

Mifflin County Municipal Authority

Financial Statements and
Supplementary Information

December 31, 2021

Mifflin County Municipal Authority

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Independent Auditors' Report

To the Board of Directors of
Mifflin County Municipal Authority

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the business-type activity and the fiduciary fund of Mifflin County Municipal Authority (Authority), as of and for the period from inception (September 30, 2021) to December 31, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activity and the fiduciary fund of the Authority as of December 31, 2021, and the changes in financial position and, where applicable, cash flows for the period from inception (September 30, 2021) to December 31, 2021 in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (GAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the water operations and related assets, deferred outflows of resources, liabilities and deferred inflows of resources were transferred from another government to the Authority on September 30, 2021. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and GAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and GAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the other required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the Authority's basic financial statements as a whole. The Schedule to Statement of Revenue, Expenses and Changes in Net Position on pages 31 - 32 and the Schedule of Revenue, Expenses and Changes in Net Position - Budget to Actual - Budgetary Basis on page 33 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects, in relation to the basic 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 April 20, 2022 on our consideration of the 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 solely 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 the effectiveness of the Authority's 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 Authority's internal control over financial reporting and compliance.

The image shows a handwritten signature in black ink that reads "Baker Tilly US, LLP". The signature is written in a cursive, flowing style.

State College, Pennsylvania
April 20, 2022

Mifflin County Municipal Authority

Management's Discussion and Analysis
December 31, 2021
(Unaudited)



In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, the following is presented as the Management's Discussion and Analysis (MD&A) to the financial statements that follow. The financial statements are based on an accrual basis of accounting.

Mifflin County Municipal Authority (the Authority) serves residents in Mifflin County (the County), Pennsylvania by providing potable drinking water, through a complex maze of almost 300 miles of transmission and distribution mains; controlled in 17 different pressure zones by pressure reducing valves, pumps and elevated water storage tanks. The Authority provides fire protection through nearly 600 hydrants. During 2021, the Authority serviced approximately 30,000 residents in the County and maintained over 11,000 billable accounts. The Authority's revenue created through rates and fees is primarily used to fund day-to-day operations and will be used to make payments on its long-term debt.

On September 30, 2021, The Municipal Authority of the Borough of Lewistown (MABL) transferred all of its assets, deferred outflows of resources, liabilities and deferred inflows of resources comprising its water operations to the Authority. Following GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, the Authority received net position of \$30,816,307 and this is reflected as a special item, transfer of operations on the statement of revenue, expenses and changes in net position. The Authority issued \$24,605,000 of Water Revenue Bonds, Series of 2021 and in addition to providing funds for the purchase of the water treatment and distribution system of MABL, approximately \$13,750,000 of the Bonds were set aside to fund certain capital projects of the Authority including, but not limited to, the replacement or installation of water supply lines at numerous locations, repairs and improvements to fire suppression lines and facilities, plant upgrades, including the installation of settling basins and lagoons, and meter replacements and also approximately \$1,300,000 for the funding of initial operating capital. Also related to the purchase of the water system, the Authority agreed to pay the Borough of Lewistown, Pennsylvania, \$1,000,000 together with the execution and delivery of a water revenue promissory note payable, representing the obligation of the Authority to make annual installment payments over the next thirty years.

Outstanding debt of the Authority at December 31, 2021, and detailed more in Note 4 and 5, is as follows:

Water Revenue Bonds, net of premium	\$ 26,826,687
Note payable to Borough of Lewistown, Pennsylvania	12,170,424

The Authority adopted the MABL 2021 annual budget as a part of the transaction. The Actual (Budgetary Basis) column below and on page 33 represents operations from September 30, 2021 to December 31, 2021, or approximately 25 percent of the total Budget for 2021. The Authority expects to spend a considerable amount of time preparing an annual cash basis operating budget, as well as a capital budget for system and equipment improvements. These budgets are prepared so that rates and fees can be set to meet the expenses of the day-to-day operations, while also keeping the water provided affordable to the customers. The user rate for 2021 was \$4.92 per one thousand gallons of metered water. It is important to note that this rate is very reasonable when compared to other utility's fees in the state. With this rate, the Authority estimated the annual operating revenue to be \$5,660,182 and operating expenses to be \$3,408,892.

Mifflin County Municipal Authority

Management's Discussion and Analysis
December 31, 2021
(Unaudited)

The following is a summary of the Schedule of Revenue, Expenses and Changes in Net Position - Budget to Actual - Budgetary Basis, presented in its entirety later in the supplementary information, for the period from inception (September 30, 2021) to December 31, 2021:

Description	Actual (Budgetary Basis) - Period From Inception (September 30, 2021) to December 31, 2021	Budget - For the Year Ended December 31, 2021
Total operating revenue	\$ 1,438,577	\$ 5,660,182
Total operating expenses	<u>(784,515)</u>	<u>(3,408,892)</u>
Operating income	654,062	2,251,290
Nonoperating revenue (expense)	1,453,279	(1,871,684)
Capital expenditures	<u>(100,529)</u>	<u>(900,186)</u>
Net cash and investments provided (used)	<u>\$ 2,006,812</u>	<u>\$ (520,580)</u>

During 2021, the operation provided operating income of \$654,062. The budget is being presented for the calendar year, or twelve months, where the actual results reflect only three months of activity after the acquisition of MABL operations. The detailed analysis below will provide supporting data to show that the operating revenue was within 1.0 percent of the budget expectations and operating expenses were 2.0 percent below budget expectation. This resulted in operating income that was greater than the budget projection.

Revenue

Metered revenue is based on historical consumption data and projection trends for the upcoming year.

- During 2021, water billing revenues, in general, comprised 25.0 percent of the annual budget projection as expected, or three of the twelve months.

Unmetered revenue consists of other revenue sources not included in the scheduled billing cycles during the year.

Expenses

The Authority has seven categories for operating expense classifications. Total operating expenses for the period from inception (September 30, 2021) to December 31, 2021 were under budget by \$2,624,377 or 77.0 percent, as expected with only three of the twelve months having activity. Some significant variances to point out when comparing the expense categories on the Schedule of Revenue, Expenses and Changes in Net Position - Budget to Actual - Budgetary Basis are as follows:

General

- Medical benefit expenses were 78.0 percent of budgeted for the three month period. The primary contributors were medical insurance premiums were reduced due to employee participation premiums and the health reimbursement costs being lower than projected for 2021.
- Engineering expenses were 96 percent of the budget.

Mifflin County Municipal Authority

Management's Discussion and Analysis
December 31, 2021
(Unaudited)

Filter Plant

- Total Filter Plant expenses were 75.0 percent of the budget for the three month period, as expected as overages in electric power and maintenance were offset by lower labor expenses.

Purification

- Purification expenses were over budget by 19.0 percent for the three month period. Flushing season in October, ozone purification system issues and significant weather events limited plant shut down periods during the three month period.

