ encumbrance accounting.

Use of Estimates in the Preparation of Financial Statements – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Cash and Cash Equivalents – For the purpose of the Balance Sheet “cash and cash equivalents” includes demand deposits. For the purpose of the Statement of Cash Flows, “cash and cash equivalents” include the same components as the balance sheet.

Investment in Facilities and Depreciation – Investment in facilities is recorded at actual costs incurred. Donated capital assets are recorded at fair value which equated to developers cost when contributed. Depreciation is computed on the straight-line method at rates based upon the estimated useful life of the assets ranging from 5 to 100 years.

Receivables and Revenue Recognition – The Authority recognizes revenue in the year in which the service is rendered. At December 31, 2019 and December 31, 2018 receivables and domestic revenue included estimated unbilled service rendered through the end of the year in the amount of \$517,000 and \$437,000, respectively.

Inventory – Supplies inventory is valued at cost on a first-in, first-out basis and is not in excess of market.

Deferred Outflows and Inflows of Resources – Deferred outflows and inflows of resources will be recognized in pension expense over four years.

Equity Classifications – Fund equity is displayed in three components:

- a. Investment in facilities, net of related debt – Consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of bonds, mortgages, notes, or any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted – Consists of fund equity with constraints placed on the use either by (1) external group such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted – All other fund equity that does not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

NOTE 2 — CASH AND CASH EQUIVALENTS:

Pennsylvania statutes provide for investment of governmental funds into certain authorized investment types including U. S. Treasury bills, other short-term U. S. and Pennsylvania government obligations, and insured or collateralized time deposits and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of governmental funds for investment purposes. Deposits of the Authority are maintained in demand deposits.

The deposit and investment policies of the Authority adhere to state statutes and all debt instruments. There were no deposit or investment transactions noted during the year that were in violation of either the state statutes or the policy of the Authority.

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. The Authority does not have a policy for custodial credit risk on deposits. The table presented below is designed to disclose the level of custodial credit risk assumed by the Authority based upon how its deposits were insured or secured with collateral at December 31, 2019 and December 31, 2018. The categories of credit risk are defined as follows:

Category 1 – Insured by FDIC or collateralized with securities held by the Authority or by its agent in its name.

Category 2 – Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name.

Category 3 – Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Authority's name; or collateralized with no written or approved collateral agreement.

| | December 31, 2019 | | | | |
|------------------------|-----------------------------------|--------------------------------|------------------------|-----------------|-------------------|
| | <u>Carrying Amount</u> | <u>Bank Balance</u> | <u>Category</u> | | |
| | | | <u>1</u> | <u>2</u> | <u>3</u> |
| Cash (demand deposits) | <u>\$ 1,049,346</u> | <u>\$ 1,070,015</u> | <u>\$ 250,000</u> | <u>\$ -</u> | <u>\$ 820,015</u> |

| | December 31, 2018 | | | | |
|------------------------|-----------------------------------|--------------------------------|------------------------|-----------------|---------------------|
| | <u>Carrying Amount</u> | <u>Bank Balance</u> | <u>Category</u> | | |
| | | | <u>1</u> | <u>2</u> | <u>3</u> |
| Cash (demand deposits) | <u>\$ 1,291,210</u> | <u>\$ 1,293,341</u> | <u>\$ 250,000</u> | <u>\$ -</u> | <u>\$ 1,043,341</u> |

The difference between the carrying amount of cash and the cash bank balance at December 31, 2019 and December 31, 2018 is due to outstanding checks.

Cash included in the schedule on the previous page and above are presented in the balance sheet as follows:

| | <u>Cash</u> | |
|------------|------------------------|------------------------|
| | <u>12/31/19</u> | <u>12/31/18</u> |
| Cash | \$ 1,049,346 | \$ 1,291,210 |
| Petty cash | <u>400</u> | <u>400</u> |
| | <u>\$ 1,049,746</u> | <u>\$ 1,291,610</u> |

NOTE 3 — INVESTMENT IN FACILITIES:

