

**MAHANOEY CITY SEWER AUTHORITY
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2016**

**MAHANOEY CITY SEWER AUTHORITY
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2016**

TABLE OF CONTENTS

	Page
Independent Auditors' Report	1-2
Financial Statements	
Statement of Net Position	3-4
Statement of Revenues and Expenses	5-6
Statement of Changes in Net Position	7
Statement of Cash Flows	8
Notes to Financial Statements	9-16
Report on Compliance and on Internal Control over Financial Reporting Based on an audit of Financial Statements Performed In Accordance with <u>Government Auditing Standards</u>	17-18
Schedule of Findings and Questioned Costs and Prior Findings	19

L. SAMUEL DEEGAN, P.C.
Certified Public Accountant
321 West Market Street
Pottsville, PA 17901
Telephone (570) 622-2011
Fax (570) 622-1399



***We Want to Help
Our Clients Achieve
What They Want in Life
and Have Fun Doing It.***

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Mahanoy City Sewer Authority
Mahanoy City, PA 17948

Report on the Financial Statements

We have audited the accompanying financial statements of the Mahanoy City Sewer Authority, as of and for the year ended December 31, 2016 and the related notes to the financial statements, which collectively comprise the financial statements of Mahanoy City Sewer Authority 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 and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

Business Development Specialists
Member: American Institute of Certified Public Accountants
Member: Pennsylvania Institute of Certified Public Accountants

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Mahanoy City Sewer Authority as of December 31, 2016, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

The Mahanoy City Sewer Authority has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information. As discussed in Note B, the financial statements present only the Mahanoy City Sewer Authority.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2017 on our consideration of Mahanoy City Sewer Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

A handwritten signature in cursive script, reading "L. Samuel Deegan".

L. SAMUEL DEEGAN
Certified Public Accountant
Pottsville, Pennsylvania
March 8, 2017

**MAHANoy CITY SEWER AUTHORITY
STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2016**

ASSETS

CURRENT ASSETS

Cash	\$ 68,017
Cash - Restricted For Debt Service	2,851,987
Accounts Receivable- Trade	281,751
Accounts Receivable- Other	-
Prepaid Insurance	<u>41,989</u>

TOTAL CURRENT ASSETS	<u><u>3,243,744</u></u>
-----------------------------	-------------------------

PLANT SYSTEM AND EQUIPMENT

Sewage Treatment Plant & Systems	16,796,336
Furniture & Fixtures	7,447
Transportation Equipment	27,000
Plant Machinery & Equipment	2,201,854
Accumulated Depreciation	<u>(11,607,972)</u>

TOTAL PLANT SYSTEM AND EQUIPMENT	<u><u>7,424,665</u></u>
---	-------------------------

OTHER ASSETS

Bond Issue Costs and Insurance Net of Amortization	<u>293,015</u>
--	----------------

TOTAL OTHER ASSETS	<u><u>293,015</u></u>
---------------------------	-----------------------

TOTAL ASSETS	<u><u><u>\$ 10,961,424</u></u></u>
---------------------	------------------------------------

**MAHANoy CITY SEWER AUTHORITY
STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2016**

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	\$ 15,769
Accrued & Withheld Payroll & Taxes	13,453
Current Maturities of Long Term Debt	357,313
Accrued Interest Payable	<u>48,003</u>

TOTAL CURRENT LIABILITIES	<u>434,538</u>
----------------------------------	-----------------------

LONG-TERM LIABILITIES

FNB Equipment Lease	33,525
2013 Bond	1,139,329
2016 Bonds Payable (Net of Discount and Deferred Amounts on Refunding)	<u>10,322,162</u>

TOTAL LONG-TERM LIABILITIES	<u>11,495,016</u>
------------------------------------	--------------------------

TOTAL LIABILITIES	<u>11,929,554</u>
--------------------------	--------------------------

NET POSTION

Invested in Capital Assets, Net of Related Debt	(4,427,663)
Restricted for Debt Service	2,851,987
Unrestricted	<u>607,546</u>

TOTAL NET POSITION	<u>(968,130)</u>
---------------------------	-------------------------

TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 10,961,424</u></u>
---	------------------------------------