Distribution

- Overall distribution expenses were managed to 72.0 percent of the total budget for the three month period while variances in labor category projections for mains can be attributed to the annual flushing season operations taking place in October and water main breaks.

Control Stations

- The overall control station expenses were managed 11.0 percent under the budget projections for the three month period due to activity focused and completed earlier in the year.

Water Collection System

- The budget included a provision for well operations as a primary supply water source. The wells were not utilized in this capacity in 2021.

During 2021, net nonoperating revenue exceeded the budget as the proceeds from the Series of 2021 Water Revenue Bonds were not budgeted for.

During 2021, the budget was approved for capital expenditures of \$900,186. The actual capital contributions and additions are listed below:

<u>Account</u>	<u>Description</u>	<u>Total</u>
Filtration Plant	Lab Counter	\$ 3,675
	Office Desk	3,353
Distribution Mains	South Mann Ave (1st, 2nd, 3rd St)	201,277
	2nd St Milroy	5,511
	Oakland Ave Lewistown	2,955
	MCS Bank - Future Commerce Dr	62,429
	2021 Construction in Progress capitalized	(215,633)
Service Lines 3/4"	Labor/Material & Supplies	17,134
Service Lines 1"	Labor/Material & Supplies	1,356
Service Lines > 1"	Labor/Material & Supplies	2,763
Meters	Meter Pit Material	13,366
Fire Hydrants	New/Replaced System Hydrants	23,927
Other General Equipment	EQUM2600R Mustang Skid Steer	40,516
	2022 Ford Dump Truck	102,880
Construction in progress	2021 Construction in Progress	125,257
		<u>\$ 390,766</u>

Mifflin County Municipal Authority

Management's Discussion and Analysis
December 31, 2021
(Unaudited)

The Authority maintains over \$38.5 million worth of capital assets. A detailed table of the capital assets is included in the financial statements as Note 3 to the financial statements. The following are summarized values at December 31, 2021:

Capital assets	\$ 67,499,811
Less accumulated depreciation	<u>(28,998,521)</u>
Net book value	<u>\$ 38,501,290</u>

The following is a summary of the Statement of Net Position at December 31, 2021:

Capital assets, net of depreciation	\$ 38,501,290
Cash and investments	15,756,812
Other assets	<u>2,181,156</u>
Total assets	56,439,258
Deferred outflows of resources	<u>325,662</u>
Total assets and deferred outflows of resources	<u>\$ 56,764,920</u>
Current liabilities	\$ 746,213
Long-term liabilities	<u>38,728,643</u>
Total liabilities	<u>39,474,856</u>
Deferred inflows of resources	<u>543,684</u>
Net investment in capital assets	15,668,177
Restricted	696,885
Unrestricted	<u>381,318</u>
Total net position	<u>16,746,380</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 56,764,920</u>

The summary of the Statement of Net Position at December 31, 2021 will establish the baseline for comparison to the subsequent year's net position and reflects the Authority's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position at year end.

The following is a summary of the Statement of Revenue, Expenses and Changes in Net Position for the period from inception (September 30, 2021) to December 31, 2021:

Total operating revenue	\$ 1,419,244
Total operating expenses	<u>(857,725)</u>
Operating income before depreciation	561,519
Depreciation	<u>(398,344)</u>
Operating income	163,175
Total nonoperating expenses	(14,305,102)
Special item, transfer of operations	30,816,307
Capital contributions	<u>72,000</u>
Change in net position	<u>\$ 16,746,380</u>

Mifflin County Municipal Authority

Management's Discussion and Analysis
December 31, 2021
(Unaudited)

Net position increased \$16,746,380 in 2021. The Authority experienced an improvement in financial position for the period from inception (September 30, 2021) to December 31, 2021. Significant items of note in income and/or expenses include:

- Total nonoperating expenses include the acquired system rights to the water operations from the Borough of Lewistown (Borough) of \$13,170,424; and
- The carrying value of the net position transferred was \$30,816,307 and is reported as a special item, transfer of operations.

Future Operating and Capital Plans

The Authority adopted the MABL prepared and approved Operating Budget with operating expenses of \$5,782,499 for 2022. The operating expenses include funding the Authority's defined benefit pension plan of \$48,250. This budget was created factoring no user rate increase. The fee charged for each unit of metered water consumed (1,000 gallons) will remain \$4.92. It has been calculated that an average quarterly bill will be unchanged. In addition, \$6,035,925 has been approved for capital additions and improvements.

The Authority plans to install approximately 10,700 lineal feet of 6" and 8" water main during the year ending December 31, 2022. These capital projects will improve water quality, fire protection capabilities and replace aged infrastructure. In addition, the engineering and design phase of a major infrastructure maintenance project on Valley Street in Lewistown will replace approximately 5,000 lineal feet of 120-year-old 10" cast iron main with new 8" ductile iron pipe.

There are several capital improvement projects planned at Laurel Creek Filtration Plant for the year 2022. The replacement to next generation control valves will continue in 2022 for reliability improvements in the purification system. The Authority will also be adding/replacing important water quality monitoring equipment at the Laurel Creek Filtration Plant. Finally, engineering will begin planning for a concrete lagoon and settling basin to reduce maintenance costs.

There are plans in the community for new housing developments and employment opportunities through the addition of commercial and industrial facilities within the County. Growth should be experienced during 2022 and beyond.

Fiduciary Fund

On September 30, 2021, the MABL also transferred to the Authority fiduciary net position related to its Municipal Authority of the Borough of Lewistown Pension Plan at September 30, 2021 of \$4,066,889.

The Authority accounts for the assets held under trust or in a custodial capacity in fiduciary funds. Assets held in trust in the Authority retirement plan are accounted for in the Pension Trust Fund. Fiduciary funds are not reported in the Enterprise Fund financial statements since they are not available to support the Authority operations.

The basic Fiduciary Fund financial statements can be found on pages 13-14 of this report.

If you would like to hear more about Mifflin County and the opportunities here or would like more details about the Authority and its operations, feel free to contact our office at (717) 248-0165, view our website www.lewistownwater.com, or write to: Mifflin County Municipal Authority, 70 Chestnut Street, Lewistown, Pennsylvania 17044.

