

PERKASIE REGIONAL AUTHORITY

Financial Statements

As of and For the Year Ended
December 31, 2020 and 2019

PERKASIE REGIONAL AUTHORITY

December 31, 2020 and 2019

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Independent Auditors' Report

To the Members of the Board
Perkasie Regional Authority
Perkasie, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the Perkasie Regional Authority as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Perkasie Regional Authority, as of December 31, 2020 and 2019, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 through 12 and the schedule of changes in the net position liability and related ratios and schedule of contributions on pages 31 and 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Perkasie Regional Authority's basic financial statements. The schedule of operating expenses and schedule of revenues and expenses – budget and actual on pages 33 through 36 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of operating expenses and schedule of revenues and expenses – budget and actual are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 schedule of operating expenses and schedule of revenues and expenses – budget and actual are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Marcum LLP

Philadelphia, Pennsylvania
September 13, 2021

Management's Discussion and Analysis

This section of Perkasio Regional Authority's (PRA or Authority) annual financial report presents management's analysis of the Authority's financial performance during the fiscal year ending December 31, 2020. The Management Discussion and Analysis (MD&A) should be read in conjunction with the Authority's basic financial statements beginning on page 13.

FINANCIAL HIGHLIGHTS

- In 2020 the biggest financial highlight/impact was that the Authority, like everyone else in the world, had to deal with the coronavirus (COVID-19) pandemic. The Authority Board decided in March 2020 to cease all late fees and shut-offs, which had an impact on the service billings and the receipts of those billings. The other major impact on the financial statements were the increase in tapping fees from new developments as developments that had been in the works for years prior finally got underway.
- The Authority's net position increased from \$22.9 million in 2019 to \$25.3 million in 2020, or an increase of roughly \$2.4 million (10.0%).
- The Authority's tapping fees and assessments increased from \$108,000 in 2019 to about \$949,000 in 2020 for an increase of \$841,000.
- The Authorities total operating expenses increased about \$173,000 in 2020 to \$3.4 million compared to \$3.2 million in 2019 mostly attributable to increased pension expenses of \$48k, health insurance costs of \$50k, water expenses of \$36k and sewage treatment of \$29k.
- The Authority realized a net non-operating income of about \$120,000 in 2020 compared to net non-operating expense of \$394,500 in 2012 mainly due to property dedications no debt issuance costs in 2020.
- The Authorities liabilities decreased roughly \$1.24M due to planned repayments on the Authority's debt obligations.

AUTHORITY HIGHLIGHTS

Like most areas of the country, the Northeast has finally started to see the housing market take a turn for the better. Although the Authority saw some growth, the Authority Board chose to keep with recent previous decisions to keep both water and sewer rates relatively flat, with a very minimal rate reduction of less than 1%.

- The Authority once again saw some construction activity, which began in 2015, pay off as even more customers were added. The Authority realized roughly 13 new customers in 2020 after having roughly 94 new customers in 2019 after seeing an additional 64 new customers added in 2018. The Authority anticipates another 75 additional connections from new developments by 2022.
- The Pennridge Airport is a privately owned airport in the PRA service area, bordering Perkasio Borough and East Rockhill Township, and the owner has broken ground and built the first of many industrial buildings with approximately 130,000 square feet in 2019. The Authority anticipates an additional four (4) buildings with the same square footage in addition to a restaurant and hotel.

USING THIS ANNUAL REPORT

This annual report consists of three parts: Management’s Discussion and Analysis; the Financial Statements; Required Supplementary Information and Supplementary Information. The Financial Statements also include notes that explain in more detail some of the information in the Financial Statements.

Required Financial Statements

The Financial Statements of the Authority report information about the Authority using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities. The Statement of Net Position is the first required statement; it includes all of the Authority’s assets, deferred outflows and liabilities and deferred inflows and provides information about the nature and amounts of investments in resources (assets) and nature and extent of obligations (liabilities). It also provides the basis for computing the rates of return, evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority. All of the current year’s revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position, which is the second required financial statement. This statement measures the profitability of the Authority’s operations over the past year and can be used to determine whether the Authority has successfully recovered all its costs through its user fees and other charges.

The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Authority’s cash receipts, cash payments, and net changes in cash resulting from operations, investing, and capital and non-capital financing activities. It also provides information regarding sources of cash, uses of cash, and the changes in the cash balance during the reporting period.

Financial Analysis of the Authority

The Authority’s net position (the difference between assets, deferred outflows, liabilities, and deferred inflows) is a measure of its financial position. Over time, increases or decreases in net position is an indicator of whether the Authority’s financial position has improved or declined. While this financial analysis is a strong indicator of the Authority’s financial position, other non-financial factors need to also be considered, such as new legislation affecting operations, economic conditions and growth.

The chart below titled “Summary of Net Position” provides a snapshot view of the Authority’s financial condition at December 31, 2020, 2019 and 2018. The current ratio, which represents the proportion of current assets to current liabilities, is a measure of financial liquidity. The Authority’s current ratio as of December 31, 2020 of 8.3:1 is an indicator of outstanding liquidity. The ratio of restricted assets to current liabilities payable from restricted assets represents the proportion of restricted assets to current liabilities from restricted assets. The ratio of 6.7:1 as of December 31, 2020 is also an indicator of strong liquidity. The ratio of liabilities to equity represents the proportion of total liabilities to net positions and is a financial leverage ratio which provides an indication of long-term solvency and measures the extent to which an entity’s assets have been acquired using long-term debt. A liability to equity ratio 1:1 or less is a strong indicator of long-term solvency. The Authority’s liability to equity ratio at December 31, 2020 was 0.63:1.

Summary of Net Position

	2020	2019	2018		2020	2019	2018
Current Assets	\$ 1,241,602	\$ 1,126,075	\$ 1,113,359	Current Liabilities	\$ 150,327	\$ 132,417	\$ 125,127
Property, Plant & Equipment - Net	30,629,202	30,320,106	30,983,816	Current Liabilities From Restr. Assets	1,346,278	1,301,323	1,635,559
Restricted Assets	8,966,974	8,300,063	9,705,710	Long Term Liabilities	14,435,767	15,664,476	18,851,627
Other Assets	79,466	73,781	105,596	Net Positions	25,303,533	22,961,724	21,708,808
Deferred Outflows	501,676	646,696	668,770	Deferred Inflows	183,015	406,781	256,130
Total	\$41,418,920	\$40,466,721	\$42,577,251	Total	\$41,418,920	\$40,466,721	\$42,577,251

Analysis of Net Position

PRA's total assets exceeded its liabilities by \$25.3M, \$22.9M, and \$21.7M at the end of 2020, 2019 and 2018, respectively. Our net position includes an investment in the water and sewer infrastructure, buildings, trucks, property, etc. less the debt incurred to acquire these assets of \$15.2M, \$13.4M and \$10.9M at the end of 2020, 2019 and 2018, respectively. These are the assets used by the Authority to provide service to our customers. While we report this number less the related debt, it must be realized that the resources to repay this debt must be obtained through other sources (i.e. rates) since these assets cannot be liquidated to retire the liability. The restricted portions of our net position (\$8.7M, \$8.2M and \$9.5M at the end of 2020, 2019 and 2018, respectively) are subject to provisions under our bond indenture for future debt service requirements and on-going capital projects. The unrestricted balance totaled \$1.4M, \$1.3M and \$1.2M at the end of 2020, 2019 and 2018, respectively.

Analysis of Changes in Net Position

The Authority's financial position remained stable for 2020. Our net position increased from \$22.9 million in 2019 to \$25.3 million in 2020, for an increase of roughly \$2.4 million. Operating income increased about \$575,000 mostly due to an increase tapping fees of \$800k offset by an increase in general and administrative expenses of \$125k. In addition, the Authority received a property dedication of approximately \$485,000 which is accounted for as non-operating income.

Total Revenues

Total Authority revenues for 2020, 2019 and 2018 amounted to \$5.6M, \$4.9M, and \$4.9M, respectively. The Authority has had level rates for the last several years and 2020 was no different. The revenues have grown on average 1%-2% each year while the rate increases have averaged about 0.5%-1% the past 5 years and that is due to the increase in customers as the Authority has realized new customers the last several years.