**MAHANoy CITY SEWER AUTHORITY
STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016**

REVENUE

Sewer Revenue	\$	1,831,184
---------------	----	-----------

TOTAL REVENUE		1,831,184
----------------------	--	------------------

OPERATING EXPENSES

Advertising		906
Bond Issue Costs		173,818
Depreciation and Amortization Expenses		717,755
Sludge Disposal		5,747
Insurance		175,318
Legal and Accounting		8,463
Miscellaneous		474
Office Expense		16,873
Operating Supplies		55,380
Postage		4,452
Payroll Expense and Benefits		432,738
Payroll Taxes		33,576
Collection Fees		-
Repairs and Maintenance		108,516
Subcontractors		70,210
Telephone		7,705
Utilities and Septic Service		51,761
Vehicle Expense		1,038
Office Rent		4,950
Equipment Rental		2,220
Uniforms		-
Office Equip & Mach Repairs		-
Fees and Other Services		51,409
Engineering Fees		107,579

TOTAL OPERATING EXPENSES		2,030,888
---------------------------------	--	------------------

EXCESS OPERATING REVENUE OVER EXPENSE	\$	(199,704)
--	-----------	------------------

**MAHANoy CITY SEWER AUTHORITY
STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016**

OTHER REVENUES AND EXPENSES

NON-OPERATING REVENUES

Insurance Reimbursements	\$ -
Environmental Resource Grant	-
Sludge Removal	-
Miscellaneous Revenue	-
Interest and Dividend Revenue	949
	<hr/>

TOTAL NON-OPERATING REVENUES	949
------------------------------	-----

NON-OPERATING EXPENSES

Interest Expense	<hr/> (436,478)
------------------	-----------------

TOTAL NON-OPERATING EXPENSES	(436,478)
------------------------------	-----------

TOTAL OTHER REVENUES AND EXPENSES	<hr/> (435,529)
--	------------------------

EXCESS REVENUES OVER (UNDER)EXPENSES	<hr/> \$ (635,233) <hr/>
---	---------------------------------

**MAHANoy CITY SEWER AUTHORITY
STATEMENT OF CHANGES IN NET POSTION
FOR THE YEAR ENDED DECEMBER 31, 2016**

BALANCE - JANUARY 1, 2016	\$ (332,897)
EXCESS OF EXPENSES OVER REVENUES	<u>(635,233)</u>
BALANCE - December 31, 2016	<u><u>\$ (968,130)</u></u>

MAHANAY CITY SEWER AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers for services	\$ 1,896,642
Cash payments to suppliers for goods and services	(877,415)
Cash payments to employees	(437,374)
Net cash provided by operating activities	<u>581,853</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Cash received from nonoperating grants	-
Cash received from miscellaneous nonoperating revenues	-
Net cash provided by noncapital financing activities	<u>-</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Cash received from Bond Issue and Debt	10,763,939
Cash used for purchase of capital assets	(55,845)
Cash used to pay debt and interest on debt	(10,073,376)
Net cash provided by capital and related financing activities	<u>634,718</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest and dividends on cash and cash equivalents	949
Net cash provided by capital and related financing activities	<u>949</u>

NET INCREASE (DECREASE) IN CASH	1,217,520
CASH & EQUIV. AT BEG. OF YEAR	1,702,484
CASH & EQUIV. AT END OF YEAR	<u>\$ 2,920,004</u>

Reconciliation of income from operations to net cash provided by operating activities:	
Income (Loss) from operations	\$ (199,501)
Adjustments to reconcile income from operations to net cash provided by operations:	
Depreciation and amortization	717,755
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	65,459
(Increase) decrease in prepaid expenses	493
Increase (decrease) in accounts payable	2,283
Increase (decrease) in accrued and withheld payroll taxes	(4,636)
Net cash provided by operating activities	<u>\$ 581,853</u>

**MAHANoy CITY SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2016**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Business Activity

The Mahanoy City Sewer Authority took over the operation of the Sewer System from the former Authority, the Mahanoy City Municipal Authority. The Authority began operation May 1, 1989. The Authority provides a sewage treatment facility for the residents of Mahanoy City Borough.