Mifflin County Municipal Authority

Statement of Net Position

December 31, 2021

Assets and Deferred Outflows of Resources

Current Assets

Cash and cash equivalents	\$ 1,749,496
Accounts receivable, billed	542,175
Accounts receivable, unbilled	734,414
Prepaid insurance	22,746
Inventory	224,042

Total current assets 3,272,873

Noncurrent Assets

Restricted investments held with trustee	14,007,316
Restricted net pension asset	657,779
Capital assets, not subject to depreciation	482,021
Capital assets, net of depreciation	38,019,269

Total noncurrent assets 53,166,385

Total assets 56,439,258

Deferred Outflows of Resources

Pension	<u>325,662</u>
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Total assets and deferred outflows of resources \$ 56,764,920

Liabilities, Deferred Inflows of Resources and Net Position

Current Liabilities

Accounts payable	\$ 189,780
Accrued payroll	35,997
Consumer deposits	22,370
Accrued interest	182,126
Unearned revenue	15,940
Current portion of note payable	300,000

Total current liabilities 746,213

Long-Term Liabilities

Compensated absences	31,532
Water Revenue Bonds	26,826,687
Note payable	11,870,424

Total long-term liabilities 38,728,643

Total liabilities 39,474,856

Deferred Inflows of Resources, Pension

543,684

Net Position

Net investment in capital assets	15,668,177
Restricted for pension	439,757
Restricted for debt service	257,128
Unrestricted	381,318

Total net position 16,746,380

Total liabilities, deferred inflows of resources and net position \$ 56,764,920

See notes to financial statements

Mifflin County Municipal Authority

Statement of Revenue, Expenses and Changes in Net Position

For the Period From Inception (September 30, 2021) to December 31, 2021

Operating Revenue

Metered revenue:

Domestic	\$ 894,470
Commercial	257,106
Industrial	126,272
Public	54,883
Fire protection	33,953

Total metered revenue 1,366,684

Unmetered Revenue

52,560

Total operating revenue 1,419,244

Operating Expenses

General	482,294
Filter plant	157,833
Distribution	121,601
Purification	81,274
Control stations	10,908
Water collection	3,815

Total operating expenses 857,725

Operating income before depreciation 561,519

Depreciation

398,344

Operating income 163,175

Nonoperating Revenue (Expenses)

System rights obtained from Borough of Lewistown	(13,170,424)
Costs of issuance, long-term debt	(953,398)
Interest expense	(182,127)
Interest income	657
Investment income	190

Total nonoperating expenses, net (14,305,102)

Capital Contributions

72,000

Change in net position before special item (14,069,927)

Special Item, Transfer of Operations

30,816,307

Change in net position 16,746,380

Net Position, Beginning

-

Net Position, Ending

\$ 16,746,380

See notes to financial statements

Mifflin County Municipal Authority

Statement of Cash Flows

For the Period From Inception (September 30, 2021) to December 31, 2021

Cash Flows From Operating Activities

Cash receipts from customers	\$ 1,438,577
Cash payments to vendors	(413,066)
Cash payments to employees for services	(369,377)
Cash payments to customers	(2,072)

Net cash provided by operating activities 654,062

Cash Flows From Capital and Related Financing Activities

Proceeds of Water Revenue Bonds	15,055,714
Deposit to restricted investments held with trustee (construction fund)	(13,750,000)
Cash transferred on acquisition	677,157
Acquisition and construction of capital assets	(100,529)

Net cash provided by capital and related financing activities 1,882,342

Cash Flows From Investing Activities

Arbitrage rebate payment	(530,439)
Net purchases of investment securities	(257,316)
Interest income	657
Investment income	190

Net cash used in investing activities (786,908)

Net increase in cash and cash equivalents 1,749,496

Cash and Cash Equivalents, Beginning

-

Cash and Cash Equivalents, Ending

\$ 1,749,496

Reconciliation of Operating Income to Net

Cash Provided by Operating Activities

Operating income	\$ 163,175
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	398,344
Changes in net pension asset (net of related deferred inflows/outflows of resources)	8,168
(Increase) decrease in:	
Accounts receivable	19,423
Prepaid insurance	23,656
Increase (decrease) in:	
Accounts payable	52,758
Accrued payroll	20,240
Consumer deposits	(2,072)
Unearned revenue	(90)
Compensated absences	(29,540)

Net cash provided by operating activities \$ 654,062

See notes to financial statements

Mifflin County Municipal Authority

Statement of Cash Flows

For the Period From Inception (September 30, 2021) to December 31, 2021

Supplemental Disclosures

Noncash investing and capital and related financing activities:

Accepted dedication of capital assets	<u>\$ 72,000</u>
Capital assets in accounts payable	<u>\$ 102,880</u>
Financing of system rights with note payable from Borough of Lewistown	<u>\$ (13,170,424)</u>
Payments on note payable from Borough of Lewistown for system rights	<u>\$ 1,000,000</u>
Repayment of debt of Municipal Authority of Borough of Lewistown	<u>\$ 9,818,576</u>
Proceeds of Water Revenue Bonds	<u>\$ (11,770,973)</u>
System rights obtained from Borough of Lewistown	<u>\$ 13,170,424</u>
Payments of costs of issuance	<u>\$ 953,398</u>
Assets and liabilities transferred:	
Capital assets	<u>\$ 38,508,868</u>
Accounts receivable	<u>\$ 1,296,011</u>
Inventory	<u>\$ 339,401</u>
Prepaid insurance	<u>\$ 46,402</u>
Accounts payable	<u>\$ (564,581)</u>
Accrued payroll	<u>\$ (15,757)</u>
Compensated absences	<u>\$ (61,072)</u>
Consumer deposits	<u>\$ (24,442)</u>
Unearned revenue	<u>\$ (16,030)</u>
Long-term debt of The Municipal Authority of Borough of Lewistown	<u>\$ (9,818,576)</u>
Net pension asset (net of related deferred inflows/outflows of resources)	<u>\$ 448,926</u>

See notes to financial statements

Mifflin County Municipal Authority

Statement of Fiduciary Net Position

December 31, 2021

Assets

Cash and cash equivalents	\$	137,300
Investments at fair value:		
Mutual funds		<u>4,063,076</u>
Total	\$	<u><u>4,200,376</u></u>

Net Position, Held in Trust for Pension Benefits \$ 4,200,376

See notes to financial statements

Mifflin County Municipal Authority

Statement of Changes in Fiduciary Net Position

For the Period From Inception (September 30, 2021) to December 31, 2021

Additions

Employer contributions	\$ 35,704
Member contributions	6,056
Net investment income	<u>131,560</u>

Total additions 173,320

Deductions

Benefits paid to participants	<u>39,833</u>
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Change in net position held in trust before special item 133,487

Special Item, Transfer

4,066,889

Change in net position held in trust 4,200,376

Net Position Held in Trust for Pension Benefits, Beginning

-

Net Position Held in Trust for Pension Benefits, Ending

\$ 4,200,376

See notes to financial statements

Mifflin County Municipal Authority

Notes to Financial Statements
December 31, 2021

1. Summary of Significant Accounting Policies

Description of Operations

Mifflin County Municipal Authority (the Authority) is a municipal authority incorporated in November 2020, organized and existing under the Pennsylvania Municipality Authorities Act, as amended. The Authority was created to operate a complete water system, including all related and necessary facilities for providing public water service to customers throughout Mifflin County, Pennsylvania.

In accordance with the terms of the trust indentures securing the Authority's debt, an annual operating budget is adopted for accounting control and internal reporting purposes. There is no legal requirement for the adoption of an annual appropriated budget.

On September 30, 2021, the assets, deferred outflows of resources, liabilities and deferred inflows of resources comprising all of its water operations were transferred to the Authority from another government. See Transfer of Operations section of Note 1 for more details.