Detailed Analysis of Operating and Non-Operating Revenue Variances:

- Water and Sewer Service Charges have remained steady, increasing on average about 1-3% the last several years, with the Authority maintaining rates relatively the same in 2020.

- Water and Sewer Assessments were \$949,000, \$108,000, and \$282,000 for 2020, 2019 and 2018, respectively. Assessments are received from the ratepayers as repayment of monies expended by the Authority for installation of water or sewer facilities serving a customer’s property, thereby creating property improvement. This income varies from year to year, depending on the retirement of outstanding assessments or the levying of new ones.
- Other Revenues are derived from fees and charges not directly related to metered water and sewer sales. These include payments for services provided to tenants of Authority rental properties, sale of excess equipment or property, fees for account certifications and delinquent notification fees as well as the sewer truck services.
- Investment Earnings is non-operating revenue, generated by returns on the Authority’s investments. Interest income decreased substantially for 2020 at \$12,700 compared to 2019 at \$82,700 due to a reduction in interest rates.
- Rental Income is non-operating revenue, which is generated from excess commercial, industrial and rental properties leased by the Authority. The Authority leases space on its water tank to cell phone companies as well as office space at the main office. Rental income remained relatively the same year over year, which was a plus due to the fact that most landlords were unable to collect rent during the pandemic. The rental income in 2020 was essentially the same as in 2019 at \$114,000.

Stability of Operating Revenues

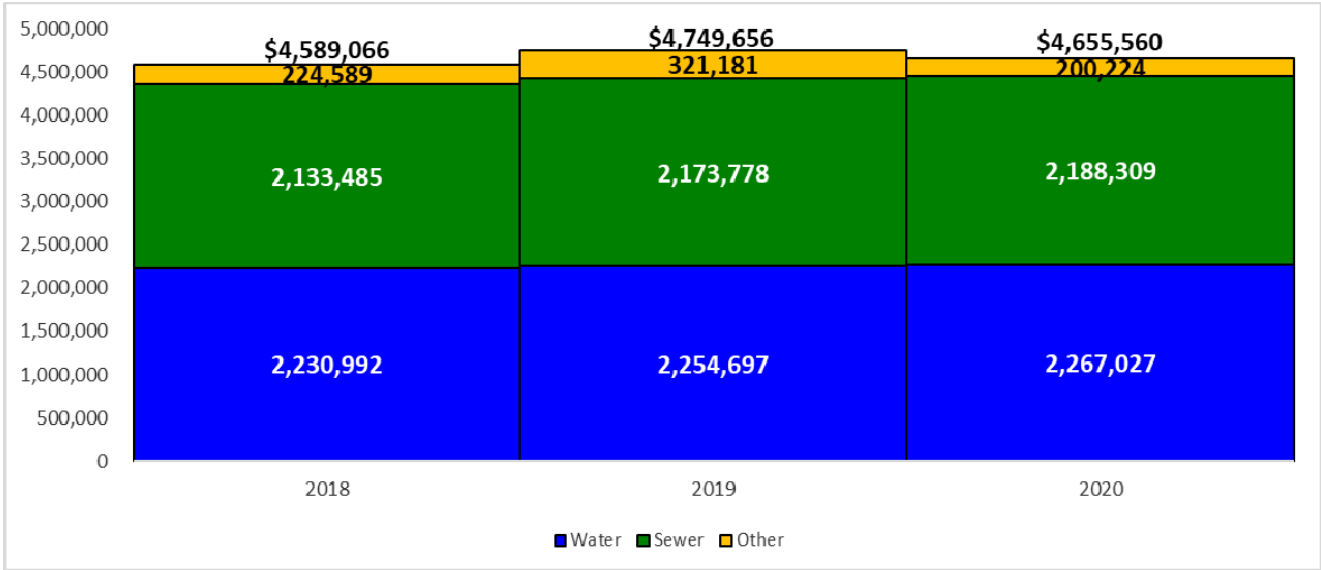
The Authority’s rate base is mainly residential with a small amount of commercial and industrial users. The breakdown is as follows:

Residential, including multi-family	87.7%
Commercial, including mixed uses	6.4%
Industrial	1.5%
Institutional (schools & churches)	3.1%
Public	1.3%

Accordingly, the user base is extremely stable, which comprises 92.1% of the Authority’s residential, institutional and public users. The primary growth in the Authority’s service area is expected to be residential; however, both the agreements with East and West Rockhill contain both new areas and areas that can be redeveloped in commercially zoned areas.

Therefore, we will also see significant growth in both commercial and institutional uses, as the new service area in West Rockhill would include a significant area around Grandview Hospital, and the area in East Rockhill is along the 313 Corridor leading from Doylestown to Quakertown as well as the Ridge Road area where the Pennridge Airport is located. The Borough of Perkasio is also currently marketing a redevelopment area in the middle of the downtown area. The redevelopment of downtown Perkasio started to show positive signs as several new businesses have opened in the last several of years.

See the chart below for a review of the last three (3) years of operating revenue (exclusive of tapping fees).

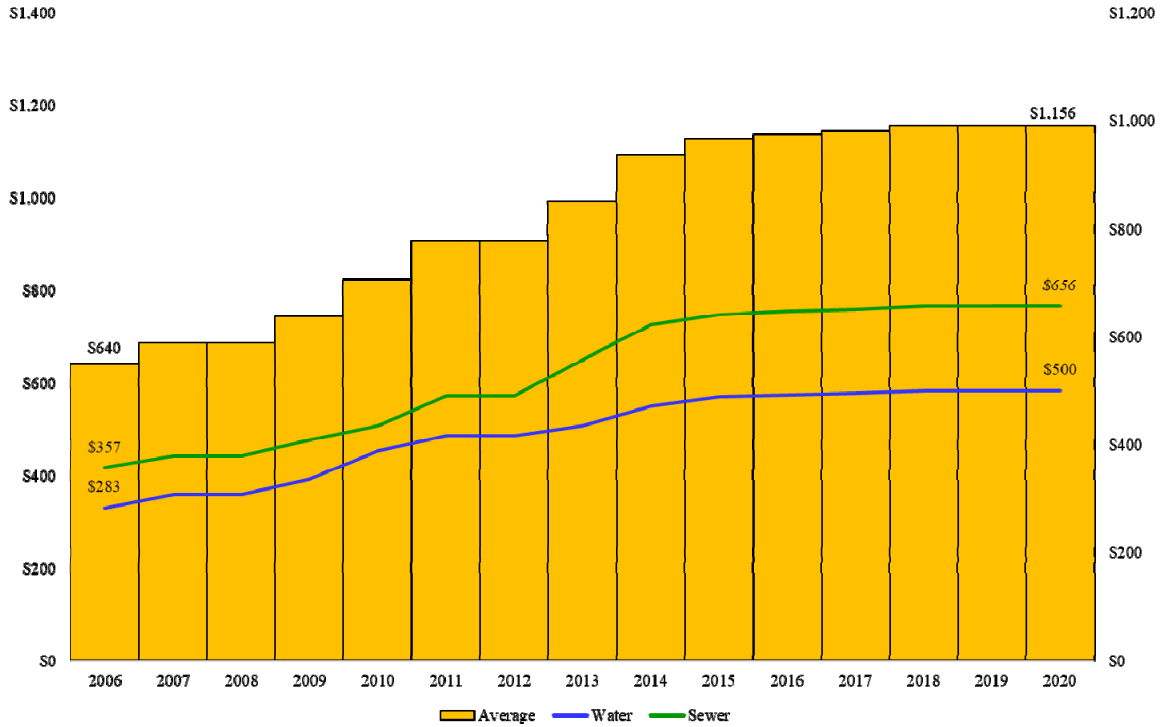


Rates

The Authority Board decided to restructure the water and sewer rates in 2013 to ensure compliance with the Bond Indenture is continually achieved. The Authority Board made the conscious decision to divide all long-term debt over the entire customer base in the form of base charges. Since there was no increase in long-term debt, and the addition of a few additional customers, the base charges for water decreased from \$62.75 to \$62.50 per quarter, and since operating expenses stayed relatively consistent the consumption charges remained unchanged from 2019. The base charge for sewer remained consistent at \$50.50 for 2020. The average customer bill (for both water and sewer) for 2020 remained essentially the same from \$288.75 to \$288.50. The Authority is still obligated to continue their infrastructure replacement program for both water and sewer facilities and maintain a capital improvement fund that will one day help fund the construction of additional treatment facilities.