2. Fixed Assets

Fixed Assets are carried at cost. Depreciation of fixed assets is provided using the straight-line method at rates based on the following estimated useful lives:

	<u>Years</u>
Sewage Treatment Plant & System	25 - 33
Addition for State Prison	29
Furniture & Fixtures	5
Transportation Equipment	5
Plant Machinery & Equipment	5-10

	<u>2015</u>	<u>Increases/Decreases</u>	<u>2016</u>
Sewage Treatment Plant & Systems	\$ 16,796,336		\$ 16,796,336
Furniture & Fixtures	2,983	4,464	7,447
Transportation Equipment	27,000	-	27,000
Plant Machinery & Equipment	2,150,473	51,381	2,201,854
Accumulated Depreciation	(10,897,635)	(710,337)	(11,607,972)
Total	\$ 8,079,157	(654,492)	\$ 7,424,665

**MAHANAY CITY SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2016**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Basis of Accounting

The Balance Sheet, Income Statement and the Statement of Changes in Net Assets are prepared using the economic resources measurement focus and the accrual basis of accounting. The Mahanoy City Sewer Authority is a special purpose government engaged in only a single business type of activity that is not required to present government wide financial statements.

4. Cash

For purposes of reporting cash flows, the Authority considers all cash accounts, which are not subject to withdrawal restrictions or penalties, to be cash on the accompanying statements of financial position.

5. Subsequent Events

Management has considered subsequent events through March 8, 2017.

NOTE B - LONG TERM OBLIGATIONS

	<u>2015</u>	<u>Increases</u>	<u>Payments</u>	<u>2016</u>
Penn Vest Loan	\$ 144,764	-	144,764	\$ -
USDA Loan	225,787		225,787	-
Equipment Lease	-	50,881	5,043	45,838
Bonds Payable	10,449,329	11,315,000	9,275,000	12,489,329
Bond Discount & Deferred Amount on Refunding	<u>(125,962)</u>	<u>(580,624)</u>	<u>23,748</u>	<u>(682,838)</u>
Total	<u>\$ 10,693,918</u>	<u>10,785,257</u>	<u>9,674,342</u>	<u>\$ 11,852,329</u>

SEWER REVENUE BONDS: SERIES 2016

On April 15, 2016, Mahanoy City Sewer Authority issued Sewer Revenue Bonds – Series 2016 in the principal amount of \$11,315,000. Proceeds of the issue were used as follows:

**MAHANoy CITY SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2016**

NOTE B - LONG TERM OBLIGATIONS – CONT'D

**Bond Series of 2016
Sources and Uses of Funds**

Proceeds - Series of 2016	\$ 11,315,000
Less:	
Underwriters Discount	(135,780)
Original Issue Discount	<u>(165,729)</u>
Net Proceeds - Series of 2016	11,013,491
 Equity Contribution by Authority	 167,927
 Amounts Transferred from:	
2003/2007 Bond Funds	<u>679,431</u>
Total Sources	<u>11,860,849</u>
 Uses:	
Debt Service Reserve 2013	75,000
Debt Service Reserve 2016	660,550
Construction Fund	850,000
Redemption of Series 2003	474,056
Redemption of Series 2007	8,956,949
USDA - Series of 2012	227,792
Penn-Vest Loan	142,251
Premium - Bond Insurance Policy	300,433
Costs of Bond Issuance - series 2016	<u>173,818</u>
 Total Uses	 <u>\$ 11,860,849</u>

The 2016 Refunding created a cash flow differential – savings of \$781,593 over the life of the Bonds and economic gain of \$521,209.

**MAHANOEY CITY SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2016**

NOTE B - LONG TERM OBLIGATIONS – CONT'D

First National Bank of Minersville will serve as trustee under the indenture and serve as paying agent and registrar for the bonds. The balance outstanding at December 31, 2016, was \$11,315,000.