Financial Reporting Entity

The reporting entity has been defined in accordance with the criteria established by the Governmental Accounting Standards Board (GASB) Statement 14, as amended. The specific criteria used in determining whether other organizations should be included in the Authority's financial reporting entity are financial accountability, fiscal dependency and legal separation. Pursuant to such criteria, the Authority does not meet the definition of a "component unit" of the County of Mifflin, Pennsylvania at December 31, 2021, as the County's accountability for the Authority does not extend beyond making appointments to the Authority's Board of Directors. However, this determination must be made on an annual basis.

The fiduciary financial statements include a component unit, fiduciary in nature, related to the Mifflin County Municipal Authority Pension Plan (the Plan). The financial results of the Plan are reported and included in the Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position. The Plan is not separately audited. Additional disclosures in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* - are presented for the Plan in Note 6 - Pension and in the accompanying Required Supplementary Information (RSI).

Basis of Presentation

Proprietary funds are used to account for activities that are similar to those often found in the private sector. The measurement focus is upon determination of net income and capital maintenance.

Proprietary funds distinguish operating revenues from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Nonoperating revenue and expenses do not result from operations and relate to financing and investing types of activities, as well as nonexchange transactions. This includes investment income, interest income, interest expense and the gain or loss resulting from the disposal of assets, if any. The following is a description of the Authority's proprietary fund:

Enterprise Fund

Enterprise funds are used for activities that are financed and operated in a manner similar to private business enterprise, where the intent of the governing body is that the costs of providing services to the public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has determined that periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability and other purposes. The Authority's enterprise fund type consists of its water operations.

Mifflin County Municipal Authority

Notes to Financial Statements
December 31, 2021

Basis of Accounting

The financial statements of the Authority, including the fiduciary financial statements, are reported using the economic resources measurement focus and the accrual basis of accounting, whereby all revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Depreciation and amortization of assets are recognized on the statement of revenue, expenses and changes in net position. All assets, deferred outflows of resources, liabilities or deferred inflows of resources associated with the operation of the Authority are included on the statements of net position.

Cash and Cash Equivalents

Cash consists of currency on hand and demand deposits. The Authority considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. As a result, the Authority classifies its interest in an external investment pool as cash and cash equivalents on the statement of net position, but is classified as investments for purposes of the disclosures in Note 2, *Cash Deposits and Investments*.

Accounts Receivable and Bad Debt

Accounts receivable are reported at net realizable value. The Authority writes-off any accounts receivable determined to be uncollectible. Potential bad debt at the end of the period is generally immaterial in relation to the total accounts receivable. Therefore, a reserve for doubtful accounts has not been established.

Accounts Receivable, Unbilled

During the year, customers' water meters are read and bills are rendered throughout monthly or quarterly periods. Because not every meter is read on the same date and not all customers are billed through December 31st, revenue for water distributed is estimated and accrued at fiscal year-end to match revenue with related expenses.

Inventory

Inventory consists principally of emergency repair parts and system maintenance material, which are recorded when purchased and expensed or capitalized when used. Inventory is recorded using the first-in, first-out (FIFO) method of accounting.

Pension

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to the pension, and pension expense, information about the fiduciary net position of Mifflin County Municipal Authority Pension Plan (the Plan), and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan.

Deferred Inflows/Outflows of Resources

Pursuant to the GASB Concepts Statement No. 4, *Elements of Financial Statements*, the "deferred outflow of resources" is a consumption of net position (assets minus liabilities) by the government that is applicable to a future period, while an "asset" is a resource with present service capacity that the government presently controls. The "deferred inflow of resources" are an acquisition of net position (assets minus liabilities) by the government that is applicable to a future reporting period, while a "liability" is a present obligation to sacrifice resources that the government has little or no discretion to avoid. Deferred outflows and inflows of resources are reported separate from assets and liabilities on the statement of net position.

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Changes in the net pension liability (asset) not included in pension expense are also required to be reported as deferred outflows or inflows of resources (see Note 6 for additional information).

Restricted Investments Held With Trustee

In accordance with the terms of the trust indenture securing the Water Revenue Bonds, moneys are held in various funds, segregated for specific use and for the security of the bondholders and maintained by an independent trustee. Investments held with trustee consist of the following funds at December 31, 2021:

Debt service fund	\$	182,128
Lewistown Borough note fund		75,000
Construction fund		<u>13,750,188</u>
Total restricted investments held with trustee	\$	<u>14,007,316</u>

The Authority's restricted investments held with trustee are carried at fair value, which approximates cost. Any differences between the fair values and costs of investments are reflected in investment income.

Capital Assets

Capital assets are stated at cost. Depreciation is provided using the straight-line method of accounting over the expected economic useful lives of the assets. The expected economic useful lives of the assets are listed below.

Dam and reservoirs	10 - 100 years
Water treatment plant	5 - 50 years
Distribution system	7 - 50 years
Office building	10 - 25 years
Equipment	5 - 50 years

When assets are retired or otherwise disposed of, the applicable cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized as income or loss for the period. Routine expenditures for maintenance and repairs are charged against income as incurred. Expenditures, which significantly increase the value or extend the useful lives of the assets, are capitalized.

Consumer Deposits

Consumer deposits covering water billings to tenants (in lieu of property owners), at the Authority's discretion, may be refunded after two years of timely payments by the consumer or after service is discontinued.

Components of Net Position

Proprietary fund financial statements are required to report net position in three components:

Net Investment in Capital Assets - This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, notes or other borrowings and deferred outflows of resources, which are attributable to the acquisition, construction or improvement of those assets.

Restricted - This consists of net resources, which are legally restricted by outside parties, or by law, through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first and then unrestricted resources when they are needed.

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Unrestricted - This consists of net assets, which do not meet the definition of "Net Investment in Capital Assets" or "Restricted."

Compensated Absences

Accumulated compensated absences consist of pooled leave (vacation time) attributable to substantially all full-time employees. Employees are not allowed to carry over unused leave from year to year. Vacation time for staff employees renews on January 1 each year and should be used by the December 31 of the same year. Vacation time for union employee renews each year on the employee's anniversary date and should be used by the following year anniversary date. Any unused vacation time is forfeited. Accumulated compensated absences amounted to \$31,532 at December 31, 2021.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Transfer of Operations

On September 30, 2021, the Municipal Authority of the Borough of Lewistown's (MABL) assets, deferred outflows of resources, liabilities and deferred inflows of resources and water operations were transferred to the Authority. Under an intergovernmental agreement between the Authority and MABL, this transfer was the result of local community concerns regarding the ownership and operation of the Water System by MABL, whose board members were appointed solely by the Borough Council of the Borough of Lewistown, Pennsylvania (the Borough), while the Water System itself had, over time, grown well beyond the geopolitical borders of the Borough and served residents throughout several different adjacent municipalities, representing a significant geographic portion of the County of Mifflin. Members of the Board of the Authority are, in contrast, appointed by the Board of County Commissioners of the County and are required, under the Authority's Articles of Incorporation, to be resident within, or to represent, each of the eight different municipalities served by the Water System.