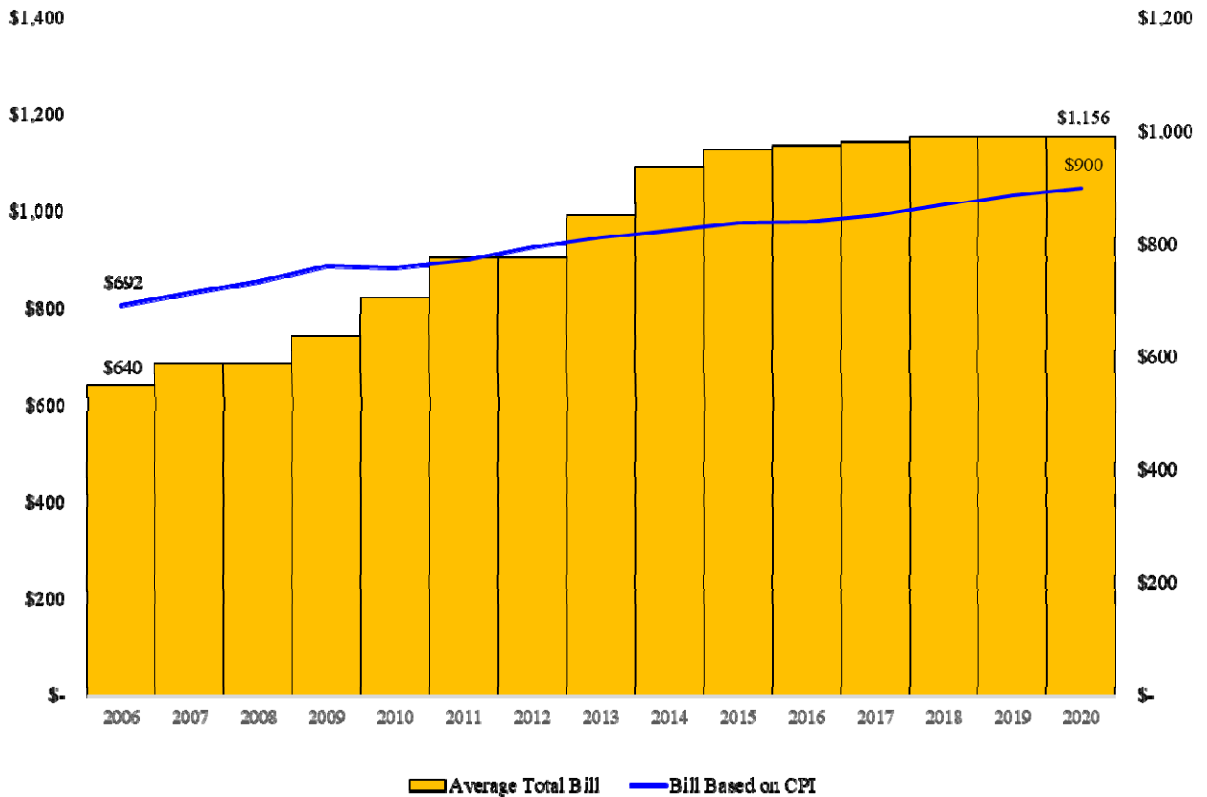
Listed below are two charts, the first indicating the rate increases since 2000 and the average water and sewer bills for residential customers using 15,000 gallons per quarter, and the second, compares the actual average total annual bill to the average annual bill adjusted for inflation using the Consumer Price Index.

Trend Analysis – Average Annual Bills



The chart, which compares the actual average annual bill to the Consumer Price Index, illustrates that the Authority’s rate increases since 2000 have mirrored US inflation.

Trend Analysis – Average Annual Bills



Long-Term Authority Debt:

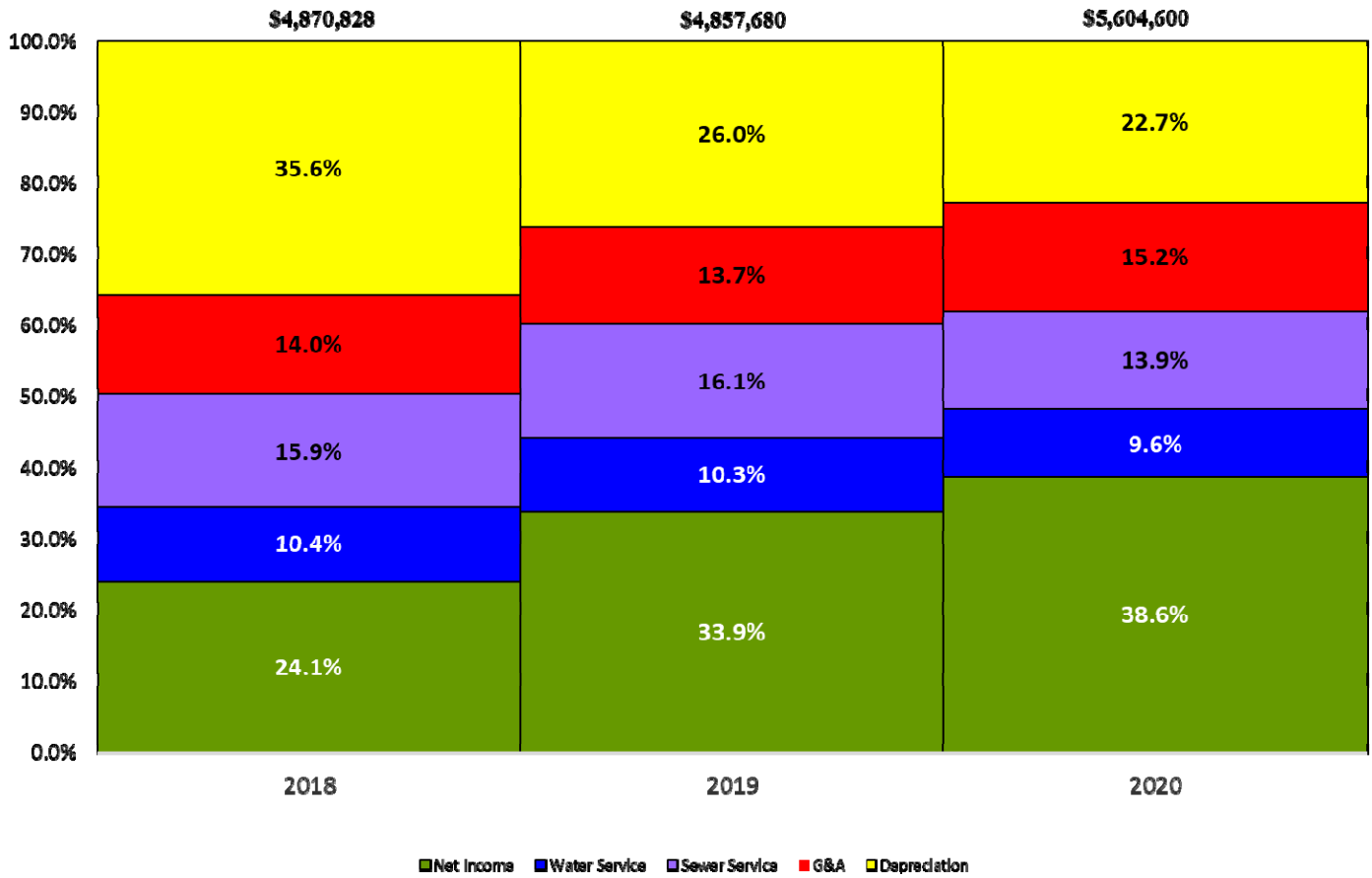
- In November 2019, the Authority issued \$12,755,000 of Water and Sewer Revenue Bonds for the purpose of refunding the 2014 Series Bonds outstanding and to pay off \$7,514,000 on the Uninvest loan (See below). As part of this refinancing, the Authority liquidated the Bond Reserve Fund and used those funds to pay down existing debt.
- In December of 2014, the Authority issued \$9,150,000 of Water and Sewer Revenue Bonds for the purpose of refunding the 2011 Bonds, as well as to pay the costs of issuance. The 2014 bond issue was advanced refunded with the issuance of the 2019 Water and Sewer Revenue Bonds. The Bonds were fully retired in February 2020.
- In December of 2017, the Authority acquired the assets of the Ridge Run Development for a purchase price of \$300,000 in exchange for a promissory note. The note does not bear interest and requires 20 quarterly installments of principal payments beginning in February 2018. The promissory note matures in November 2022.
- None of the Authority's bond issues pledge the taxing power of the Commonwealth of Pennsylvania, nor any political subdivision. The Authority is not a component unit of any entity (see Note 1, page 17 of the Financial Statements).