Activity in investment in facilities for the years ended December 31, 2019 and December 31, 2018 are as follows:

| | Balance January 1, 2019 | Additions | Disposals | Balance December 31, 2019 |
|----------------------------------|--|-------------------|------------------|--|
| Land and improvements | \$ 309,418 | \$ - | \$ - | \$ 309,418 |
| Buildings | 1,131,677 | - | - | 1,131,677 |
| Pumping facilities and equipment | 3,233,720 | 110,683 | - | 3,344,403 |
| Storage facilities | 5,681,033 | 14,205 | - | 5,695,238 |
| Distribution system | 29,695,382 | 527,553 | - | 30,222,935 |
| Other | 1,542,291 | 11,489 | - | 1,553,780 |
| Construction in Progress | <u>160,091</u> | <u>75,370</u> | <u>-</u> | <u>235,461</u> |
| | 41,753,612 | 739,300 | - | 42,492,912 |
| Accumulated Depreciation | <u>(14,623,920)</u> | <u>(626,780)</u> | <u>-</u> | <u>(15,250,700)</u> |
| | <u>\$ 27,129,692</u> | <u>\$ 112,520</u> | <u>\$ -</u> | <u>\$ 27,242,212</u> |

| | Balance January 1, 2018 | Additions | Disposals | Balance December 31, 2018 |
|----------------------------------|--|---------------------|------------------|--|
| Land and improvements | \$ 309,418 | \$ - | \$ - | \$ 309,418 |
| Buildings | 1,131,677 | - | - | 1,131,677 |
| Pumping facilities and equipment | 3,186,933 | 46,787 | - | 3,233,720 |
| Storage facilities | 5,057,371 | 996,642 | (372,980) | 5,681,033 |
| Distribution system | 29,410,210 | 289,309 | (4,137) | 29,695,382 |
| Other | 1,493,949 | 101,611 | (53,269) | 1,542,291 |
| Construction in Progress | <u>1,120,151</u> | <u>(960,060)</u> | <u>-</u> | <u>160,091</u> |
| | 41,709,709 | 474,289 | (430,386) | 41,753,612 |
| Accumulated Depreciation | <u>(14,379,873)</u> | <u>(673,466)</u> | <u>429,419</u> | <u>(14,623,920)</u> |
| | <u>\$ 27,329,836</u> | <u>\$ (199,177)</u> | <u>\$ (967)</u> | <u>\$ 27,129,692</u> |

Construction projects uncompleted at year end are included in construction in progress. The estimated costs to complete the construction in progress at December 31, 2019 are approximately \$318,000.

NOTE 4 — LONG-TERM DEBT:

| | <u>2019</u> | <u>2018</u> |
|---|---------------------|---------------------|
| At December 31, 2019 and December 31, 2018 long-term debt consisted of the following: | | |
| Water Revenue Note Series of 2017 in the original amount of \$7,200,000 payable in monthly installments of \$48,579, which includes interest at 2.63%, and matures November 20, 2032 and is sured by the revenues of the Authority. | \$ <u>6,363,161</u> | \$ <u>6,770,535</u> |
| Total Long-Term Debt | \$ <u>6,363,161</u> | \$ <u>6,770,535</u> |

Long-term debt activity for the year ended December 31, 2019 and December 31, 2018 was as follows:

| <u>Long-Term Debt</u> | <u>Balance</u> <u>January 1,</u> <u>2019</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance</u> <u>December 31,</u> <u>2019</u> | <u>Amounts</u> <u>Due Within</u> <u>One Year</u> |
|-----------------------|--|------------------|-------------------|--|--|
| Water Revenue Note | \$ 6,770,535 | - | 407,374 | 6,363,161 | \$ 417,901 |
| Total Long-Term Debt | \$ <u>6,770,535</u> | \$ - | \$ 407,374 | \$ <u>6,363,161</u> | \$ <u>417,901</u> |

| <u>Long-Term Debt</u> | <u>Balance</u> <u>January 1,</u> <u>2018</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance</u> <u>December 31,</u> <u>2018</u> | <u>Amounts</u> <u>Due Within</u> <u>One Year</u> |
|-----------------------|--|------------------|-------------------|--|--|
| Water Revenue Note | \$ 7,167,201 | - | 396,666 | 6,770,535 | \$ 407,374 |
| Total Long-Term Debt | \$ <u>7,167,201</u> | \$ - | \$ 396,666 | \$ <u>6,770,535</u> | \$ <u>407,374</u> |