The Authority issued \$24,605,000 of Water Revenue Bonds, Series of 2021 (Note 4) in September 2021 and the proceeds of the bonds were used in part to repay the existing outstanding debt of MABL in full of \$9,818,576. The Authority will operate and maintain the water operations and account for its operations in an enterprise fund. The transfer included all of the assets of the MABL, consisting of cash and cash equivalents (\$677,157); billed and unbilled accounts receivable (\$1,296,011); prepaid insurance (\$46,402); inventory (\$339,401); capital assets (\$38,508,868). In addition, the Authority assumed the liability for the accounts payable (\$564,581) and accrued payroll (\$15,757) and other compensated absence liabilities (\$61,072) as well as consumer deposits (\$24,442) and unearned revenue (\$16,030) of the MABL. Also included in the transfer were the net pension asset and certain pension related deferred outflows and inflows of resources (\$448,926). The carrying value of the net position transferred was \$30,816,307 and is reported as a special item, transfer of operations on the statement of revenue, expenses and changes in net position for the year ended December 31, 2021.

2. Cash Deposits and Investments

Pennsylvania statutes and the Authority's trust indenture provide for investment of governmental funds into certain authorized investment types, including U.S. Treasury bills, other short-term obligations of the U.S. and Pennsylvania government obligations, insured or collateralized time deposits and certificates of deposit. The statutes do not prescribe regulations related to demand deposits, however, they do allow pooling of government funds for investment purposes. The deposit and investment policy of the Authority is to adhere to state statutes and the trust indentures.

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Cash Deposits

Custodial credit risk for cash deposits is the risk that, in the event of a failure of a depository financial institution, the Authority will not be able to recover deposits, which are in the possession of the institution.

The following is a summary of the Authority's cash deposits (bank balances) at December 31, 2021:

Insured (FDIC)	\$	263,843
Collateralized held by institution's trust department not in the Authority's name		<u>1,487,475</u>
Total cash deposits and certificates of deposit	\$	<u>1,751,318</u>

The Federal Deposit Insurance Corporation (FDIC) insures the Authority's deposits. Those deposits exceeding the FDIC limit of \$250,000 are collateralized in accordance with the Commonwealth of Pennsylvania Act 72, which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution's name, not the Authority's name. Therefore, the Authority had \$1,487,475 exposed to custodial credit risk at December 31, 2021. The Authority does not have a formal investment policy for custodial credit risk specific to cash and cash equivalents.

Investments

The following is a summary of investments at December 31:

<u>Investment Type</u>	<u>Reported on the Statements of Net Position</u>	<u>Maturity</u>	<u>2021 Fair Value</u>
Money market mutual funds	Investments held with trustee	January 1, 2022	\$ 14,007,316

The Authority measures its investments at fair value on a recurring basis in accordance with GAAP. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The framework that the authoritative guidance established for measuring fair value includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement.

The levels of the fair value hierarchy are as follows:

Level 1 - Fair value is based on unadjusted quoted prices in active markets that are accessible to the Authority for identical assets or liabilities. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2 - Fair value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the same term of the asset or liability through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets, quoted market prices in markets that are not active for identical or similar assets and other observable inputs.

Level 3 - Fair value is based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows and other similar techniques.

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The valuation methods for recurring fair value measurements are as follows at December 31, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market mutual funds	\$ 14,007,316	\$ -	\$ -	\$ 14,007,316

The money market mutual funds are valued based on unadjusted quoted prices in active markets and are measured using Level 1 inputs. There have been no changes in the methodologies at December 31, 2021.

Credit risk for investments is the risk that an issuer or counterparty will not fulfill its obligations. At December 31, 2021, the external investment pool and the money market mutual funds received an AAAM rating from Standard and Poor's, an independent credit rating agency. The Authority does not have a formal investment policy, which would limit its investment choices, based on the credit ratings by nationally recognized statistical rating organizations.

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the Authority will not be able to recover investments, which are in the possession of an outside entity. At December 31, 2021, the Authority's investments had no exposure to custodial credit risk.

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer, which is identified when the fair value of an investment, by one issuer, represents 5.0 percent of more of the fair value of the investment portfolio. At December 31, 2021, the Authority's investments had no exposure to concentration of credit risk. The Authority does not have a formal investment policy, which limits the amount it may invest with any one issuer.

Interest rate risk is the risk that changes in the interest rates will adversely affect the fair value of an investment in debt securities. The Authority does not have a formal investment policy, which limits investment maturities as a means of exposure to the fair value losses arising from increasing interest rates. All investments of the Authority mature in less than one year.

Fiduciary Fund Investments

The deposits and investments of the Fiduciary Fund are administered by Mifflin County Municipal Authority Pension Plan Trustees (trustees) and are held separately from those of other Authority funds.

Investments in the fiduciary fund are stated at fair value for both reporting and actuarial purposes. Investment purchases are recorded as of the trade date. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are generally reported at cost, which is not expected to be materially different from fair value.

The following table presents the investments measured at fair value as of December 31, 2021 by caption on the statements of fiduciary net position by the valuation hierarchy defined below:

	December 31, 2021			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 137,300	\$ -	\$ -	\$ 137,300
Investments:				
Mutual funds	4,063,076	-	-	4,063,076
Total	<u>\$ 4,200,376</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,200,376</u>

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Valuation Methodologies

The following is a description of the valuation methodologies used for investments measured at fair value.

Cash and cash equivalents - The carrying amounts approximate fair value because of the short maturity of those financial instruments.

Investment - The valuation methodology of utilizing closing prices in an active exchange market was applied to mutual funds.

The following summarize the investment philosophy of the trustees:

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Plan does not have a formal deposit policy for custodial credit risk. The Plan investments are held with Charles Schwab in the accounts separate and apart from the assets of the Authority. According to the brokerage, customer securities are legally the property of customers - they are not on Charles Schwab's balance sheet and are not exposed to Charles Schwab's creditors. Under the SEC's customer protection rule, customers' securities must be segregated from Charles Schwab's proprietary securities. The securities are held in central depositories with the record of ownership reflected on a book entry basis. The brokerage account is held in Mifflin County Municipal Authority Pension Plan name.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a credit rating by a nationally recognized organization. U.S. government securities or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk exposure. The Plan does not have a formal deposit policy for credit risk. The Plan held only mutual funds at December 31, 2021; mutual funds are not rated for purposes of credit risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Plan's investment in a single issuer. The Pension Fund investment policy requires that investments meet asset allocation formulas prevalent in balanced portfolios using a strategic allocation of 64 percent Equity, 33 percent Fixed Income and 3 percent Real Estate.