EXPENSES

Overall Operating Expenses for 2020 increased by roughly \$171,000, or 8.8%, from 2019 and was mainly due to an increase in General and Administrative expenses which is mainly attributed to higher employee insurance costs and pension costs.

The "operations" chart on the next page shows a graphic history of the Authority's operations over the last three (3) years.

Trend Analysis - Operations



Detailed Analysis of Operating Expenses

- Water Service**

Costs of providing water service in 2020 increased by about 7.3% or \$36,300 primarily due to an increase in maintenance and repairs of the system.

- Sewer Service**

The Authority contracts with the Pennridge Wastewater Treatment Authority for treatment of all its sewage wastes. Our costs for sewage treatment are broken down into two categories. The first is actual treatment costs, which increased 2.8% from \$641,269 in 2019 to \$659,243 in 2020.

The Authority is responsible for the repairs and maintenance of its own sewage collection system. Sewage collection costs decreased by about 14.4% or \$20,252 in 2020 mostly due to less materials and maintenance needed.

- Professional Fees**

Total professional fees remained relatively unchanged from 2019 to 2020. The total fees amounted to \$103,600 in 2020, a decrease of about \$500, or about 0.5% compared to 2019.

- **General and Administrative**

These costs represent administration employee compensation and benefits including medical benefits, billing supplies, communication, education, trustee's fees and insurance. Overall, administrative costs increased by \$125,000, or 22%, from last year. This is mainly attributed to the increases in employee insurance, pension costs and office building maintenance and repairs.

- **Bond Interest**

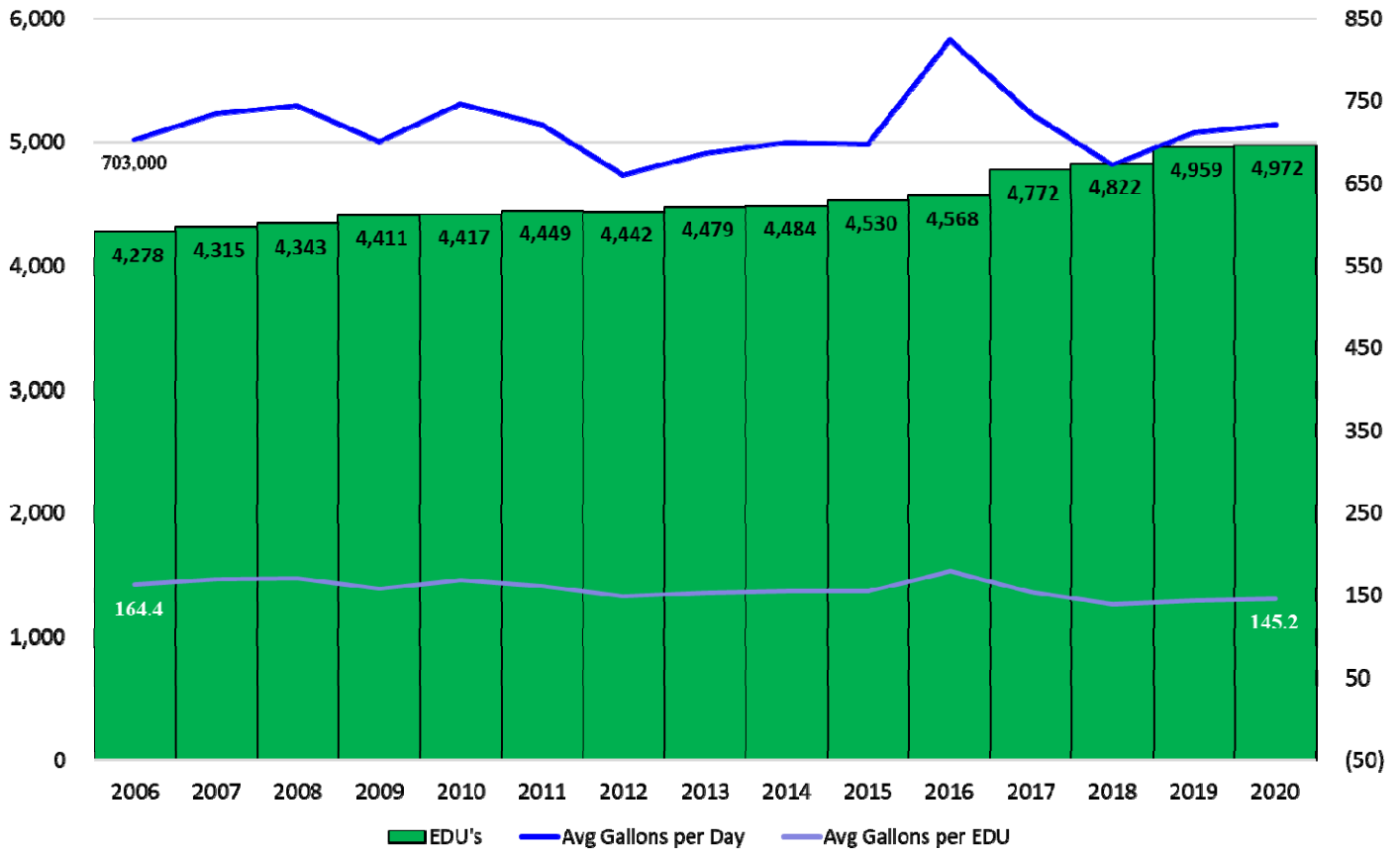
Interest expense for 2020 was \$491,400, compared to \$540,900 for 2019, a decrease of \$49,500.

- **Water Production**

The Authority's water production has remained relatively stable although the number of units served has increased. During the last fifteen years, while production has remained the same, the average per equivalent dwelling unit has decreased from 177 gallons per day to 145 gallons per day. In 2016, the Authority saw an increase to just over 180 gallons per day, but that can be attributed to a few leaks that were detected in the system. In 2020, the average production per EDU has remained consistent as years past at 145 gallons per day.

The following graph shows the results of the Authority's infrastructure replacement program, as well as its meter replacement and meter reading upgrades, which were completed in 2004. In 2016, usage slightly increased to 180 gallons per day, up from 156 gallons per day in 2014. The average consumption in 2017 returned to normal after the Authority located and fixed a few water leaks. In 2018, the average consumption dropped even further, to the all-time low of about 139 gallons per day. The consumption in 2020 remained relatively flat with the average customer using 145 gallons per day. It is believed that newer water fixtures and low flow machines (washing machines, dishwashers, etc.) have led to less water being used by residential customers over the last few years and those changes seemed to have flattened out.

Trend Analysis – Average Daily Well Production by Year



Future Plans

The Authority realizes that in order to remain viable and keep rates stable it must grow and add to its customer base. To that end, the Board has entered into an agreement with East Rockhill Township to expand the Authority’s service area in that Township; thereby, guaranteeing the addition of a minimum, two hundred (200) additional connections/edu’s in the Township. In addition, the Authority’s service area in West Rockhill Township will ensure four hundred and fifty (450) connections/edu’s in that township. The Board will continue to investigate ways of adding to the Authority’s service area to insure sustainability as they move into the future. The Borough of Perkasio has also helped to stimulate growth within the Borough by promoting Economic Development and inviting developers into the area with incentives to build within the Borough.