The principal of, and interest of the 2016 Bonds shall be payable from certain receipts, revenues and money of the Authority, with the Borough of Mahanoy City as Guarantor of the Bonds. The Series of 2016 shall bear interest at the rates per annum and shall mature on the dates and in the aggregate principal amounts as follows:

<u>Maturity Date</u> <u>15-May</u>	<u>Interest Rate</u>	<u>Principal Amount</u>
2017	1.125	310,000
2018	1.280	315,000
2019	1.500	320,000
2020	2.000	325,000
2021	2.000	330,000
2022	2.000	335,000
2023	2.125	345,000
2024	2.375	350,000
2025	2.500	355,000
2026	2.750	365,000
2028	3.000	770,000
2030	3.125	830,000
2033	3.375	1,350,000
2036	3.500	1,495,000
2039	3.625	1,670,000
2042	3.750	1,850,000

**MAHANOEY CITY SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2016**

NOTE B - LONG TERM OBLIGATIONS – CONT'D

Estimated payments of principal and interest due in the future are:

	Principle	Interest	Total
2017	310,000	341,770	651,770
2018	315,000	338,010	653,010
2019	320,000	333,594	653,594
2020	325,000	327,944	652,944
2021	330,000	321,394	651,394
2022-2026	1,750,000	1,495,547	3,245,547
2027-2031	2,035,000	1,232,878	3,267,878
2032-2036	2,410,000	864,884	3,274,884
2037-2041	2,880,000	394,681	3,274,681
2042	640,000	12,000	652,000
	<u>\$ 11,315,000</u>	<u>\$ 5,662,702</u>	<u>\$ 16,977,702</u>

RESTRICTIONS

With the Fiscal Year ending December 31, 2017, the Authority shall provide in each fiscal year, so long as any Series of 2016 Bonds shall remain outstanding an amount equal to at least 110% of the Debt Service Requirements of the Series 2016 Bonds to the extent the Debt Service Requirements are not otherwise provided for.

An Operating and Revenue Fund was established to receive all Receipts and Revenues from the Sewer System. The balance in this fund at December 31, 2016 was \$36,017.

A Debt Service Fund-2016 was created with amounts transferred in the closing agreement and, will continue to have amounts transferred on or before November 1 and on or before May 1 as long as Series of 2016 Bonds remain outstanding. The account balance should equal an amount sufficient to pay the initial or semiannual installment of interest due on the next succeeding November 15 or May 15. The Debt Service Fund shall also hold on or before May 1 of each Fiscal Year an amount equal to the aggregated principal amount of the Series 2016 Bonds which mature on the next succeeding May 15. The balance in this fund at December 31, 2016 was \$1,216,436.

A 2016 Bonds Debt Service Reserve Fund was initially funded with a transfer of \$600,000 from the original Debt Service Fund and \$60,551 from the net proceeds of the Series 2016 Bonds. The 2016 Bond Debt Service Fund shall at all times have on deposit at least an amount equal to the 2016 Debt Service Reserve Fund Requirement. The balance in this fund at December 31, 2016 was \$660,550. A Debt Service Reserve Fund -2013 was also established in the amount of \$75,000 at December 31, 2016.

**MAHANOEY CITY SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2016**

NOTE B - LONG TERM OBLIGATIONS – CONT'D

A Renewal and Replacement Fund was created. On or after May 1, 2018, the amount required to be maintained in the Renewal and Replacement Fund shall be \$200,000. The Authority shall deposit on or before each August 1, November 1, February 1, and May 1, commencing in August 1, 2016, an amount not less than \$25,000 until the required balance is attained. The money in the Renewal and Replacement Fund shall be used or applied by the Authority toward costs of repairs or replacements to the Sewer System, costs of acquisition or construction of capital additions solely in the event no other revenues or receipts from the sewer system are available. The balance in this fund at December 31, 2016, was \$50,000.

A 2016 Construction Fund was established with proceeds from the 2016 Bond issue. The funds in this account are to be used for Costs of Acquisition or Costs of Construction relating to the Sewer System, including Capital Additions and acquisition or construction of the property in the nature of Capital Additions. The amount held in this account at December 31, 2016 was \$850,000.

FNBM LOAN /REVENUE BOND Series of 2013

On April 22, 2013, the Mahanoy City Sewer Authority entered into an agreement with First National Bank of Minersville to repay the principal balance of \$1,300,000, or such greater or lesser amount as shall be shown as the unpaid principal balance of this Bond on the records of the Bank, together with interest on the unpaid principal of this Note. The principal balance of this Bond shall be payable on November 15 of each year commencing November 15, 2013, through and including November 15, 2037, in the amounts set forth below. Interest shall accrue on the unpaid principal balance of this Bond at a fixed rate of 3.45% from inception through and including May 14, 2018. Thereafter interest shall accrue on the unpaid principal balance of this Note at a variable annual interest rate equal to the Wall Street Journal Prime Rate plus twenty-five basis points with a ceiling of 8% and a floor of 3.45%. Interest shall be due and payable semi-annually on May 15th and November 15th. The balance outstanding at December 31, 2016, was \$1,174,329.