Foreign Currency Risk

Foreign currency risk is the risk that changes in the foreign exchange rate will adversely affect the fair value of an investment. There are currently no investments in securities exchanged in foreign denominations. The trustees do not have a formal policy for foreign currency risk.

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3. Capital Assets

The following is a summary of the Authority's capital assets activity for the period from inception (September 30, 2021) to December 31, 2021:

	Beginning Balance (includes transferred assets, Note 1)	Additions	Transfers	Dispositions	Ending Balance
Capital assets not depreciated:					
Construction-in-progress	\$ 192,336	\$ 125,257	\$ (215,633)	\$ -	\$ 101,960
Land and right-of-ways	380,061	-	-	-	380,061
Total capital assets not depreciated	<u>572,397</u>	<u>125,257</u>	<u>(215,633)</u>	<u>-</u>	<u>482,021</u>
Capital assets depreciated:					
Dam and reservoirs	17,553,872	-	-	-	17,553,872
Water treatment plant	13,714,012	7,028	-	-	13,721,040
Distribution system	33,603,812	115,085	215,633	-	33,934,530
Office building	213,169	-	-	-	213,169
Equipment	1,451,783	143,396	-	-	1,595,179
Total capital assets depreciated	<u>66,536,648</u>	<u>265,509</u>	<u>215,633</u>	<u>-</u>	<u>67,017,790</u>
Less accumulated depreciation for:					
Dam and reservoirs	(5,675,410)	(78,474)	-	-	(5,753,884)
Water treatment plant	(6,475,864)	(99,674)	(4,772)	-	(6,580,310)
Distribution system	(15,427,476)	(193,069)	(4,413)	-	(15,624,958)
Office building	(125,298)	(2,434)	-	-	(127,732)
Equipment	(896,129)	(24,693)	9,185	-	(911,637)
Total accumulated depreciation	<u>(28,600,177)</u>	<u>(398,344)</u>	<u>-</u>	<u>-</u>	<u>(28,998,521)</u>
Total assets being depreciated, net	<u>37,936,471</u>	<u>(132,835)</u>	<u>215,633</u>	<u>-</u>	<u>38,019,269</u>
Total	<u>\$ 38,508,868</u>	<u>\$ (7,578)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 38,501,290</u>

Depreciation for the period from inception (September 30, 2021) to December 31, 2021 was \$398,344.

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4. Long-Term Debt

Water Revenue Bonds consist of the following at December 31, 2021:

Water Revenue Bonds:	
a. Water Revenue Bonds, Series of 2021	\$ 24,605,000
Total	24,605,000
Less current portion	-
Plus unamortized bond premium	2,221,687
Total Water Revenue Bonds	\$ 26,826,687

- a. On September 30, 2021, the Authority issued \$24,605,000 of Water Revenue Bonds, Series of 2021 (2021 Bonds). The 2021 Bonds were issued to provide funds to: (1) refund the existing long-term debt of MABL (see Note 1, Transfer of Operations); (2) fund certain capital projects of the Authority including, but not limited to, the replacement or installation of water supply lines at numerous locations within the System, repairs and improvements to fire suppression lines and facilities, plant upgrades, including the installation of settling basins and lagoons, and meter replacements; (3) the funding of initial operating capital; (4) pay the premium on a surety policy for deposit to the Debt Service Reserve Fund; and (5) pay the costs of insuring and issuing the Bonds. The 2021 Bonds mature at various times through 2044 and bear interest rates from 2.00 percent to 3.00 percent.

The following is a summary of Authority's Bonds activity for the period from inception (September 30, 2021) to December 31, 2021:

	<u>2021 Bonds</u>
Balance, September 30, 2021	\$ -
Bond issuance	24,605,000
Retirements	-
Balance, December 31, 2021	\$ 24,605,000

Investment income from the investment of tax-exempt bonds' proceeds is offset against interest expense. Net interest expense on the bonds was \$181,937 for the period from inception (September 30, 2021) to December 31, 2021.

Through its trust indenture, the Authority has pledged all of its water revenue as security to the Water Revenue Bonds.

Debt service requirements for the Water Revenue Bonds are as follows at December 31:

	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2022	\$ -	\$ 720,500	\$ 720,500
2023	875,000	703,000	1,578,000
2024	890,000	685,200	1,575,200
2025	910,000	657,900	1,567,900
2026	930,000	630,000	1,560,000
2027-2031	4,985,000	2,708,400	7,693,400
2032-2036	5,590,000	1,907,100	7,497,100
2037-2041	6,280,000	1,007,250	7,287,250
2042-2044	4,145,000	126,300	4,271,300
Total	\$ 24,605,000	\$ 9,145,650	\$ 33,750,650

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Note payable consist of the following at December 31, 2021:

Note payable:	
a. Note payable to Borough of Lewistown, Pennsylvania	<u>\$ 12,170,424</u>
Total	12,170,424
Less current portion	<u>(300,000)</u>
Total note payable	<u>\$ 11,870,424</u>

- a. The Authority is one of three parties that negotiated, executed and delivered an Asset Purchase Agreement, dated August 31, 2021 by, between and among the Authority, the Borough and MABL (the Asset Purchase Agreement). The Authority acquired the system rights to the water operations from the Borough of Lewistown (Borough) for \$13,170,424, reported as nonoperating expense on the statement of revenue, expenses and changes in net position. The Authority agreed on the closing date (September 30, 2021), to pay the Borough \$1,000,000 together with the execution and delivery of a water revenue promissory note, payable to the Borough, representing the obligation of the Authority to make annual installment payments on each anniversary of the Closing Date, for a term of thirty years to the Borough in the (initial) sum of \$300,000, increased each year thereafter by a two percent inflation factor, compounded annually. Part of the proceeds of the 2021 Bonds (Note 4) were used for the initial payment owed to the Borough for its interest in the Water System while the subsequent, periodic payments will be made from current revenues of the Authority.

The following is a summary of Authority's Note activity for the period from inception (September 30, 2021) to December 31, 2021:

Balance, January 1, 2021	\$ -
Note issuance	13,170,424
Retirements	<u>(1,000,000)</u>
Balance, December 31, 2021	<u>\$ 12,170,424</u>

Debt service requirements for the note payable is as follows at December 31:

	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2022	\$ 300,000	\$ -	\$ 300,000
2023	306,000	-	306,000
2024	312,120	-	312,120
2025	318,362	-	318,362
2026	324,730	-	324,730
2027-2031	1,723,705	-	1,723,705
2032-2036	1,903,109	-	1,903,109
2037-2041	2,101,186	-	2,101,186
2042-2046	2,319,879	-	2,319,879
2047-2051	<u>2,561,333</u>	<u>-</u>	<u>2,561,333</u>
Total	<u>\$ 12,170,424</u>	<u>\$ -</u>	<u>\$ 12,170,424</u>

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5. Reconciliation of Statements of Revenue, Expenses and Changes in Net Position - Accrual Basis to Budgetary Basis

The change in net position as presented on the statement of revenue, expenses and changes in net position on page 11 differs from the statement of revenue, expenses and changes in net position - budget to actual - budgetary basis on page 33 for the reason that in the current year, the budget for the Authority was prepared on the cash basis of accounting.