The Authority has been at a critical point in its history for the last decade plus. They are too small to be big and too big to be small. The collapse of the economy in 2008 has caused the Authority to look at non-conventional ways of doing business. Due to lending restrictions on new developments; the Authority has been and will continue to be proactive in its continuance of extending its water and sewer facilities.

Contacting the Authority

We have prepared the MD&A in a manner we hope you find useful. Keep in mind, this entire report is a financial overview designed to give our customers and creditors a general understanding of how the Authority conducts business and accounts for the money it receives. Should you have questions regarding these statements, please contact our office by phone at (215) 257-3654, by e-mailing us at info@perkasioauthority.org, by visiting our website at www.perkasioauthority.org or by writing Perkasio Regional Authority, 150 Ridge Rd. Sellersville, PA 18960.

PERKASIE REGIONAL AUTHORITY

Statements of Net Position

December 31, 2020 and 2019

	2020	2019
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 335,571	\$ 225,447
Accounts receivable	94,209	91,992
Unbilled revenue receivable	744,872	730,168
Supply inventory	59,141	59,141
Due from Pennridge Wastewater Treatment Authority	7,809	19,327
Total current assets	1,241,602	1,126,075
Noncurrent assets:		
Restricted cash and cash equivalents	8,966,974	8,300,063
Assessments receivable	79,466	73,781
Capital Assets:		
Non-Depreciable		
Construction in progress	1,619,348	593,292
Land	790,410	790,410
Depreciable		
Property, plant and equipment	51,629,066	51,136,925
Purchased wastewater treatment capacity	3,093,585	3,036,127
Accumulated depreciation	(26,503,207)	(25,236,648)
Net Capital Assets	30,629,202	30,320,106
Total noncurrent assets	39,675,642	38,693,950
Total assets	40,917,244	39,820,025
Deferred outflows of resources:		
Deferred amounts from refunding, net of amortization of \$115,967 and \$55,811, respectively	345,998	406,154
Deferred outflows - pension	155,678	240,542
Total deferred outflows	501,676	646,696
Total assets and deferred outflows	\$ 41,418,920	\$ 40,466,721

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

PERKASIE REGIONAL AUTHORITY

Statements of Net Position, Continued

December 31, 2020 and 2019

	2020	2019
<u>LIABILITIES & NET POSITION</u>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 80,327	\$ 64,200
Accrued severance	-	8,217
Note payable - current portion	70,000	60,000
Total current liabilities	150,327	132,417
Current liabilities (payable from restricted cash):		
Water and sewer revenue bonds - current portion	5,000	140,000
Notes payable - current portion	1,123,000	1,106,000
Accrued interest	218,278	55,323
Total current liabilities (payable from restricted cash)	1,346,278	1,301,323
Total current liabilities	1,496,605	1,433,740
Long-term liabilities:		
Accrued severance	-	4,029
Escrow liabilities	79,396	48,979
Net pension liability	109,099	34,262
Note payable, net of current portion	175,000	1,368,000
Water and sewer revenue bonds, net of current portion	14,072,272	14,209,206
Total long-term liabilities	14,435,767	15,664,476
Total liabilities	15,932,372	17,098,216
Deferred inflows of resources:		
Deferred inflows - pension	183,015	406,781
Net position:		
Net investments in capital assets	15,183,930	13,436,900
Restricted for debt service	4,712,077	4,070,002
Restricted for capital projects	4,036,619	4,174,738
Unrestricted	1,370,907	1,280,084
Total net position	25,303,533	22,961,724
Total liabilities, deferred inflows and net positions	\$ 41,418,920	\$ 40,466,721

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

PERKASIE REGIONAL AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Position

Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Revenues:		
Sewer service charges	\$ 2,188,309	\$ 2,173,778
Water sales	2,267,027	2,254,697
Tapping fees and assessments	949,040	108,024
Other revenue	200,224	321,181
	<u>5,604,600</u>	<u>4,857,680</u>
Total revenues		
Expenses:		
Sewer service	790,860	781,620
Water service	535,908	499,562
Professional fees	103,610	104,090
General and administrative	686,684	560,804
Depreciation	1,266,559	1,264,169
	<u>3,383,621</u>	<u>3,210,245</u>
Total expenses		
Operating income	2,220,979	1,647,435
Non-operating income (expense):		
Investment earnings	12,721	82,669
Rental income	114,094	114,077
Property dedications	485,380	230,758
Debt issue costs	-	(281,170)
Interest expense	(491,365)	(540,853)
	<u>120,830</u>	<u>(394,519)</u>
Net non-operating income (expense)		
Increase in net position	2,341,809	1,252,916
Net position at beginning of year	<u>22,961,724</u>	<u>21,708,808</u>
Net positions at end of year	<u>\$ 25,303,533</u>	<u>\$ 22,961,724</u>

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

PERKASIE REGIONAL AUTHORITY

Statements of Cash Flows

Years Ended December 31, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Cash receipts from customers	\$ 4,531,416	\$ 4,487,303
Other operating cash receipts	1,062,096	391,583
Cash payments to employees for services	(876,637)	(850,431)
Cash payments to vendors for goods and services	(1,322,979)	(1,268,778)
Net cash provided by operating activities	3,393,896	2,759,677
Cash flows from capital and related financing activities:		
Additions to capital assets	(1,067,906)	(352,942)
Developer escrow activity, net	30,417	12,536
Debt issue costs	-	(281,170)
Proceeds from the issuance of long term debt	-	12,755,000
Bond Premium	-	1,616,195
Principal payments on long term debt	(1,306,000)	(17,499,000)
Principal payments on capital leases	-	(5,042)
Interest paid	(400,187)	(605,540)
Net cash used in capital and related financing activities	(2,743,676)	(4,359,963)
Cash flows from investing activities:		
Investment earnings	12,721	82,669
Proceeds from rental income	114,094	114,077
Net cash provided by investing activities	126,815	196,746
Net increase (decrease) in cash and cash equivalents	777,035	(1,403,540)
Cash and cash equivalents - beginning	8,525,510	9,929,050
Cash and cash equivalents - ending	\$ 9,302,545	\$ 8,525,510
Reconciliation of cash and cash equivalents:		
Cash - unrestricted	\$ 335,571	\$ 225,447
Cash - restricted	8,966,974	8,300,063
	\$ 9,302,545	\$ 8,525,510
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 2,220,979	\$ 1,647,435
Adjustment for noncash charges to operations:		
Depreciation	1,266,559	1,264,169
Changes in assets and liabilities:		
Billed and unbilled accounts receivable	(16,921)	(32,405)
Assessments receivable	(5,685)	31,815
Due from Pennridge Wastewater Treatment Authority	11,518	21,796
Net pension liability and deferred inflows and outflows	(64,065)	(115,936)
Accounts payable and accrued payroll and severance	(18,489)	(57,197)
Net cash provided by operating activities	\$ 3,393,896	\$ 2,759,677

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

PERKASIE REGIONAL AUTHORITY

Notes to Financial Statements

December 31, 2020 and 2019

NOTE 1 - DESCRIPTION OF OPERATIONS

The Perkasio Regional Authority ("Authority") is a body, politic and corporate, created under the Pennsylvania Municipality Authorities Act 53 Pa.C.S. §§ 5601-5622, as amended ("Act") pursuant to an ordinance enacted by the Council of the Borough of Perkasio, Bucks County, Pennsylvania ("Borough"), for the purpose of owning, operating, and maintaining water and sewer systems within the Borough and surrounding areas for which it is authorized to serve. The certificate of incorporation of the Authority was issued by the Secretary of the Commonwealth of Pennsylvania on April 28, 1955.