The annual aggregate debt service for long-term debt as of December 31, 2019 is as follows:

| <u>Year</u> | <u>Water Revenue Note</u> | | |
|-------------|---------------------------|---------------------|---------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2020 | \$ 417,901 | \$ 165,047 | \$ 582,948 |
| 2021 | 429,651 | 153,297 | 582,948 |
| 2022 | 441,248 | 141,700 | 582,948 |
| 2023 | 453,159 | 129,789 | 582,948 |
| 2024 | 465,053 | 117,895 | 582,948 |
| 2025-2029 | 2,522,071 | 392,668 | 2,914,739 |
| 2030-2032 | <u>1,634,078</u> | <u>66,185</u> | <u>1,700,263</u> |
| | \$ <u>6,363,161</u> | \$ <u>1,166,581</u> | \$ <u>7,529,742</u> |

NOTE 5 — WATER PURCHASE AGREEMENT:

The Authority has an agreement with the Pittsburgh Water and Sewer Authority (PWSA), under which, the Authority will purchase all of its water from the PWSA at rates which can increase over the term of the agreement. This agreement expires in July 2025, but can automatically continue beyond until terminated in accordance with the termination provisions of the agreement. The Authority takes all of its water supply from PWSA. Water purchased under this agreement amounted to \$1,899,171 for 2019 and \$1,638,724 for 2018.

NOTE 6 — PENSION PLANS:

The Authority has two pension plans covering substantially all eligible employees. The union plan which is a multi-employer plan covering the hourly-rated employees requires the Authority to make contributions based upon a set amount per week for each covered employee. Contributions to the union plan amounted to \$86,198 for 2019 and \$87,463 for 2018. The Fox Chapel Authority Salaried Employees Pension Plan (the Plan) is a single employer defined benefit plan administered by the Authority covering the salaried employees. This Plan is covered under Pennsylvania's Municipal Pension Plan Funding Standard and Recovery Act of December 18, 1984, PL1005 No 205 (Act 205) which permits the Authority to establish and amend benefit provisions of the Plan. The Plan provides retirement, disability and death benefits to the Plan members and beneficiaries based on a formula using compensation and years of service. In 2017, the Plan was amended to provide for a defined contribution element to the Plan for newly hired salaried employees who are required to participate in and contribute to the Plan. The Authority will contribute 10% of base salary of the newly hired salaried employees participating in the Plan. The Authority contributed \$7,605 and \$6,612 under the defined contribution portion of the Plan for 2019 and 2018. The Authority accounts for the Salaried Employees Pension Plan's defined benefit portion under GASB 68, *Accounting and Financial Reporting for Pensions*.

At December 31, 2019, the following employees were covered by the Plan:

| | |
|--|-----------|
| Active employees | 4 |
| Retirees and beneficiaries currently receiving benefits | 6 |
| Terminated employees entitled to benefits but not yet receiving them | <u>2</u> |
| | <u>12</u> |

Funding Policy – The Authority's salaried employees are not required to make contributions to the defined benefit portion of the Plan nor are they permitted to make voluntary contributions. The Authority contributes to the Plan in amounts determined by an independent actuary to satisfy the funding requirements of Act 205.

The components of the net pension liability (asset) at December 31, 2019 are as follows:

| | |
|--|--------------|
| Total pension liability* | \$ 2,360,906 |
| Plan fiduciary net position | 2,437,761 |
| Net pension liability (asset) | \$ (76,855) |
| Plan fiduciary net position as a percentage of the total pension liability | 103.3% |

The components of the net pension liability (asset) at December 31, 2018 are as follows:

| | |
|--|------------------|
| Total pension liability* | \$ 2,342,492 |
| Plan fiduciary net position | <u>2,182,689</u> |
| Net pension liability (asset) | \$ 159,803 |
| Plan fiduciary net position as a percentage of the total pension liability | 93.2% |

NOTE 6 — PENSION PLANS (CONTINUED):

Expected Long-Term

Rate of Return: 7.0%, applied for all periods

The long-term expected rate of return on pension plan investments was determined using a building-block method in which the best estimate ranges of expected future real rates of return (expected returns, net of inflation and investment expenses not funded through MMO) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in the target asset allocation as of December 31, 2019 are summarized in the following table:

| <u>Asset Class</u> | <u>Long Term Expected Real ROR</u> |
|--------------------|--|
| Equity | 5.0% - 7.0% |
| Fixed Income | 1.0% - 3.0% |
| Cash Equivalents | 0.0% - 1.0% |

Discount Rate - The discount rate used to measure the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that the plan continue to be funded based on the Minimum Municipal Obligation as determined in accordance with Act 205. Based on that assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payment to determine the total pension liability.