Reconciliation of the change in net position is as follows:

Net cash and investments used, budgetary basis	\$ 2,006,812
Add:	
Acquisition and construction of capital assets	100,529
Special item, transfer of operations	30,816,307
Net decrease in certain current assets	(43,079)
Noncash capital contributions	72,000
Cash transferred on acquisition	(677,157)
Net increase in accrued interest	(182,126)
Change in net pension liability (asset) (net of related deferred inflows/outflows of resources)	(8,168)
Net increase in certain current liabilities	(41,297)
Less:	
Depreciation	(398,344)
Costs of issuance	(953,398)
System rights obtained from Borough of Lewistown	(13,170,424)
Arbitrage rebate payment	530,439
Proceeds of Water Revenue Bonds	(15,055,714)
Deposit to construction fund	13,750,000
Change in net position	<u>\$ 16,746,380</u>

6. Pension

General Information about the Pension Plan

The Authority has a single-employer defined benefit pension plan. All permanent, full-time employees, who have one year of service (defined as 1,000 hours of service) may participate in the Plan. The Municipal Pension Plan Funding and Recovery Act (Act 205) requires a full actuarial valuation once every two years. Benefits vest 20.0 percent after two years of service, plus 20.0 percent each year, thereafter, up to 100.0 percent of service. The Plan provides pension benefits for normal retirement, at age 65, based on a formula, including service factors and employees average compensation. Early retirement, at age 55, is available upon ten years of service. The Authority's employees, who terminate after ten years of credited service, will receive a deferred pension commencing at retirement age. The Plan also provides for death benefits. A minimum funding standard exists for the Plan, based on the current actuarial valuation report. Any obligation, with respect to the Plan, shall be paid by the Authority. Active members of the Plan are required to contribute 2.0 percent of their compensation.

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At December 31, 2021, the following employees were covered by the benefit terms:

Active employees	21
Inactive employees entitled to, but not yet receiving benefits	3
Inactive employees or beneficiaries currently receiving benefits	17
Total	41

Net Pension Liability (Asset)

The Authority's net pension liability (asset) was measured at December 31, 2021, and the total pension liability used to calculate the net pension liability (asset) was determined by rolling forward the liabilities from an actuarial valuation as of January 1, 2021.

The total pension liability in the January 1, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00 percent
Salary increases	4.50 percent (average, including inflation)
Investment rate of return	7.00 percent (including inflation)

Mortality rates were based on the PubG-2010 mortality table, including rates for disabled retirees and contingent survivors. Incorporated into the table are rates projected generationally using Scale MP-2018 to reflect mortality improvement.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of 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 real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	58.00 %	5.50% - 7.50%
International equity	6.00	4.50% - 6.50%
Fixed income	33.00	1.00% - 3.00%
Real estate	3.00	4.50% - 6.50%

The discount rate used to measure the total pension liability was 7.00 percent. The pension plan's fiduciary net position is 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/asset. The Authority has always met the funding requirements of Pennsylvania Law Act 205 of 1984. Act 205 requires full funding of the entry age normal cost, plus plan expenses, as well as amortization of the unfunded liability.

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Changes in the net pension asset for the period from inception (September 30, 2021) to December 31, 2021 was as follows:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension (Asset) (a) - (b)
Balances, September 30, 2021	\$ -	\$ -	\$ -
Service cost	14,157	-	14,157
Interest cost	51,460	-	51,460
Changes for experience	(148,489)	-	(148,489)
Administrative expense	-	-	-
Contributions, employer	-	35,704	(35,704)
Contributions, member	-	6,056	(6,056)
Net investment income	-	131,560	(131,560)
Benefit payments, including refunds of member contributions	(39,833)	(39,833)	-
Net changes before special item	(122,705)	133,487	(256,192)
Special item, transfer on government acquisition (Note 1)	3,665,302	4,066,889	(401,587)
Balances, December 31, 2021	<u>\$ 3,542,597</u>	<u>\$ 4,200,376</u>	<u>\$ (657,779)</u>

The following presents the net pension asset of the plan, calculated using the discount rate of 7.00 percent, as well as what the plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	1.0% Decrease (6.0%)	Current Discount Rate (7.0%)	1.0% Increase (8.0%)
Plan's net pension asset	\$ (232,689)	\$ (657,779)	\$ (1,018,042)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Pension

For the period from inception (September 30, 2021) to December 31, 2021, the Authority recognized pension expense of \$43,872. At December 31, 2021, the Authority reported deferred outflows of resources and deferred inflows of resources related to the pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 47,404	\$ 201,723
Changes of assumptions	278,258	-
Net difference between projected and actual investment earnings	-	341,961
Total	<u>\$ 325,662</u>	<u>\$ 543,684</u>

Mifflin County Municipal Authority

Notes to Financial Statements
December 31, 2021

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension at December 31, 2021 will be recognized in pension expense as follows:

Years ending December 31:	
2022	\$ (41,184)
2023	(108,921)
2024	(45,692)
2025	1,961
2026	(12,093)
Thereafter	<u>(12,093)</u>
Total	<u>\$ (218,022)</u>

7. Federal and State Grants

In the normal course of operations, the Authority receives grant funds from various federal and state agencies. The grant programs are subject to audits by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of the funds. Any liability for reimbursement that may arise, as the result of these audits, is not believed to be material.

8. Risk Management

The Authority elected to participate in the Delaware Valley Health Trust (Trust), an intergovernmental risk-sharing pool that provides comprehensive health benefits on a pooled basis, for a minimum of four years. The Trust is funded by its members through premium contributions. Rate-setting policies are established by the Trust in consultation with independent insurance and employee benefit consultants. The Trust may distribute returns of surplus to members in the form of rate stabilization fund credits. The Authority believes that it has adequately provided for all asserted claims and has no knowledge of unasserted claims for which it has not provided. The cost of medical coverage for employees was approximately \$101,000 in 2021.

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of asset, errors and omissions and natural disasters for which the Authority carries commercial insurance.

9. Pending Changes in Accounting Principles

The Governmental Accounting Standards Board (GASB) has approved the following:

- Statement No. 87, *Leases*;
- Statement No. 91, *Conduit Debt Obligations*;
- Statement No. 93, *Replacement of Interbank Offered Rates*;
- Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*;
- Statement No. 96, *Subscription-Based Information Technology Arrangements*;
- Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*.

Authority management is in the process of analyzing these pending changes in accounting principles and the impact they may have on the financial reporting process.