The governing body of the Authority is a Board consisting of five members appointed by Borough Council. The terms of the members of the Board have been staggered so that the term of one member expires annually. The Board is authorized to exercise any and all powers conferred by the aforementioned Act necessary for the acquisition, construction, improvement, extension, maintenance and operation of the system facilities.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The financial reporting entity consists of the primary government and organizations for which it is financially accountable. In determining financial accountability, consideration is given to financial interdependency, selection of governing body, designation of management, ability to significantly influence operations, and accountability for fiscal matters. Based on the foregoing criteria, the Authority is not a component unit of any primary government. In addition, there are no component units to be included in the Authority's financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

All activities of the Authority are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when they are earned. Expenses are recorded at the time liabilities are incurred regardless of the timing of the related cash flows.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

CASH AND CASH EQUIVALENTS

The Authority considers money market funds and all highly liquid investments with an original maturity date of ninety days or less when purchased to be cash equivalents. Cash equivalents are stated at cost, which approximates fair value.

PERKASIE REGIONAL AUTHORITY

Notes to Financial Statements

December 31, 2020 and 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

TRUST INDENTURE AND RESTRICTED ASSETS

The Authority entered into a Trust Indenture, dated as of April 1, 1994 (the "Original Indenture"), as supplemented by ten Supplemental Trust Indentures, the most recent dated November 6, 2019, with U.S. Bank National Association as Trustee in connection with the issuance of its Water and Sewer Revenue Bonds, Series of 2019. The aforementioned Trust Indenture provides for the creation of the following funds:

- a) Revenue Fund for deposit of all revenues and receipts arising from the operation of the water and sewer system and any income derived from investments in any other Fund under the Indenture with the exception of the Construction Fund;
- b) Bond Fund into which revenues are to be transferred from the Revenue Fund for payment of interest and principal on the bonds as they become due;
- c) Bond Reserve Fund in an amount equal to the maximum annual aggregate debt service of the 2014 Bonds for the purpose of funding deficiencies which may occur in the Bond Fund;
- d) Construction Fund for the payment of costs of each project involving construction for which bonds are issued;
- e) Bond Redemption and Improvement Fund for funding (1) any deficiencies which may occur in the Bond or Bond Reserve Funds, (2) capital repairs, additions or contributions, and (3) bond redemptions.

The above-captioned funds are reported in the Statements of Net Position under the caption restricted cash and cash equivalents.

ACCOUNTS RECEIVABLE

The Authority believes all accounts receivable are fully collectible. Accordingly, no provision for bad debt has been established. The Authority's policy is to either file a lien against the property or shut-off the water to the property for any uncollectible account which results in the collection of all accounts receivable.

ESTIMATED UNBILLED REVENUE RECEIVABLE

Customers are billed for water and sewer in arrears based on actual water consumption. The Authority includes all customers in one of three cycles in which each cycle is billed on a staggered quarterly basis. As a result, revenues earned for services provided, but not billed, encompassing the period from October 1 through December 31, are accrued on a pro rata basis at the end of the calendar year.

SUPPLY INVENTORY

The Authority maintains an inventory of supplies in use for emergencies which are valued at the lower of cost (first-in, first-out) or net realizable value.

PERKASIE REGIONAL AUTHORITY

Notes to Financial Statements

December 31, 2020 and 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CAPITAL ASSETS

Property, plant and equipment that have an estimated useful life in excess of one year are carried at historical cost if purchased or constructed. Donated assets are recorded at estimated fair value at the date of donation. Interest incurred during the construction phase of capital assets is included as part of the capitalized cost of constructed assets. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets which range from 5 to 40 years. Normal maintenance and repairs are charged to expense as incurred, major renewals or betterments, which extend the life or increase the value of assets, are capitalized. Construction in Progress represents costs incurred by the Authority for in-process activities designed to expand, replace, or extend useful lives of existing property and equipment.

The Authority continually evaluates whether events and circumstances have occurred that may warrant revision of the estimated useful life of its long-lived assets or whether the remaining balance of its long-lived assets should be evaluated for possible impairment. If and when such factors, events or circumstances indicate that long-lived assets should be evaluated for possible impairment, the Authority will determine the fair value of the asset by making an estimate of expected future cash flows over the remaining lives of the respective assets and compare that fair value with the carrying value of the assets in measuring their recoverability. There were no impairment losses recognized during the years ended December 31, 2020 and 2019.

DEFERRED INFLOWS/OUTFLOWS OF RESOURCES

The Authority reports decreases in net assets that relate to future periods as deferred outflows in a separate section of the statement of net position. The deferred outflows of resources in the Authority's financial statements include a deferred amount arising from the refunding of the 2007, 2011A and 2014 bond issues. The deferred refunding amount is being amortized over the life of the refunding bonds as part of interest expense. For the years ended December 31, 2020 and 2019, the Authority recorded amortization of \$60,156 and \$62,538, respectively, which was reported as interest expense in the statement of revenues, expenses and changes in net position. Additionally, the Authority also reports its 2020 and 2019 contributions to the Pennsylvania Municipal Retirement System ("PMRS") after the measurement date as deferred outflows. The net pension liability associated with the Authority's financial statements was measured as of December 31, 2019. The amounts paid by the Authority in 2020 to the PMRS plan will be reflected within the Authority's pension expense and related liability when the net pension liability is measured for the next fiscal year.

In addition to decreases in net assets, the Authority also reports a separate section of deferred inflows of resources. This separate financial statement element represents the net difference between differences between expected and actual results, changes in assumptions and projected, and actual earnings of its PMRS plan. The amount will be amortized over a five year closed period beginning in the year in which the difference occurred.

OPERATING REVENUES AND EXPENSES

Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations which is the sale of water and treatment of wastewater for its customers. Operating expenses include the cost of services, professional and administrative expenses, and depreciation on capital assets. All other revenues and expenses not meeting the aforementioned criteria are reported as non-operating revenues and expenses and are included under capital and related financing and investing activities in the Statement of Cash Flows.

PERKASIE REGIONAL AUTHORITY

Notes to Financial Statements

December 31, 2020 and 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NET POSITIONS

Net positions represent the difference between the Authority's assets and deferred outflows and liabilities and deferred inflows. Net Investments in Capital Assets represent capital assets, reduced by accumulated depreciation and by any outstanding debt related to the acquisition, construction or improvement of those assets. Restricted for Debt Service is comprised of certain funds restricted under the Trust Indenture for payment of debt service on bonds. Restricted for Capital Projects represents funds restricted for future capital projects in accordance with the Trust Indenture. Unrestricted Net Positions consist of net assets that do not meet the definition of "restricted" or "net investments in capital assets".

BUDGET

As required by the terms of the Trust Indenture, the Authority prepares an annual budget which details anticipated revenues and the Authority's plans to expend funds for charges incurred for operation, maintenance, certain interest and general functions, and other charges for the year. A comparison of actual and budgeted revenues and expenses is presented in the Supplementary Information section of the financial statements.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 - DEPOSITS AND INVESTMENTS

DEPOSITS

The Authority maintains its cash balances at one financial institution. The cash balances are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000 per depositor, per institution. State law requires that all public deposits in financial institutions in excess of federal insurance limits be fully collateralized by obligations of the United States, the Commonwealth of Pennsylvania or any political subdivision of the Commonwealth. Pennsylvania Act 72 of 1971, as amended, permits banking institutions to satisfy this collateralization requirement by pooling securities pledged as collateral for public funds on deposit. At December 31, 2020, cash balances maintained at the financial institution were fully covered by the FDIC.

Restricted cash is held by the trustee in money market accounts which are not covered by the FDIC or Pennsylvania Act 72. Amounts maintained in money market accounts totaled \$8,966,974 at December 31, 2020 and \$8,716,974 was not insured. The Authority has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash or cash equivalent.

As of December 31, 2020 and 2019, all amounts held in the Trust funds were considered cash and cash equivalents.

PERKASIE REGIONAL AUTHORITY

Notes to Financial Statements

December 31, 2020 and 2019

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

INVESTMENTS

State statutes and the Trust Indenture authorize the Authority to invest in (1) obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; (2) obligations of the Commonwealth of Pennsylvania or its political subdivisions; (3) accounts insured by the Federal Deposit Insurance Corporation, the Federal Savings and Loan Insurance Corporation or the National Credit Union Share Insurance Fund; (4) shares of an investment company whose shares are registered under the Securities Act of 1933 which invests only in obligations described in (1) through (3) above; and (5) obligations of certain nonguaranteed federal agencies.