Principal and interest requirements estimated to retire the obligations follow:

	Principle	Interest	Total
2017	35,000	39,479	74,479
2018	35,000	38,272	73,272
2019	35,000	37,064	72,064
2020	40,000	35,857	75,857
2021	40,000	34,477	74,477
2022-2026	230,000	150,477	380,477
2027-2031	300,000	106,144	406,144
2032-2036	380,000	49,219	429,219
2037	79,329	1,702	81,031
	<u>\$ 1,174,329</u>	<u>\$ 492,691</u>	<u>\$ 1,667,021</u>

**MAHANoy CITY SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2016**

NOTE B - LONG TERM OBLIGATIONS – CONT'D

RESTRICTIONS

The principal and interest of the Sewer Revenue Bond – Series 2013 shall be payable from receipts, revenues and money of the Authority available for such purposes as provided and set forth in the Trust Indentures explained earlier in the description of Revenue Bond Series of 2016. The same restrictions apply to the Revenue Bond Series of 2013 as explained earlier in the Revenue Bond Series of 2016 caption.

EQUIPMENT LEASE

On July 29, 2016 Mahanoy City Sewer Authority entered into a lease agreement with F.N.B. Commercial Leasing for a 2016 Case TR340 Track Loader with a value of \$50,881. The lease carries a term 47 months, an implicit rate of 2.75%, and a monthly payment of \$1,154 per month. Principal and interest requirements until the lease terminates are as follows:

	Principle	Interest	Total
2017	12,313	1,540	13,853
2018	12,656	1,197	13,853
2019	13,009	844	13,853
2020	7,860	108	7,968
	<u>\$ 45,838</u>	<u>\$ 3,689</u>	<u>\$ 49,527</u>

NOTE D - DEPOSITS AND INVESTMENTS

Deposits are in various financial institutions and are carried at cost plus accrued interest.

	<u>Carrying Amount</u>
Insured (FDIC)	\$ 500,000
Uninsured	2,420,004
Total Deposits	<u>\$ 2,920,004</u>

The Authority has no formal investment policy.

**MAHANOEY CITY SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2016**

NOTE E – SIMPLIFIED EMPLOYEE PENSION PLAN

The Mahanoy City Sewer Authority offers a SEP-IRA (5305-SEP) to all employees upon hiring. The authority contributes six percent of an employee's earnings on a quarterly basis. The contributions for 2016 totaled \$23,605.



L. SAMUEL DEEGAN, P.C.

Certified Public Accountant

321 West Market Street

Pottsville, PA 17901

Telephone (570) 622-2011

Fax (570) 622-1399

***We Want to Help
Our Clients Achieve
What They Want in Life
and Have Fun Doing It.***

**INDEPENDENT AUDITOR'S 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
Mahanoy City Sewer Authority
Mahanoy City, PA 17948

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 business-type activities of the Mahanoy City Sewer Authority as of and for the year ended December 31, 2016, and the related notes to the financial statements, and have issued our report thereon dated March 8, 2017.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Mahanoy City Sewer Authority's internal control over financial reporting to determine our audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on their 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 over financial reporting.

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 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 combination of deficiencies, in internal control, that is less severe than a material weakness, yet important enough to merit the attention by those charged with governance.

Business Development Specialists
Member: American Institute of Certified Public Accountants
Member: Pennsylvania Institute of Certified Public Accountants

**MAHANOID CITY SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2016**

Our consideration of the internal control over financial reporting 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mahanoy City Sewer Authority's financial statements are free of 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 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.



L. SAMUEL DEEGAN
Certified Public Accountant
Pottsville, Pennsylvania
March 8, 2017

**MAHANOEY CITY SEWER AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE PERIOD ENDING
DECEMBER 31, 2016**

Financial Statement Findings

2016- No findings.

2015- No findings.

2014 - No findings.