Changes in Net Pension Liability (Asset) for the year ended December 31, 2019 were as follows:

| | <u>Increase (Decrease)</u> | | |
|---|------------------------------------|--|----------------------------------|
| | <u>Total Pension Liability</u> | <u>Plan Fiduciary Net Position</u> | <u>Net Pension Liability</u> |
| | <u>(a)</u> | <u>(b)</u> | <u>(a) – (b)</u> |
| Balances at 12/31/2018 | <u>\$ 2,342,492</u> | <u>\$ 2,182,689</u> | <u>\$ 159,803</u> |
| Changes for the Year: | | | |
| Service Cost | 22,359 | - | 22,359 |
| Interest | 159,166 | - | 159,166 |
| Changes of benefit terms | - | - | - |
| Differences between expected and actual experience | (40,732) | - | (40,732) |
| Changes of assumptions | 19,333 | - | 19,333 |
| Contributions – employer | - | 17,692 | (17,692) |
| Contributions – employee | - | - | - |
| Net investment income | - | 399,934 | (399,934) |
| Benefit payments and refunds of employee contributions | (141,712) | (141,712) | - |
| Administrative expense | - | (20,842) | 20,842 |
| Other changes | - | - | - |
| Net Changes | <u>18,414</u> | <u>255,072</u> | <u>(236,658)</u> |
| Balances at 12/31/2018 | <u>\$ 2,360,906</u> | <u>\$ 2,437,761</u> | <u>\$ (76,855)</u> |

NOTE 6 — PENSION PLANS (CONTINUED):

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the net pension liability calculated using the discount rate of 7.0%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1%- point lower (6.0%) or 1%-point higher (8.0%) than the current rate:

| | <u>Discount rate</u> | <u>Net pension liability (asset)</u> |
|-----------------------|----------------------|--------------------------------------|
| 1% decrease | 6.0% | \$ 125,058 |
| Current discount rate | 7.0% | \$ (76,855) |
| 1% increase | 8.0% | \$ (252,443) |

Payable to Plan. At December 31, 2019, the Authority owed nothing to the Plan.

Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources.

Components of Pension Expense for the Year Ended December 31, 2019:

| | |
|--|------------------|
| Service Cost | \$ 22,359 |
| Interest on the total pension liability | 159,166 |
| Recognition of differences between expected and actual experience | (29,088) |
| Changes in benefit terms | - |
| Recognition of changes of assumptions | 23,410 |
| Employee contributions | - |
| Projected earnings on pension plan investments | (147,859) |
| Recognition of differences between projected and actual earnings on plan investments | 13,538 |
| Pension plan administrative expense | 20,842 |
| Other changes in fiduciary net position | <u>-</u> |
| Total Pension Expense | <u>\$ 62,368</u> |

At December 31, 2019, the Plan reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Differences between expected and actual experience | \$ - | \$ 19,294 |
| Changes of assumptions | 9,158 | - |
| Net difference between projected and actual earnings on Plan investments | <u>171,339</u> | <u>253,892</u> |
| Total | <u>\$ 180,497</u> | <u>\$ 273,186</u> |

NOTE 6 — PENSION PLANS (CONTINUED):

Amounts reported as deferred outflows of resources (+) and deferred inflows (-) of resources related to pension will be recognized in pension expense as follows:

| <u>Year ending December 31,</u> | |
|--|-------------|
| 2020 | \$ (28,329) |
| 2021 | (20,031) |
| 2022 | 6,086 |
| 2023 | (50,415) |

NOTE 8 — SUBSEQUENT EVENTS:

The Authority's management has considered events subsequent to December 31, 2019 that affect the Authority through June 1, 2020, the date the financial statements were available to be issued, and has determined that no material subsequent events exist that require disclosure.