CUSTODIAL CREDIT RISK

Deposit custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. Investment custodial credit is the risk that the counterparty to an investment transaction will fail and the Authority will not recover the value of the investment or collateral securities that are in the possession of an outside party. The Authority does not have a formal investment policy that addresses interest rate, credit, and custodial credit risk. All investment accounts are maintained by one institution.

NOTE 4 - ASSESSMENTS RECEIVABLE

The Authority currently pays one-third of the project cost of extending water and sewer systems to furnish service to customers and assesses the remaining balance to the property owners. The assessments are payable over five years, with a 20% down payment in year one, and 20% due in each of the next four years plus an interest rate of 5% per annum on the outstanding balance. Some of the residents who owe the Authority for water and sewer assessments have financial hardships and cannot pay in accordance with the Authority's terms. In those instances, the Authority secures its interest by filing a lien on the property. Amounts due from property owners for water and sewer assessments totaled \$79,466 and \$73,781 as of December 31, 2020 and 2019, respectively. As of December 31, 2020, the entire balance is expected to be paid when the related property is sold.

NOTE 5 - CAPITAL ASSETS

Property, plant, and equipment at December 31, 2020 and 2019 and related accumulated depreciation and depreciation expense for the years then ended follow:

<u>2020</u>	<u>Beginning</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u>
Depreciable				
Building	\$ 6,279,355	\$ -	\$ -	\$ 6,279,355
Water System	28,008,477	246,699	-	28,255,176
Sewer System	16,202,626	245,442	-	16,448,068
Furniture and Equipment	365,310	-	-	365,310
Vehicles	281,157	-	-	281,157
Purchased Wastewater Treatment Capacity	3,036,127	57,458	-	3,093,585
Subtotal	<u>54,173,052</u>	<u>549,599</u>	<u>-</u>	<u>54,722,651</u>

PERKASIE REGIONAL AUTHORITY

Notes to Financial Statements

December 31, 2020 and 2019

NOTE 5 - CAPITAL ASSETS (CONTINUED)

	Beginning	Increases	Decreases	Ending
Total from previous page	54,173,052	549,599	-	54,722,651
Non-Depreciable				
Land	790,410	-	-	790,410
Construction in Progress	593,292	1,056,008	29,952	1,619,348
Total	\$ 55,556,754	\$ 1,605,607	\$ 29,952	\$ 57,132,409
Accumulated Depreciation				
	Beginning	Increases	Decreases	Ending
Building	\$ 952,440	\$ 158,181	\$ -	\$ 1,110,621
Water System	12,838,830	673,930	-	13,512,760
Sewer System	9,704,737	330,984	-	10,035,721
Furniture and Equipment	306,909	5,799	-	312,708
Vehicles	172,988	21,072	-	194,060
Purchased Wastewater Treatment Capacity	1,260,744	76,593	-	1,337,337
Total	\$ 25,236,648	\$ 1,266,559	\$ -	\$ 26,503,207
Net	\$ 30,320,106			\$ 30,629,202

2019

	Beginning	Increases	Decreases	Ending
Depreciable				
Building	\$ 6,279,355	\$ -	\$ -	\$ 6,279,355
Water System	27,884,815	123,662	-	28,008,477
Sewer System	16,087,247	115,379	-	16,202,626
Furniture and Equipment	406,367	5,530	46,587	365,310
Vehicles	262,913	98,095	79,851	281,157
Purchased Wastewater Treatment Capacity	2,990,441	45,686	-	3,036,127
Non-Depreciable				
Land	790,410	-	-	790,410
Construction in Progress	381,185	212,107	-	593,292
Total	\$ 55,082,733	\$ 600,459	\$ 126,438	\$ 55,556,754

Accumulated Depreciation

	Beginning	Increases	Decreases	Ending
Building	\$ 794,259	\$ 158,181	\$ -	\$ 952,440
Water System	12,164,491	674,339	-	12,838,830
Sewer System	9,373,475	331,262	-	9,704,737
Furniture and Equipment	343,673	9,823	46,587	306,909
Vehicles	241,576	11,263	79,851	172,988
Purchases Wastewater Treatment Capacity	1,181,443	79,301	-	1,260,744
Total	\$ 24,098,917	\$ 1,264,169	\$ 126,438	\$ 25,236,648
Net	\$ 30,983,816			\$ 30,320,106

PERKASIE REGIONAL AUTHORITY

Notes to Financial Statements

December 31, 2020 and 2019

NOTE 6 - SEWAGE TREATMENT SERVICES

The Authority joined with several other municipalities in 1973 to form the Pennridge Wastewater Treatment Authority (“PWTA”). PWTA provides sewage treatment services to all or portions of the member municipalities and the area served by the Authority. PWTA’s normal operating costs are assessed among the participants based upon their proportionate share of equivalent dwelling units. PWTA’s charges to the Authority for treatment operating costs are expensed as incurred and totaled \$670,761 and \$641,269 for the years ended December 31, 2020 and 2019, respectively. Amounts due from PWTA for advances in excess of actual expenses totaled \$7,809 and \$19,327 at December 31, 2020 and 2019, respectively.

Capital construction and plant upgrade costs are assessed based upon the percentages of plant capacity attributed to each member. The Authority’s payments to PWTA for capital construction and plant upgrades, as summarized in Note 5, are capitalized as purchased wastewater treatment capacity and depreciated over a period of 40 years.

NOTE 7 - LONG-TERM DEBT

On December 23, 2014, the Authority issued Water and Sewer Revenue Bonds, Series 2014, in the amount of \$9,150,000 with an average interest rate of 2.7% to advance refund \$8,425,000 of outstanding Water and Sewer Revenue Bonds, Series February 2011, with an average interest rate of 4.8%. Principal payments on bond issues are made annually on February 1st. Interest is paid semiannually on February 1st and August 1st of each year. The bonds were advanced refunded on November 6, 2019 with the issuance of the Water and Sewer Revenue Bonds, Series 2019 (See below). The Authority deposited a portion of the proceeds from the 2019 Bond Issue into an escrow account to provide for future debt service payments on the old debt which was retired on February 1, 2020.

On November 6, 2019, the Authority issued Water and Sewer Revenue Bonds, Series 2019, in the amount of \$12,755,000 with an average interest rate of 3.69% to advance refund \$8,460,000 of outstanding Water and Sewer Revenue Bonds, Series February 2014 and to payoff the outstanding balance of \$7,514,000 on the Uninvest loan. Principal payments on bond issues are made annually on February 1st. Interest is paid semiannually on February 1st and August 1st of each year. As part of the issuance, the Authority received a bond premium of \$1,616,195. The Amended and Restated Trust Indenture related to the bond issue contains a default provision that requires the Authority to meet a certain rate covenant. See Note 9 for the explanation and calculation of the rate covenant.

On December 6, 2017, Uninvest bank extended a fifteen year term loan in the amount of \$7,823,000. The loan bore interest at 2.6% for the first 10 years and then the interest rate resets for the remaining term of the loan at 67% of the then Wall Street Journal Prime Rate with a maximum rate cap at 3.5%. On November 6, 2019, the loan was repaid with the proceeds from the issuance of the Water and Sewer Revenue Bonds, Series 2019.

On December 21, 2017, the Authority acquired the assets of the Ridge Run Development for a purchase price of \$300,000 in exchange for a promissory note. The note does not bear interest and requires 40 quarterly installments of principal payments only beginning February 1, 2019. The promissory note matures on November 1, 2022.

