

**FRANKLIN TOWNSHIP MUNICIPAL  
SANITARY AUTHORITY  
(A COMPONENT UNIT OF THE  
MUNICIPALITY OF MURRYSVILLE)**

**FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2017**

FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY  
YEAR ENDED DECEMBER 31, 2017

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**INDEPENDENT AUDITOR'S REPORT**

To the Members of the Board  
Franklin Township Municipal Sanitary Authority  
Murrysville, Pennsylvania

**Report on the Financial Statements**

We have audited the accompanying financial statements of the FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY, a component unit of the Municipality of Murrysville, as of and for the year ended December 31, 2017, and the related notes to the financial statements as listed in the table of contents.

**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 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of 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 judgement, 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 opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY, as of December 31, 2017, and the changes in financial position and cash flows thereof and the year then ended in accordance with accounting principles generally accepted in the United States of America.



To the Members of the Board  
Franklin Township Municipal Sanitary Authority  
Murrysville, Pennsylvania  
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*Adoption of GASB Statements*

As described in Note 1 to the financial statements, in 2017 the Authority adopted the provisions of Governmental Accounting Standards Board's Statement No. 74, "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*", Statement No. 80, "*Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*", and Statement No. 81, "*Irrevocable Split-Interest Agreements*". Our opinion is not modified with respect to these matters.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of Changes in the Authority's Net Pension Liability and Related Ratios – Last 10 Fiscal Years, and the Schedule of Authority Contributions – Last 10 Fiscal Years on pages 4 through 7 and 30 through 31 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 about the methods of preparing the information and comparing the information for consistency with management'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.

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements of the FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY. The accompanying supplementary schedules of operating revenues, operating expenses, nonoperating revenues, nonoperating expenses, contributions and transfers, and bonds payable are presented for purpose of additional analysis and are not a required part of the basic financial statements.

The schedules of operating revenues, operating expenses, nonoperating revenues, nonoperating expenses, contributions and transfers, and bonds payable are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of operating revenues, operating expenses, nonoperating revenues, nonoperating expenses, contributions and



To the Members of the Board  
Franklin Township Municipal Sanitary Authority  
Murrysville, Pennsylvania  
Page 3

transfers, and bonds payable are fairly stated, in all material respects, in relation to the financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2018 on our consideration of the FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY's internal control over financial reporting and compliance.

ZELENKOFKSKE AXELROD LLC

Pittsburgh, Pennsylvania  
March 21, 2018

FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017

As management of the Franklin Township Municipal Sanitary Authority, (the Authority), we offer readers of our financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended **December 31, 2017**. We encourage readers to consider the information presented here in conjunction with additional information contained in this report.

## **FINANCIAL HIGHLIGHTS**

The Authority has taken the necessary steps to promote growth and development in its service area to reduce operating expenses through the construction of innovative facilities at the Meadowbrook Road Water Pollution Control Plant. By expanding and upgrading the sewage treatment complex, the Authority has provided hydraulic and organic capacity to accommodate growth and development in its service area. Through the construction of state-of-the-art sludge digestion and gas utilization facilities, the Authority has taken the necessary steps to reduce energy costs as well as sludge disposal costs. Other system improvement programs have also eliminated needless operating and maintenance costs. In addition, Authority's actions in completing a refinancing of its outstanding bond issues further reduced annual expenses to be incurred in future years.

With the growth the Authority has experienced over the last 10 years, management has been faced with controlling rising operational costs as well as large demands for capital spending. Also, new wastewater regulations have tended to increase operational costs and capital spending in the past decade. The Authority has taken several cost cutting steps at the treatment plant with implementation of a SCADA system to monitor the treatment plant and remote pump stations, thus saving employees overtime expenses and equipment breakdowns. It is worthy to note that the Authority has realized only twelve sewer rate increases during the past forty-five years, the last one being in 2017 which shows an average of 5.27% increase per year since the Authority started treating sewage on June 1, 1970.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

### *Enterprise Fund Financial Statements*

The enterprise fund financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The statement of net position presents information on the Authority's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The statement of revenues, expenses, and changes in net position presents information showing how the Authority's net position changed during the most recent fiscal year. All changes in net positions are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. earned but unused sick leave).

The basic enterprise fund financial statements can be found on page 8 through 12 of this report.

1. Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 13 through 28 of this report.
2. Required Supplementary and Other Supplementary Information – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary

FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017

**OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)**

information concerning the Authority's progress in funding its obligation to provide pension benefits to its employees as well as other additional information on pages 30 through 38.

Capital Assets

The Authority's investment in capital assets at December 31, 2017, net of accumulated depreciation, was \$30,464,403.

	Balance as of January 1, 2017	Increases	Decreases	Balance as of December 31, 2017
Capital Assets:				
Plant & System	\$ 61,349,559	\$ 724,666	\$ -	\$ 62,074,225
Equipment	1,324,005	4,396	(6,302)	1,322,099
Office Equipment	305,008	9,560	-	314,568
Land & Right-of-Way	882,504	-	-	882,504
Total	<u>63,861,076</u>	<u>738,622</u>	<u>(6,302)</u>	<u>64,593,396</u>
Accumulated Depreciation:				
Plant & System	(31,119,153)	(1,554,975)	-	(32,674,128)
Equipment	(1,399,542)	(61,625)	6,302	(1,454,865)
Total	<u>(32,518,695)</u>	<u>(1,616,600)</u>	<u>6,302</u>	<u>(34,128,993)</u>
Net Capital Assets	<u>\$ 31,342,381</u>	<u>\$ (877,978)</u>	<u>\$ -</u>	<u>\$ 30,464,403</u>

More detailed information on the Authority's capital assets is presented in Note 1 of the Notes to the Financial Statements.

Long-Term Debt

As of December 31, 2017, the Authority had total outstanding principal of \$12,585,000. Debt Service payments were \$768,838.

	Beginning Balance	Additions	Retirements	Ending Balance	Amounts Due Within One Year
Bonds and Notes Payable:					
Series 2015	\$ 3,340,000	\$ -	\$ (745,000)	\$ 2,595,000	\$ 780,000
Series 2016	9,995,000	-	(5,000)	9,990,000	5,000
Trust of Pennsylvania	18,838	-	(18,838)	-	-
Total Long-Term Liabilities	<u>\$ 13,353,838</u>	<u>\$ -</u>	<u>\$ (768,838)</u>	<u>\$ 12,585,000</u>	<u>\$ 785,000</u>

More detailed information on the Authority's long-term debt is presented in Note 2 of the Notes to the Financial Statements.

FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017

Economic Factors and Next Year's Budgets and Rates

The Authority's five-year capital expenditure plan was replaced in 2013 with a twenty-year Asset Management Plan. Asset management can be defined as managing existing infrastructure capital assets to minimize the total cost of owning them while delivering the desired service levels. It incorporates operations and maintenance (O&M) planning. It also includes the outcomes of facility planning of new and improved facilities. It is, however, more comprehensive than either O&M or facilities planning because it provides an on-going process which evaluates each asset of the Authority and the status of the Authority as a whole. The outcome of an asset management effort is a regularly updated plan for the rehabilitation and replacement of each existing asset in the Authority, as well as recognition of new assets which will also need to be added. An asset management effort also identifies the money necessary to cost effectively implement the plan over time (generally twenty years or more), and an identification of additional revenues that are needed to pay for it. Over the next twenty-year period, \$17,969,335 of aging infrastructure at the plant and the sewer system will be replaced by this plan.

**REVENUES AND EXPENDITURES**

Total projected operating and debt service expenditures for the Fiscal Year of 2017 are estimated to be \$4,063,009. The projected total is less than the 2017 budgeted total expenses of \$4,464,983 by \$401,974.

The total expense for operating the collection system and transportation/treatment system in 2017 is projected to be \$3,004,831. This operating expense total is less than the budgeted total of \$3,253,300 yielding a positive variance of \$248,469. This positive variance was due to a decrease in the yearly debt service due to refinancing and paying off a PENNVEST and local bank loan.

The projected balance of the Revenue Fund at the end of Fiscal Year 2017 will meet the balance required by the terms of the Authority's Trust indenture for 2017.

A five-year comparison of the fiscal year's actual income and expenses can be found in the *Supplementary Information* section of this report.

**LONG TERM TRENDS IN OPERATIONS**

**Connection Growth.** The Authority has had an average of over 200 new connections over the last ten fiscal years, however during the last three fiscal years it averaged only 100 new connections. The annual growth of sewer customers has been in the 2 – 4% range.

**Revenue and Expense Growth.** With the growth the Authority has experienced over the last 10 years, management has been faced with controlling rising operational costs as well as large demands for capital spending. Also, new wastewater regulations have tended to increase operational costs and capital spending in the past decade. The Authority has taken several cost cutting steps at the treatment plant with implementation of a SCADA system to monitor the treatment plant and remote pump stations, thus saving employees overtime expenses and equipment breakdowns.

**User Rates.** Rates were raised by \$3.00 in 2017.

It is worthy to note that the Authority has realized only twelve sewer rate increases during the past forty-five years, the last one being in 2017 which shows an average of 5.27% increase per year since the Authority started treating sewage on June 1, 1970. As of December 31, 2017, the rate was \$35.27 per month.

FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017

**Summary.** The Authority has taken the necessary steps to promote growth and development in its service area and reduce operating expenses through the construction of innovative facilities at the Meadowbrook Road Water Pollution Control Plant. By expanding and upgrading the sewage treatment complex, the Authority has provided hydraulic and organic capacity to accommodate growth and development in its service area. Through the construction of state-of-the-art sludge digestion and gas utilization facilities, the Authority has taken the necessary steps to reduce energy costs as well as sludge disposal costs. Other system improvement programs have also eliminated needless operating and maintenance costs. In addition, the Authority's actions in completing a refinancing of its outstanding bond issues further reduced annual expenses to be incurred in future years.

**Contacting the Authority's Financial Management**

This financial report is designed to provide our citizens, 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 about this report or need additional financial information, contact the Authority's Manager, Kevin J. Kaplan (724-327-1950) at the Franklin Township Sanitary Authority at 3001 Meadowbrook Road, Murrysville, Pennsylvania, 15668.

FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY  
STATEMENT OF NET POSITION  
DECEMBER 31, 2017

**Current Assets:**

Cash Held by Authority	\$ 113,653
Cash and Cash Equivalents Held by Trustee:	
Revenue Fund	323,330
Surplus Fund	2,075,117
Sewer Charges Receivable	483,564
Taps and Assessments Receivable	7,808
Prepaid Expenses	64,102
Other Receivables	5,365
<b>Total Current Assets</b>	<u>3,072,939</u>

**Noncurrent Assets:**

Residential Cash and Cash Equivalents Held by Trustee:	
Construction Fund	11,280
Minimum Maintenance	100,000
Debt Service Fund	529,615
Total Restricted Cash and Cash Equivalents Held by Trustee	<u>640,895</u>

## Capital Assets:

Land and Rights of Way	882,504
Plant and System	62,074,225
Equipment	1,322,099
Office Equipment	314,568
	<u>64,593,396</u>

Less: Accumulated Depreciation	<u>(34,128,993)</u>
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Net Capital Assets	<u>30,464,403</u>
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<b>Total Assets</b>	<u>34,178,237</u>
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**Deferred Outflows of Resources:**

Pensions	791,012
Unamortized Loss on Bond Refundings	301,681
<b>Total Deferred Outflows of Resources</b>	<u>1,092,693</u>

<b>Total Assets and Deferred Outflows of Resources</b>	<u><u>\$ 35,270,930</u></u>
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The accompanying notes are an integral part of the financial statements.

FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY  
STATEMENT OF NET POSITION (CONTINUED)  
DECEMBER 31, 2017

**Current Liabilities:**

Accounts Payable	\$ 72,296
Current Portion of Bonds Payable	5,000
Current Portion of Notes Payable	780,000
Accrued Bond Interest	137,115
Accrued Payroll Taxes	4,034
Due to Developers	6,254
<b>Total Current Liabilities</b>	<u>1,004,699</u>

**Long-Term Liabilities:**

Net Pension Liability	1,378,459
Bond Premium	144,142
Bonds Payable, Series 2016	9,985,000
Notes Payable, Series 2015	1,815,000
<b>Total Long-Term Liabilities</b>	<u>13,322,601</u>

**Total Liabilities** 14,327,300

**Deferred Inflows of Resources**

Pensions	<u>27,715</u>
<b>Total Deferred Inflows of Resources</b>	<u>27,715</u>

**Net Position**

Net Investment in Capital Assets	17,899,827
Restricted for Capital Projects	11,280
Restricted for Debt Service	529,615
Restricted for Maintenance	100,000
Unrestricted	<u>2,375,193</u>

**Total Net Position** 20,915,915

**Total Liabilities, Deferred Inflows of Resources  
and Net Pension** \$ 35,270,930

The accompanying notes are an integral part of the financial statements.

FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2017

Operating Revenues	\$ 4,387,452
Operating Expenses	<u>(4,565,748)</u>
Operating Loss	(178,296)
Nonoperating Revenues	18,935
Nonoperating Expenses	<u>(309,492)</u>
Excess of Expenses over Revenues	(468,853)
Contributions and Transfers	<u>613,628</u>
Net Income	144,775
Net Position - Beginning of Year	<u>20,771,140</u>
Net Position - End of Year	<u><u>\$ 20,915,915</u></u>

The accompanying notes are an integral part of the financial statements.

FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2017

**Cash Flow from Operating Activities:**

Cash Received from Customers, Sewer Charges	\$ 4,366,916
Payments to Employees	(1,941,778)
Payments to Suppliers, Vendors, and Professional Services	<u>(1,009,151)</u>
Net Cash Provided by Operating Activities	<u>1,415,987</u>

**Cash Flows from Noncapital Financing Activities:**

Miscellaneous Receipts	<u>6,606</u>
Net Cash Provided by Noncapital Financing Activities	<u>6,606</u>

**Cash Flow from Capital and Related Financing Activities:**

Acquisition, Construction, and Improvement to Capital Assets	(732,320)
Customer Contributions	613,628
Principal Payments on Long Term Debt	(768,838)
Interest Paid	(232,919)
Net Decrease in Developers' Escrow	<u>(63,485)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(1,183,934)</u>

**Cash Flows from Investing Activities:**

Interest	<u>12,329</u>
Net Cash Provided by Investing Activities	<u>12,329</u>

**Net Increase in Cash and Cash Equivalents** 250,988

Beginning Cash and Cash Equivalents 2,902,007

**Cash and Cash Equivalents, End of the Year** \$ 3,152,995

Cash and Cash Equivalents, Unrestricted 640,895  
Cash and Cash Equivalents, Restricted 2,512,100

**Total Cash and Cash Equivalents** \$ 3,152,995

The accompanying notes are an integral part of the financial statements.

FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY  
STATEMENT OF CASH FLOWS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2017

**Reconciliation of Operating Loss to Net Cash**

**Used by Operating Activities:**

<b>Operating Loss</b>	\$ (178,296)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Depreciation	1,610,298
Amortization of Bond Premiums	26,966
GASB 68 Pension Allocation	(8,567)
Changes in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	(20,536)
Increase (Decrease) in Accounts Payable	<u>(13,878)</u>
 Net Cash Provided by Operating Activities	 <u><u>\$ 1,415,987</u></u>

Supplemental Disclosure to the Statement of Cash Flows

Cash Paid During the Year For:	
Interest	<u>\$ 232,919</u>

The accompanying notes are an integral part of the financial statements.

FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Franklin Township Municipal Sanitary Authority was incorporated on December 27, 1966, as a public corporation of the Commonwealth of Pennsylvania, organized and existing under the Municipality Authorities Act. The Authority has no stockholders, and the revenues or other cash received must be disbursed for specific purposes in accordance with the provisions of the trust indenture agreements with holders of its bonds. On January 1, 1969, the Authority entered into sewer service agreements with the Municipality of Murrysville and the Borough of Export, both of Westmoreland County, Pennsylvania. On January 18, 1983, January 20, 1983, August 16, 1984, and December 16, 1993, the Authority entered into sewer service agreements with the Borough of Delmont, Salem Township, and Penn Township of Westmoreland County and Municipality of Monroeville of Allegheny County. Also, on March 4, 1985, and September 20, 1990, sewer service agreements were entered into with the Borough of Plum of Allegheny County, Pennsylvania. Under such agreements, the Authority constructed facilities and furnished sewer collections, transportation and treatment.

The financial statements of the Authority are prepared in accordance with U.S. generally accepted accounting principles, as applicable to governmental units. The most significant accounting policies are summarized below:

A. REPORTING ENTITY

The Authority follows the criteria promulgated by the Governmental Auditing Standards Board ("GASB") No. 61 for purposes of determining the scope of its reporting entity. The criteria used in determining whether such organizations should be included in the Authority's financial reporting entity are financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, accountability for fiscal matters, scope of public service and special financial relationships.

The members of the Authority's Board (Board), a five member group constitution an on-going entity, is the level of government which has governance responsibilities over all activities within the jurisdiction of the Franklin Township Municipal Sanitary Authority. The Board receives funding from local, state, and federal government sources and must comply with the concomitant requirements of these funding source entities. The Authority is considered a component unit of the Municipality of Murrysville as defined in Section 2100, "Codification of Governmental Accounting and Financial Reporting Standards", since the Board members are appointed by the Municipality which has the power to influence and to designate management, which could significantly influence operations and primary accountability for fiscal matters. The Municipality of Murrysville also guarantees the Authority's debt.

FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Authority has only one proprietary fund which is presented as a major fund.

The enterprise fund is used to account for operations 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, and the measurement of financial activity focuses on net income.

A. Measurement Focus

The Authority, as a proprietary fund, is accounted for on a cost of services measurement focus. All assets and liabilities (current and noncurrent) associated with the activity of the Authority are included on its statement of net position.

B. Basis of Accounting

The accrual basis of accounting was used to prepare the accompanying financial statements which requires, among other things, the recognition of depreciation and interest expense.

The significant accounting policies followed by the Authority in preparation of the accompanying financial statements are described as follows:

1. Revenue

Sewer charges are recorded as receivable in the period when earned regardless of the period of collection subsequent to year end.

Federal and state grants and aids are recognized as revenues in the period in which expenditures are incurred, if applicable, or when the Authority is entitled to the grants and aids. However, intergovernmental grants are subject to audit and adjustment by the grantor agency. Grant revenues received for expenses which are disallowed are repayable to the grantor.

Investment income is recognized as revenue when earned.

The receivable balances presented in the accompanying statements of financial position are recorded at net realizable value. The Authority records uncollectible accounts through direct write off.

2. Expenses

Expenses are recognized when incurred. Prepaid expenses are recorded when the amounts are material.

3. Investments

Investments are recorded at fair value.

FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. Budgets

The Authority prepares a budget at the beginning of each year on the accrual basis. The budget is used for internal reporting purposes and for establishment of sewer charge rates.

5. Encumbrance

The Authority does not use a formal system of encumbrance accounting.

6. Cash and Cash Equivalents

Various restrictions on deposits and investments are imposed by state statutes. These are summarized as follows:

Deposits:

The Authority is required by Act 72 of the Commonwealth of Pennsylvania, dated August 6, 1971, to maintain deposits that are properly collateralized. Collateralization is permitted to be on a "pooled" basis.

Investments:

The Authority is authorized to invest in U.S. Treasury Bills, and short term obligations of the Federal Government or its instrumentality obligations. As of December 31, 2017, the Authority had investments in Wilmington Trust placed with U.S. Government Money Market Federated Treasury Obligations.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits might not be recovered. The Authority does not have a policy regarding custodial credit risk, however, deposits are in compliance with Act 72. As of December 31, 2017, \$3,039,342 of the Authority's bank balance of \$3,195,129 were exposed to custodial credit risk as follows:

Uninsured and Uncollateralized with securities held by pledging financial institutions on a pooled basis	\$ -
Unclassified - U.S. Government Money Market Federated Treasury Obligations	<u>\$ 3,039,342</u>

As of December 31, 2017, \$155,786 of the Authority's bank balances were covered by FDIC insurance.

FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6. Cash and Cash Equivalents (Continued)

Interest Rate Risk

Interest rate risk arises from investments and is defined as “The risk that changes in interest rates that will adversely affect the fair value of investment.” During the year and at year end, December 31, 2017, the Authority’s investments consisted of deposits with financial institutions and had no significant interest rate risk.

7. Cash and Cash Equivalents held by Trustee

In accordance with the terms of the trust indentures securing the Revenue Bonds, monies of the Authority are accounted for by trustee held cash accounts, segregated for specific use and not for the security of the bondholders, and are maintained by independent trustees on the cash basis of accounting, which method is in accordance with the terms of the trust indentures securing the Revenue Bonds and does not differ materially from the accrual basis as recognized for local government accounting for debt service funds.

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FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

8. Capital Assets

Capital assets of the Authority are recorded at cost and depreciated over their estimated useful lives on the straight line basis. The following schedule presents the changes to and depreciable lives of the capital assets.

	<u>Balance as of January 1, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance as of December 31, 2017</u>
Capital Assets:				
Plant & System	\$ 61,349,559	\$ 724,666	\$ -	\$ 62,074,225
Equipment	1,324,005	4,396	(6,302)	1,322,099
Office Equipment	305,008	9,560	-	314,568
Land & Right-of-Way	882,504	-	-	882,504
Total	<u>63,861,076</u>	<u>738,622</u>	<u>(6,302)</u>	<u>64,593,396</u>
Accumulated Depreciation:				
Plant & System	(31,119,153)	(1,554,975)	-	(32,674,128)
Equipment	<u>(1,399,542)</u>	<u>(61,625)</u>	6,302	<u>(1,454,865)</u>
Total	<u>(32,518,695)</u>	<u>(1,616,600)</u>	<u>6,302</u>	<u>(34,128,993)</u>
Net Capital Assets	<u>\$ 31,342,381</u>	<u>\$ (877,978)</u>	<u>\$ -</u>	<u>\$ 30,464,403</u>

- a. All capital assets, except land are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Plant and System	15 - 50 years
Equipment	5 - 10 years

9. Statement of Cash Flows

For the purposes of the Statement of Cash Flows, the Authority considers all highly liquid debt instruments and money market (or mutual funds) purchased to be cash equivalents with maturity dates within 90 days.

10. Management's Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could result from those estimates.

FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

11. Deferred Outflows/Inflows of Resources

The Statement of Net Position reports separate sections for deferred outflows and deferred inflows of resources. These separate financial statement elements represent a consumption or acquisition of net position that applies to a future period(s) and so will not be recognized as an outflow or inflow of resources (expense/revenue) until then. The Authority has two items that qualify for reporting in these categories: deferred outflows and inflows related to pensions, and unamortized loss on bond refunding.

Deferred outflows and inflows of resources related to pensions are described further in Note 5. The component of deferred outflows of resources, other than the difference between the projected and actual investment earnings on investments, are amortized into pension expense over a 13.76 year closed period, which reflects the weighted average remaining service life of all PMRS members beginning the year in which the deferred amount occurs (current year).

12. Adoption of Governmental Accounting Standards Board Statements

The Authority adopted the provisions of GASB Statement No. 74, *“Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans”*. The adoption of this statement had no effect on previously reported amounts.

The Authority adopted the provisions of GASB Statement No. 80, *“Blending Requirements for Certain component Units – An Amendment of GASB Statement No. 14.”* The adoption of this statement had no effect on previously reported amounts.

The Authority adopted the provisions of GASB Statement No. 81, *“Irrevocable Split-Interest Agreements”*. The adoption of this statement had no effect on previously reported amounts.

13. Pending Changes in Accounting Principles

In June 2015, the GASB issued Statement No. 75, *“Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions”*. The Authority is required to adopt Statement No. 75 for its calendar year 2018 financial statements.

In March 2016, the GASB issued Statement No. 82, *“Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73”*. The Authority is required to adopt Statement No. 82 for its calendar year 2018 financial statements.

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.

FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

13. Pending Changes in Accounting Principles (Continued)

In January 2017, the GASB issued Statement No. 84, "Fiduciary Activities". The Authority is required to adopt Statement No. 84 for its fiscal year 2019 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 June 2017, the GASB issued Statement No. 87, "Leases". The Authority is required to adopt Statement No. 87 for its fiscal year 2019 financial statements.

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

## NOTE 2: LONG-TERM DEBT

Changes in the Authority's long-term debt during the calendar year 2017 were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Bonds and Notes Payable:					
Series 2015	\$ 3,340,000	\$ -	\$ (745,000)	\$ 2,595,000	\$ 780,000
Series 2016	9,995,000	-	(5,000)	9,990,000	5,000
Trust of Pennsylvania	18,838	-	(18,838)	-	-
Total Long-Term Liabilities	<u>\$ 13,353,838</u>	<u>\$ -</u>	<u>\$ (768,838)</u>	<u>\$ 12,585,000</u>	<u>\$ 785,000</u>

Business-Type Activities

Year Ended June 30	<u>Principal Requirements</u>	<u>Interest Requirements</u>	<u>Total Debt Service Requirements</u>
2018	\$ 785,000	\$ 274,230	\$ 1,059,230
2019	805,000	257,280	1,062,280
2020	830,000	233,180	1,063,180
2021	835,000	208,330	1,043,330
2022	850,000	191,630	1,041,630
2023-2027	4,520,000	695,850	5,215,850
2028-2032	3,960,000	216,660	4,176,660
	<u>\$ 12,585,000</u>	<u>\$ 2,077,160</u>	<u>\$ 14,662,160</u>

FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017

NOTE 2: LONG TERM DEBT (CONTINUED)

General Obligation Note, Series of 2015

The General Obligation Note, Series of 2015, in the aggregate principal amount of \$4,725,000, is dated April 7, 2015. The proceeds of the note were used to (a) restructure the Guaranteed Sewer Revenue Bond, Series 2010, (b) to fund the Debt Service Reserve Fund through a Surety policy, and (c) to pay for the costs and expenses incurred by the Authority in connection with the issuance of the note. The Authority recognized a premium net of an underwriter's discount of \$142,514 as a result of the issuance of new debt.

General Obligation Bond, Series of 2016

The General Obligation Bond Series of 2016, in the principal amount of \$9,995,000, is dated October 13, 2016. The proceeds of the bonds were used to retire the Series 2011 Bonds. The Authority recognized a premium of \$66,886 as a result of the issuance of the new debt.