**Independent Auditors' 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***

To the Board of Directors of
Mifflin County Municipal Authority

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 Mifflin County Municipal Authority (the Authority), as of and for the period from inception (September 30, 2021) to December 31, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed on the table of contents, and have issued our report thereon dated April 20, 2022. Our report disclosed that the water operations of another government were transferred to the Authority on September 30, 2021. Our opinion was not modified with respect to this matter.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 Authority'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 or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly US, LLP

State College, Pennsylvania
April 20, 2022

Mifflin County Municipal Authority

Schedule to Statement of Revenue, Expenses and Changes in Net Position
For the Period From Inception (September 30, 2021) to December 31, 2021

General

Employee insurance	\$	127,097
Salaries		110,842
Pension		43,872
Office expense		39,469
General property expense		37,768
Payroll taxes		29,467
Insurance		23,662
Employee benefits		22,175
Legal		20,599
Auditing and consulting		16,660
Salaries, officers		4,650
Uncollectible accounts		3,457
Engineering		2,576
		<u>2,576</u>
Total general	\$	<u>482,294</u>

Filter Plant

Labor	\$	102,759
Maintenance		34,134
Power and heat		17,602
Supplies		3,338
		<u>3,338</u>
Total filter plant	\$	<u>157,833</u>

Mifflin County Municipal Authority

Schedule to Statement of Revenue, Expenses and Changes in Net Position
For the Period From Inception (September 30, 2021) to December 31, 2021

Purification

Chemicals	\$	71,159
Regulatory monitoring		4,082
Labor		2,231
Supplies		2,122
Maintenance		1,680
		<hr/>
Total purification	\$	<u>81,274</u>

Distribution

Labor	\$	84,776
Supplies		663
Maintenance:		
Mains		24,696
Service lines		7,411
Hydrants		2,008
Meters		1,620
Reservoirs		427
		<hr/>
Total distribution	\$	<u>121,601</u>

Control Stations

Supplies	\$	4,489
Labor		3,140
Power		2,682
Maintenance		597
		<hr/>
Total control stations	\$	<u>10,908</u>

Water Collection

Power	\$	2,539
Maintenance		1,276
		<hr/>
Total water collection	\$	<u>3,815</u>

Mifflin County Municipal Authority

Schedule of Revenue, Expenses and Changes in Net Position - Budget to Actual - Budgetary Basis
December 31, 2021

	Actual (Budgetary) Basis for the Period From Inception September 30, 2021 to December 31, 2021	Budget (Unaudited) for the Year Ended December 31, 2021	Over (Under) Budget
Operating Revenue			
Metered revenue:			
Domestic	\$ 913,893	\$ 3,621,928	\$ (2,708,035)
Commercial	257,106	1,025,642	(768,536)
Industrial	126,272	514,566	(388,294)
Public	54,883	225,859	(170,976)
Fire protection	33,953	132,687	(98,734)
Total metered revenue	1,386,107	5,520,682	(4,134,575)
Unmetered Revenue	52,470	139,500	(87,030)
Total operating revenue	1,438,577	5,660,182	(4,221,605)
Operating Expenses			
General	407,012	2,096,692	(1,689,680)
Filter plant	157,833	638,100	(480,267)
Distribution	121,601	403,000	(281,399)
Purification	81,274	193,500	(112,226)
Control stations	10,908	56,400	(45,492)
Water collection	3,815	21,200	(17,385)
Net customer deposits paid	2,072	-	2,072
Total operating expenses	784,515	3,408,892	(2,624,377)
Operating income	654,062	2,251,290	(1,597,228)
Nonoperating Revenue (Expenses)			
Interest income	657	16,000	(15,343)
Investment income	190	5,000	(4,810)
Arbitrage rebate payment	(530,439)	-	(530,439)
Cash transferred on disposal of operations	677,157	-	677,157
Deposit to restricted investments held			
with trustee (construction fund)	(13,750,000)	-	(13,750,000)
Proceeds of Water Revenue Bonds	15,055,714	-	15,055,714
Principal paid on long-term debt and revenue bonds	-	(1,570,284)	1,570,284
Interest paid on debt service	-	(322,400)	322,400
Total nonoperating revenue (expenses)	1,453,279	(1,871,684)	3,324,963
Net income before capital expenditures	2,107,341	379,606	1,727,735
Capital Expenditures			
Capital expenditures	(100,529)	(900,186)	(799,657)
Net cash and investments used	\$ 2,006,812	\$ (520,580)	\$ 2,527,392

Mifflin County Municipal Authority

Schedule of Changes in the Authority's Net Pension Asset and Related Ratios

Last Ten Years*

(Unaudited)

	As of and for the Period From Inception (September 30, 2021) to December 31, 2021
Total Pension Liability	
Service cost	\$ 14,157
Interest cost	51,460
Changes for experience	(148,489)
Benefit payments, including refunds of member contributions	<u>(39,833)</u>
Net change in total pension liability before special item	(122,705)
Special Item, Transfer	<u>3,665,302</u>
Net change in total pension liability	3,542,597
Total Pension Liability, Beginning	<u>-</u>
Total Pension Liability, Ending (a)	<u>3,542,597</u>
Plan Fiduciary Net Position	
Contributions, employer	35,704
Contributions, member	6,056
Net investment income (loss)	131,560
Benefit payments, including refunds of member contributions	(39,833)
Administrative expenses	<u>-</u>
Net change in plan fiduciary net position before special item	133,487
Special Item, Transfer	<u>4,066,889</u>
Net change in plan fiduciary net position	4,200,376
Plan Fiduciary Net Position, Beginning	<u>-</u>
Plan Fiduciary Net Position, Ending (b)	<u>4,200,376</u>
Authority's net pension asset, ending (a) - (b)	<u>\$ (657,779)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>118.57%</u>
Covered-Employee Payroll	<u>\$ 300,602</u>
Authority's Net Pension Asset as a Percentage of Covered-Employee Payroll	<u>(218.82)%</u>

Note to Schedule

* This schedule is required to show information for ten years, however, until a full ten-year trend is compiled, the Authority will present those years for which information is available.

Mifflin County Municipal Authority

Schedule of Employer Pension Contributions to Pension Plan
December 31, 2021
(Unaudited)

	For the Period From Inception (September 30, 2021) to December 31 2021
Actuarially determined contribution	\$ 22,704
Contributions in relation to the actuarially determined contribution	<u>35,704</u>
Contribution deficiency (excess)	<u>\$ (13,000)</u>
Covered payroll	\$ 300,602
Contributions as a percentage of covered payroll	11.88%

Notes to Schedule:

Methods and assumptions used to determine contribution rates:

Actuarial valuation date	1/1/2021
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar Closed
Remaining amortization period	16 years
Asset valuation method	Market value of assets as determined by the trustee
Inflation	3.0%
Salary increases	4.50%
Investment rate of return	7.0%
Retirement age	Normal Retirement Age
Mortality	PubG-2010 Mortality Table

Mifflin County Municipal Authority

Schedule of Investment Returns for Fiduciary Fund

December 31, 2021

(Unaudited)

	<u>2021(1)</u>
Annual money-weighted rate of return, net of investment expense	<u>3.8%</u>

(1) This rate is the rate from September 30, 2021 through December 31, 2021.