NOTE 3: DEVELOPERS' ESCROW

The Authority has agreed to accept from developers additional dwelling units into the system. As a condition thereto, the developer is required to deposit with the Authority monies to be used by the Authority in the payment of engineering and legal fees and for the inspection of the construction of the sewer system and for the payment of all application and recording fees with respect to the securing of the necessary permits from the various agencies of the Commonwealth of Pennsylvania.

If, after the completion of the sanitary sewer by the developer and the acceptance thereof by the Authority, there remains any monies not spent by the Authority, such monies shall be returned to the developer. In the event the initial deposit is insufficient for the purposes herein provided and, at any time thereafter, the developer will, at the request of the Authority, deposit with the Authority additional funds to defray such additional costs and expense. An itemized accounting of all such monies shall be supplied to the developer.

NOTE 4: COMPENSATED ABSENCES

It is the Authority's policy to recognize the cost of compensated absences. Consequently, no accrual for compensated absences has been made.

NOTE 5: EMPLOYEE RETIREMENT PLAN

A. General Information about the Pension Plan

*Plan Description.* The Authority, through a January 2014 agreement, provides employee pension benefits through participation in the Pennsylvania Municipal Retirement System (PMRS). The PMRS was created by the Pennsylvania General Assembly in 1974 with the passage of the Pennsylvania Municipal Retirement Law 1974, P.L. 34, No. 15. PRMS administers pension plans on a contracted basis for any municipality or institution supported and maintained by a Pennsylvania municipality. This agent multiple-employer public employee retirement system maintains each municipality's account separately with that municipality's contributions and related employee contributions, and earnings

FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2017

NOTE 5: EMPLOYEE RETIREMENT PLAN (CONTINUED)

A. General Information about the Pension Plan (Continued)

segregated into separate accounts. PMRS issues a separate Comprehensive Annual Financial Report, which can be obtained by contacting the PMRS accounting office at P.O. Box 1165 Harrisburg, PA 17108-1165.

*Benefits Provided.* Benefit terms were established under the 2010 agreement between PMRS and the Authority, changes to benefit terms can only occur by modification of this agreement. Major provisions of the 2014 agreement include the following:

All full-time Authority employees are required to participate in the System. Benefits vest after 5 years of service. Employees can retire with an annual retirement benefit after 20 years of service provided age 55 has been attained, or at age 62.

The normal form of payment of retirement benefits is a monthly annuity available for the life of the retiree employee. Two percent of the employee's average salary for the three consecutive years of greatest compensation multiplied by the number of years of service, and any fraction thereof, is used to calculate the normal retirement benefit funded solely by the Authority's contributions. Supplemental benefits are derived from employee contributions and interest earnings of the fund. A retiree may elect to receive a reduced amount of benefit and provide a death benefit in the form of annuity or lump sum to the designated beneficiary. The plan also provides death and disability benefits for an active employee.

Depending upon the annual investment return, the plan may award excess interest earnings to participating municipalities. The municipalities have the option of either retaining such excess earnings or sharing the additional earnings with active employees and retirees. In all years when excess interest earnings have been awarded, the Authority has elected to pro-ratably share excess earnings in a postretirement increase to retirees. Sharing of excess earnings is the only method available for increasing postretirement benefits.

The plan does not allow for any cost-of-living adjustments to an employee's retirement allowance subsequent to the employee's retirement date.

*Employees Covered by Benefit Terms.* At December 31, 2016, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	5
Inactive employees entitled to but not yet receiving benefits	3
Active employees	<u>19</u>
Total Participant Count	<u><u>27</u></u>

*Contributions.* Required contributions to the plan are governed by the 2014 agreement. The PMRS Board will actuarially determine the normal cost of benefits

FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2017

NOTE 5: EMPLOYEE RETIREMENT PLAN (CONTINUED)

A. General Information about the Pension Plan (Continued)

provided under the contract (2014 agreement) and any liability associated with the actuarial experience of such benefits which shall be contributed annually by the Authority. The PMRS Board shall determine and the Authority shall be charged an additional amount to be contributed annually toward a reserve account for any disability benefit which may be payable under the contract (2014 agreement). The amounts so determined shall be computed in §895.101 et seq., and the PMRL. Members shall contribute one percent of their compensation to fund the annuity. Members may optionally contribute up to, but no more than an additional ten percent of their compensation. For the year ended December 31, 2016, the average active employee contribution rate was 4.2% of annual pay, and the Authority's average contribution rate was 22.12% of covered payroll.

B. Net Pension Liability

The Authority's net pension liability was measured at December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016.

*Actuarial Assumptions.* The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	5.5%, net of pension plan investment expense, including inflation
Projected salary increases	Age/Merit Scale including inflation
Inflation	3%

Mortality rates Pre-Retirement were based on the RP-2000 Scale for males and the RP-2000 Scale with 5 year set-back for females. Mortality rates Post-Retirement were based on the RP-2000 Sex-Distinct Mortality Table. The current mortality assumptions, while not reflecting projections for improvements are subject to reflect changes in experience over those expected from the tables applied over the five year period preceding the experience analysis are received and reviewed by the Board. Such experience is required by State statute.

The actuarial assumptions used in the December 31, 2016 valuation were based on the PMRS Experience Study for the period covering January 1, 2009 through December 31, 2013 issued by the actuary in July 2015 as well as subsequent Board approved assumption changes.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges expected future real rates of return (expected returns, net of pension plan investment expense and inflation) 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. The target allocation and best estimates of arithmetic

FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2017

NOTE 5: EMPLOYEE RETIREMENT PLAN (CONTINUED)

B. Net Pension Liability (Continued)

real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity (large capitalized firms)	25%	6.9%
Domestic equity (small capitalized firms)	15%	6.8%
International equity (international developed markets)	15%	4.0%
International equity (emerging markets)	10%	7.6%
Real estate	20%	7.1%
Fixed income	<u>15%</u>	2.4%
	<u>100%</u>	

Discount rate. The discount rate used to measure the total pension liability was 5.25%. The projection of cash flows used to determine the discount rate assumed that the employee contributions will be made at the current rates and employers will continue the historical and legally required practice of contributing to the plan based on an Actuarially Determined Contribution, reflecting a payment equal to annual Normal Cost, the expected Administrative Expenses, and an amount necessary to amortize the remaining Unfunded Actuarial Liability as a level dollar amount over a closed period. Based on these assumptions the pension plan's projected Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
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## NOTE 5: EMPLOYEE RETIREMENT PLAN (CONTINUED)

## C. Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 12/31/15	\$ 5,772,781	\$ 4,619,772	\$ 1,153,009
Changes for the year:			
Service cost	185,783	-	185,783
Interest	321,105	-	321,105
Changes of assumptions	166,010	-	166,010
Differences between expected and actual experience	257,060	-	257,060
Contributions - employer	-	254,940	(254,940)
Contributions - PMRS assessment	-	540	(540)
Contributions - employee	-	52,751	(52,751)
PMRS investment income	-	276,568	(276,568)
Market value investment income	-	133,758	(133,758)
Benefit payments	(189,668)	(189,668)	-
PMRS administrative expense	-	(500)	500
Additional administrative expense	-	(13,549)	13,549
Net changes	<u>740,290</u>	<u>514,840</u>	<u>225,450</u>
Balances at 12/31/16	<u>\$ 6,513,071</u>	<u>\$ 5,134,612</u>	<u>\$ 1,378,459</u>

Sensitivity of the pension liability to changes in the discount rate. The following presents the net pension liability of the Authority, calculated using the discount rate of 5.25%, as well as what the Authority's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.25%) or 1-percentage-point higher (6.25%) than the current rate:

	1% Decrease 4.25%	Current Discount Rate 5.25%	1% Increase 6.25%
Authority's net pension liability	\$ 2,108,693	\$ 1,378,459	\$ 750,188

Pension Plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued PMRS financial report.

FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017

## NOTE 5: EMPLOYEE RETIREMENT PLAN (CONTINUED)

## D. Pension Expense and Deferred Outflows and Inflows of Resources Related to Pensions

For the year ended December 31, 2017, the Authority recognized pension expense of \$236,745. At December 31, 2017 the Authority reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	\$ 312,125	\$ -
Changes in assumptions	149,409	27,715
Net difference between projected and actual earnings on pension plan investments	52,071	-
Contributions subsequent to the measurement date	<u>277,407</u>	<u>-</u>
	<u>\$ 791,012</u>	<u>\$ 27,715</u>

The \$277,407 reported as deferred outflows of resources related to pensions resulting from the Authority contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2018 financial statements. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:

2017	\$ 77,262
2018	77,260
2019	75,445
2020	23,632
2021	50,382
Thereafter	<u>181,909</u>
Total	<u>\$ 485,890</u>

## NOTE 6: MUNICIPAL RISK MANAGEMENT WORKMEN'S COMPENSATION POOLED TRUST

The Authority entered into an agreement as of May 1, 1992, on the execution date of June 18, 1992, to join the Municipal Risk Management Workmen's Compensation Pooled Trust for the purpose of indemnifying itself against liability for certain coverages mandated under the Pennsylvania Workmen's Act and Pennsylvania Occupational Disease Act by pooling liabilities with other participants through a trust fund.

FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017

NOTE 6: MUNICIPAL RISK MANAGEMENT WORKMEN'S COMPENSATION POOLED TRUST  
(CONTINUED)

A. Obligations, Duties, and Liabilities of the Authority

1. Each participant agrees to jointly and severally assume and discharge the liabilities arising under the Workmen's Compensation Act and Occupational Disease Act of each and every participant of this trust agreement.
2. Each participant agrees to fulfill all obligations and duties set forth in this agreement. The withdrawal or expulsion of any participant pursuant to this Article II shall not affect this agreement not the trusts created herein, except where otherwise expressly provided.
3. Each participant is liable under the agreement for the payment of premiums, contributions, and assessments when due.
4. Each participant agrees to institute any and all reasonable safety regulations and loss prevention procedures that may be required by the administrator for the purpose of minimizing or eliminating hazards or risks that could contribute to losses.
5. Each participant agrees that it will cooperate fully with the trust's service agent(s), attorneys, claims adjusters and any other agent or employee of trust in relation to the purpose and powers of the trust, including, but not limited to, the investigation, defense, and settlement of claims. No participant shall encourage, aid, or abet any person to file a claim against the participant, except as specifically required by the Workmen's Compensation Act or case law.
6. The participants will furnish to the trustees such underwriting information as may be required by the trust prior to or during any trust year, and any other information which may be requested by the administrator.
7. Participants agree that the by-laws of the Fund as amended are and shall be binding on each participant. No by-law shall be in conflict with or inconsistent with any provision of this agreement.

B. Purpose of Trust

The purpose and objectives of the trust are as follows:

1. To provide adequate and affordable coverage for each participant at the lowest possible cost by the pooling or sharing of certain liability risks.
2. To reduce the amount and frequency of losses incurred by each participant by utilizing loss control procedures.
3. To minimize costs incurred by participants in the handling and litigation of claims.

FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
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NOTE 7: MUNICIPAL RISK MANAGEMENT WORKMEN'S COMPENSATION POOLED TRUST  
(CONTINUED)

B. Purpose of Trust (Continued)

4. To protect each participant from the volatility and high premiums of the commercial insurance markets.
5. To take whatever other action which may be necessary to preserve and protect the fiscal and actuarial integrity of the trust, as required in the trust agreement and by-laws.

C. Powers of Trustees

The trustees shall have the power to control and manage the trust and to perform such acts, enter into such contracts, engage in such proceedings, and generally to exercise any and all rights and privileges, although not specifically mentioned herein, as the trustees may deem necessary or advisable to administer the trust or to carry out the purposes of the agreement. Any determination made by the trustees in the exercise of these powers shall be binding upon all participants. In addition to the powers set forth elsewhere in this agreement, the powers and duties of the trustees in connection with their managing and controlling the trust shall include, but shall not be limited to, the following:

1. To receive, hold, manage, invest, reinvest, and control all monies at any time forming part of the trust.
2. To purchase contracts of insurance or reinsurance through such broker or brokers as the Trustees may choose and to pay premiums on such policies.
3. To hold cash for such length of time as the trustees may determine without liability for interest thereon.
4. To employ suitable agents, advisors, and other persons as the trustees may deem necessary and advisable for the efficient operation and administration of the trust, to delegate duties and powers hereunder to such agents, advisors and employees and to charge the expense thereof to the trust. Trustees are entitled to rely upon and may act upon the opinion or advice of any attorney or Service Agent approved by the trustees in the exercise of reasonable care. Trustees shall not be responsible for any loss or damage resulting from any action or non-action made in good faith reliance upon such opinion or advice.
5. To construe and interpret and trust agreement and any related documents, including the Participation Application and by-laws.
6. To purchase as a general administrative expense of the trust so-called directors' and officers' liability insurance and any other types of insurance for the benefit of the trust, the trustees, trust employees, or agents, including provision of workmen's compensation benefits.

FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2017

NOTE 7: MUNICIPAL RISK MANAGEMENT WORKMEN'S COMPENSATION POOLED TRUST  
(CONTINUED)

C. Powers of Trustees (Continued)

7. To pay or contest any claim or to settle a claim by or against the trust or any of its participants by negotiation, compromise, arbitration, or otherwise.
8. To determine the proper contributions, assessments, and annual premiums in consultation with the Trust Actuary and to provide for the proper invoicing, collection, and imposition of appropriate late payment charges, termination premiums, enforcement procedures and related matters necessary to protect the fiscal and actuarial integrity of the trust.
9. To purchase an employee fidelity bond covering the trustees, the administrator and such others as the trustees may determine.
10. To appoint for a fee or otherwise, a trust administrator who shall act at the direction of the trustees to implement the decisions of the trustees and to have direct responsibility for the operation and supervision of the trust.
11. To employ counsel to advise and represent the trustees on legal matters relating to the operating and administration of the trust, and to employ such other legal counsel as may be necessary to represent participants in the defense of claims or litigation.
12. To do all acts, whether or not expressly authorized in the agreement, which the trustees may deem necessary in the best interests of the trust.

D. Limitation of Liability

Liability of the trust to any participant is specifically limited to those coverages provided in the Pennsylvania Workmen's Compensation Act and Occupational Disease Act.

The Authority treats dividends received from the trust as a reduction of costs during the year received. During the year ended December 31, 2017, the authority paid premiums to the trust in the amount of \$33,301, and received dividends from the trust in the amount of \$26,330.

NOTE 8: SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date of these financial statements and has determined that as of March 21, 2018, there were no material events that required disclosure.

**REQUIRED SUPPLEMENTARY INFORMATION**

FRANKLIN TOWNSHIP MUNICIPAL SANIATARY AUTHORITY  
MURRYSVILLE, PENNSYLVANIA

SCHEDULE OF CHANGES IN THE AUTHORITY'S NET PENSION LIABILITY  
AND RELATED RATIOS  
LAST 10 FISCAL YEARS

	2016	2015	2014
Total Pension Liability			
Service Costs	\$ 185,783	\$ 191,201	\$ 204,384
Interest	321,105	305,712	279,256
Changes of Benefit Terms	-	-	-
Differences Between Expected and Actual Experience	257,060	-	115,388
Changes of Assumptions	166,010	(34,643)	-
Transfers	-	-	4,902
Benefit Payments, Including Refunds of Member Contributions	<u>(189,668)</u>	<u>(162,767)</u>	<u>(58,794)</u>
Net Change in Total Pension Liability	740,290	299,503	545,136
Total Pension Liability - beginning	<u>5,772,781</u>	<u>5,473,278</u>	<u>4,928,142</u>
Total Pension Liability - ending (a)	<u>\$6,513,071</u>	<u>\$5,772,781</u>	<u>\$5,473,278</u>
Plan Fiduciary Net Position			
Contributions - Employer	\$ 254,940	\$ 269,206	\$ 243,958
Contributions - PMRS Assessment	540	500	-
Contributions - Member	52,751	50,872	56,363
Net Investment Income (loss)	410,326	(27,558)	217,719
Benefit Payments, Including Refunds of Member Contributions	(189,668)	(162,767)	(58,794)
Transfers	-	-	4,902
PMRS Administrative Expense	(500)	(480)	(500)
Administrative Expense	<u>(13,549)</u>	<u>(9,651)</u>	<u>(8,698)</u>
Net Change in Plan Fiduciary Net Position	514,840	120,122	454,950
Plan Fiduciary Net Position - beginning	<u>4,619,772</u>	<u>4,499,650</u>	<u>4,044,700</u>
Plan Fiduciary Net Position - ending (b)	<u>\$5,134,612</u>	<u>\$4,619,772</u>	<u>\$4,499,650</u>
Authority's Net Pension Liability - ending (a) - (b)	1,378,459	1,153,009	973,628
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.84%	80.03%	82.21%
Covered - Employee Payroll	\$ 1,215,470	\$ 1,207,888	\$ 1,279,476
Authority's Net Pension Liability as a Percentage of Covered-Employee Payroll	113.41%	95.46%	74.10%

\* - Information only available for three years. Future years will be added as information becomes available.

FRANKLIN TOWNSHIP MUNICIPAL SANIATARY AUTHORITY  
MURRYSVILLE, PENNSYLVANIA

SCHEDULE OF AUTHORITY CONTRIBUTIONS  
LAST 10 FISCAL YEARS

	2016	2015	2014
Actuarially Determined Contribution	\$ 255,440	\$ 269,686	\$ 243,938
Contribution in Relation to the Actuarially Determined Contribution	<u>255,480</u>	<u>269,706</u>	<u>243,958</u>
Contribution Deficiency (Excess)	<u>\$ (40)</u>	<u>\$ (20)</u>	<u>\$ (20)</u>
Covered-Employee Payroll	\$ 1,215,470	\$ 1,207,888	\$ 1,279,476
Contribution as a percentage of Covered-Employee Payroll	21.02%	22.33%	19.07%

Notes to Schedule:

Valuation Date:

Actuarially determined contribution rates are calculated as of January 1 for the odd valuation year at least two years prior to the end of the fiscal year in which the contributions were reported. Therefore, the Actuarially Determined Contribution for calendar year 2016 is based upon the January 1, 2013 actuarial valuation.

Methods and Assumptions used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age
Amortization Period	Level dollar based upon the amortization periods in Act 205
Asset Valuation Method	Based upon the municipal reserves
Discount Rate	5.50%
Inflation	3.00%
Salary Increases	Age related scale with merit and inflation component
COLA Increases	3.0% for those eligible for a COLA
Pre-Retirement Mortality	Males - RP 2000 with 1 year set back, Females - RP 2000 with 5 year set back
Post-Retirement Mortality	Sex distinct RP - 2000 Combined Healthy Mortality

\* - Information only available for three years. Future years will be added as information becomes available.

**OTHER SUPPLEMENTARY INFORMATION**

FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY  
SCHEDULE OF OPERATING REVENUES  
YEARS ENDED DECEMBER 31,

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Sewer Rentals	\$ 4,226,753	\$ 4,182,852	\$ 4,162,487	\$ 4,147,689	\$ 4,095,906
Inspection Fees	84,000	98,000	86,800	73,850	103,250
Miscellaneous Operating Income	44,842	40,946	53,893	77,382	83,739
Penalties	<u>31,857</u>	<u>27,125</u>	<u>27,388</u>	<u>27,744</u>	<u>28,149</u>
Total Operating Revenues	<u>\$ 4,387,452</u>	<u>\$ 4,348,923</u>	<u>\$ 4,330,568</u>	<u>\$ 4,326,665</u>	<u>\$ 4,311,044</u>

FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY  
SCHEDULE OF OPERATING EXPENSES  
YEARS ENDED DECEMBER 31,

	2017	2016	2015	2014	2013
Collection:					
Labor	\$ 222,860	\$ 207,515	\$ 200,150	\$ 226,113	\$ 211,137
Employee Benefits	93,429	109,701	92,477	129,062	123,864
Payroll Taxes	17,755	16,442	15,661	17,787	16,934
Utilities	30,770	30,385	31,381	30,655	29,785
Supplies and Expense	18,742	12,115	14,550	16,393	12,415
Repairs and Maintenance	106,377	86,184	55,977	62,818	55,549
Infiltration Collection	-	333	-	-	972
	<u>489,933</u>	<u>462,675</u>	<u>410,196</u>	<u>482,828</u>	<u>450,656</u>
Treatment and Transportation:					
Labor	757,862	748,373	759,475	828,007	806,222
Employee Benefits	374,953	408,682	405,411	528,571	515,536
Payroll Taxes	60,643	59,784	60,660	66,067	66,773
Chemicals	66,031	67,719	57,180	52,509	52,669
Supplies and Expense	34,645	35,624	37,379	36,090	29,375
Repairs and Maintenance	203,209	161,512	187,688	203,041	189,209
Utilities	282,558	243,788	260,713	275,919	296,493
Sludge Disposal	46,904	39,000	63,133	44,451	56,215
	<u>1,826,805</u>	<u>1,764,482</u>	<u>1,831,639</u>	<u>2,034,655</u>	<u>2,012,492</u>
General and Administrative:					
Salaries	268,269	259,012	246,625	260,430	252,417
Employee Benefits	116,079	123,954	72,299	149,660	146,561
Payroll Taxes	21,583	20,831	19,849	20,519	19,841
Billing and Collection	29,307	30,755	28,543	31,488	29,035
General Insurance	67,121	68,498	65,604	63,972	73,144
Utilities	15,857	15,243	14,593	14,890	14,874
Other Administrative Expense	29,219	24,466	18,595	19,286	20,488
Supplies and Expense	22,644	24,877	26,931	27,142	26,575
Legal	15,561	14,615	22,963	34,928	19,260
Engineering	26,957	26,868	19,803	13,813	17,719
Audit	13,490	13,400	13,400	13,100	12,500
Trustee Fees	5,200	5,100	2,080	4,160	4,160
Board Member Expense	2,925	3,340	2,975	3,325	3,725
Dues and Subscriptions	3,320	3,559	3,320	3,497	3,612
Professional Services	1,180	3,840	9,770	-	810
Depreciation on Plant and System	1,554,975	1,531,769	1,519,104	1,450,584	1,430,156
Depreciation on Plant Fixed Assets	55,323	65,679	74,180	64,770	67,898
	<u>2,249,010</u>	<u>2,235,806</u>	<u>2,160,634</u>	<u>2,175,564</u>	<u>2,142,775</u>
Total Operating Expenses	<u>\$ 4,565,748</u>	<u>\$ 4,462,963</u>	<u>\$ 4,402,469</u>	<u>\$ 4,693,047</u>	<u>\$ 4,605,923</u>

FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY  
SCHEDULE OF NONOPERATING REVENUES  
YEARS ENDED DECEMBER 31,

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Interest Earned on Investments	\$ 12,329	\$ 352	\$ 428	\$ 442	\$ 648
Interest Earned on Delinquent Sewer Charges	6,551	6,942	7,424	11,735	5,342
Discounts	<u>55</u>	<u>139</u>	<u>56</u>	<u>120</u>	<u>92</u>
Total Nonoperating Revenues	<u>\$ 18,935</u>	<u>\$ 7,433</u>	<u>\$ 7,908</u>	<u>\$ 12,297</u>	<u>\$ 6,082</u>

FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY  
SCHEDULE OF NONOPERATING EXPENSES  
YEARS ENDED DECEMBER 31,

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Amortization of Deferred Items	\$ 26,966	\$ 31,146	\$ 31,146	\$ 38,355	\$ 54,561
Bond Issue Costs	-	106,499	80,438	-	-
Bond Interest Expense	282,120	299,253	457,916	494,902	522,350
Loan Interest Expense	271	1,222	7,290	7,593	11,068
Uncollectable Charges	<u>135</u>	<u>-</u>	<u>-</u>	<u>1,386</u>	<u>4,594</u>
Total Nonoperating Expenses	<u>\$ 309,492</u>	<u>\$ 438,120</u>	<u>\$ 576,790</u>	<u>\$ 542,236</u>	<u>\$ 592,573</u>

FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY  
SCHEDULE OF CONTRIBUTIONS AND TRANSFERS  
YEARS ENDED DECEMBER 31,

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Tap-In Revenue	\$ 72,355	\$ 184,294	\$ 230,303	\$ 454,398	\$ 344,843
Asset Management Fees	508,434	376,428	373,776	369,999	305,286
Assessments Revenue	-	10,081	-	-	-
Contributions from Customers	<u>32,839</u>	<u>80,242</u>	<u>80,242</u>	<u>80,242</u>	<u>80,242</u>
Total Contributions and Transfers	<u>\$ 613,628</u>	<u>\$ 651,045</u>	<u>\$ 684,321</u>	<u>\$ 904,639</u>	<u>\$ 730,371</u>

FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY  
SCHEDULE OF BONDS PAYABLE – SERIES 2016  
DECEMBER 31, 2017

<u>To Mature July 1</u>	<u>Interst Rate (%)*</u>	<u>Principal</u>
2018	2.00	\$ 5,000
2019	2.00	5,000
2020	2.00	5,000
2021	2.00	705,000
2022	2.00	790,000
2023	2.00	870,000
2024	2.00	885,000
2025	2.00	905,000
2026	2.00	920,000
2027	2.00	940,000
2028	2.00	960,000
2029	2.10	980,000
2030	2.15	1,000,000
2031	2.25	1,020,000
		<u>\$9,990,000</u>



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

**Independent Auditor's Report**

Board of Directors  
Franklin Township Municipal  
Sanitary Authority  
3001 Meadowbrook Road  
Murrysville, Pennsylvania 15668

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Franklin Township Municipal Sanitary Authority, a component unit of the Municipality of Murrysville, as of and for the year ended December 31, 2017, and the related notes to the financial statements, and have issued our report thereon dated March 21, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Franklin Township Municipal Sanitary Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the effectiveness of the Franklin Township Municipal Sanitary Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Franklin Township Municipal Sanitary Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected, and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



To the Members of the Board  
Franklin Township Municipal Sanitary Authority  
Murrysville, Pennsylvania  
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**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Franklin Township Municipal Sanitary Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

ZELENKOFKSKE AXELROD LLC

Pittsburgh, Pennsylvania  
March 21, 2018