PERKASIE REGIONAL AUTHORITY

Notes to Financial Statements

December 31, 2020 and 2019

NOTE 7 - LONG-TERM DEBT (CONTINUED)

A summary of long term debt activity for the year ended December 31, 2020 and amounts due at December 31, 2020 follow:

	December 31, 2019	Additions	Reductions	December 31, 2020	Amounts Due Within One Year
Bond Series 2019	\$ 12,755,000	\$ -	\$ (140,000)	\$ 12,615,000	\$ 5,000
Bond Premium	1,594,206	-	(131,934)	1,462,272	
	14,349,206	-	(271,934)	14,077,272	5,000
TD Bank Loan	2,324,000	-	(1,106,000)	1,218,000	1,123,000
	16,673,206	-	(1,399,923)	15,295,272	1,128,000
Ridge Run Loan	210,000	-	(60,000)	150,000	70,000
Grand Total	\$ 16,883,206	\$ -	\$ (1,437,934)	\$ 15,445,272	\$ 1,198,000

Interest expense on long term debt amounted to \$563,143 and \$500,303 for the years ended December 31, 2020 and 2019, respectively.

Scheduled future principal and interest maturities with respect to long-term debt at December 31, 2020, follow:

Year	Bond Principal	Notes Payable	Total Long- Term Debt	Interest	Total Debt Service Requirement
2021	\$ 5,000	\$ 1,193,000	\$ 1,198,000	\$ 514,888	\$1,712,888
2022	1,020,000	175,000	1,195,000	484,755	1,679,755
2023	1,160,000	-	1,160,000	440,400	1,600,400
2024	1,205,000	-	1,205,000	393,100	1,598,100
2025	1,255,000	-	1,255,000	343,900	1,598,900
2026-2030	6,620,000	-	6,620,000	916,600	7,536,600
2031-2032	1,350,000	-	1,350,000	54,600	1,404,600
Total	\$ 12,615,000	\$ 1,368,000	\$ 13,983,000	\$ 3,148,243	\$17,131,243

NOTE 8 - RETIREMENT PLAN

The Authority offers a defined benefit pension plan to its employees by participating in the Pennsylvania Municipal Retirement System ("PMRS"), an agent multiple-employer public employees' retirement system administered by the Pennsylvania Municipal Retirement Board. PMRS acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate publicly available Comprehensive Annual Financial Report which can be obtained by contacting the PMRS accounting office at 1010 N 7th Street, Suite 301, Harrisburg, PA 17102-1400.

PERKASIE REGIONAL AUTHORITY

Notes to Financial Statements

December 31, 2020 and 2019

NOTE 8 - RETIREMENT PLAN (CONTINUED)

The plan's coverage and benefit provisions are summarized below:

Coverage and Benefit Provisions	
Covered employees	All active full-time employees are required to participate.
Benefit vesting	100% after 5 years of service
Normal retirement date	Employee is eligible upon attaining age 60.
Early retirement provision	Involuntary termination and 8 years of credited service or voluntary termination and 20 years of credited service.
Retirement benefit	Upon normal retirement, employees shall receive a benefit equal to 2% of Final Average Salary ("FAS"), i.e. average of the highest consecutive five years' salary, multiplied by all years of credited service, not to exceed 75% of the participant's FAS. For employees eligible for early retirement, the benefits are actuarially reduced for each year prior to age 60 that early retirement takes place. There is no Social Security offset.
Death benefit	Other than a refund of member contributions plus interest, death benefits are not provided if an active member dies prior to having met the eligibility for voluntary early retirement or normal retirement. Once a member has reached the required service for a voluntary early retirement or normal retirement age, and dies prior to retiring, the beneficiary will be entitled to benefits stipulated by law.
Disability benefit	Any member who has 10 or more years of service and becomes physically or mentally incapacitated to such a degree that he is not able to engage in any gainful employment, or sustains a service-related disability, regardless of the number of years of service, is eligible to receive a benefit of 50% of the highest five years' average salary. The benefit is reduced by any payments that an employee can receive from the Pennsylvania Workers' Compensation Act or the Pennsylvania Occupational Disease Act. A member who sustains a non-service related disability and has ten years of service shall receive a benefit of 30% of the highest five years' average salary.

The agent maintains each municipality's accounts separately with that municipality's contributions and related employees' contributions. The assets may only be used for payment of benefits to members of the plan. As of January 1, 2020 (the last actuarial valuation date), the number of active participants, deferred vested participants, and participants currently receiving a benefit from the plan is summarized below:

Inactive employees or beneficiaries currently receiving benefits	9
Inactive employees entitled to, but not yet receiving benefits	3
Active employees	8
Total participant count	20

METHOD OF ACCOUNTING

Due to the implementation of GASB No. 68, the Authority must report its proportionate share of the net pension liability, which is as of the December 31, 2018 measurement date. The Authority's proportionate share of the net pension liability as of December 31, 2020 and 2019 was \$109,099 and \$34,262, respectively.

PERKASIE REGIONAL AUTHORITY

Notes to Financial Statements

December 31, 2020 and 2019

NOTE 8 - RETIREMENT PLAN (CONTINUED)

METHOD OF ACCOUNTING (CONTINUED)

GASB No. 68 requires the Authority to recognize a net pension liability for the difference between the present value of projected benefits for past services, known as the Total Pension Liability (TPL), and the restricted resources held in trust for the payment of pension benefits, known as the Fiduciary Net Position (FNP). For purposes of measuring the net position liability, deferred outflows or resources, deferred inflows of resources, and pension expense, information about the FNP of PMRS and additions to and deductions from PMRS FNP have been determined on the same basis as reported by PMRS. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit term. Investments are recorded at fair value.

The net pension liability at December 31, 2020 was measured as of December 31, 2019, and the TPL used to calculate the net pension liability was determined by actuarial valuations as of that date. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating component units, actuarially determined.

FUNDING

Authority employees are required to contribute 3% of compensation. Any member who terminates service prior to eligibility for vesting or retirement benefits shall receive all amounts contributed in a lump-sum amount, plus interest which is credited at an annual rate of 6.0%.

An Actuarially Determined Contribution is a contribution amount determined in accordance with Actuarial Standards of Practice. The Actuarially Determined Contribution provided is based upon the plan's minimum municipal obligation (MMO) as defined in Pennsylvania Act 205 of 1984 ("Act 205"). The MMO is based upon the plan's biennial actuarial valuation. Any funding requirements established by the MMO in excess of required employee contributions must be paid by the municipality in accordance with Act 205. The MMO for the years ended December 31, 2020 and 2019 amounted to \$95,927 and \$99,532, respectively.

PENSION LIABILITIES, PENSION EXPENSE, DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

For the years ended December 31, 2020 and 2019, the Authority's pension expense amounted to \$31,862 and (\$16,384) respectively. At December 31, 2020 and 2019, the Authority reported \$95,927 and \$99,552, respectively, included in deferred outflows of resources for its contributions subsequent to the December 31, 2020 and 2019 measurement dates and through December 31, 2020 and 2019, respectively.

The Authority also recorded deferred outflows of resources of (\$84,864) for changes in assumptions (\$14,213), differences between expected and actual experience (\$14,267), differences between projected and actual earnings on investments of \$87,509, and 2020 contributions to the Plan (\$95,927), less 2020 amortization expense (\$239,820). Deferred outflows related to the pension plan amounted to \$155,678 and \$240,542 as of December 31, 2020 and 2019, respectively.

PERKASIE REGIONAL AUTHORITY

Notes to Financial Statements

December 31, 2020 and 2019

NOTE 8 - RETIREMENT PLAN (CONTINUED)

The Authority also recorded deferred inflows of resources of \$223,766 for the difference between expected and actual experience (\$117,042) less 2020 amortization expense (\$106,724). Deferred inflows related to the pension plan amounted to \$183,015 and \$406,781 as of December 31, 2020 and 2019, respectively.

Deferred inflows and outflows are amortizable over a four year period and will be recognized annually in pension expense as follows:

Year ending December 31	
2021	\$53,638
2022	26,009
2023	(67,446)
2024	-
Total	<u>\$12,201</u>

ACTUARIAL ASSUMPTIONS

Actuarial Cost Method:	Entry Age
Amortization Period:	Level dollar based upon the amortization periods in Act 205
Asset Valuation Method:	Based upon municipal reserves
Discount Rate:	5.25%
Inflation Rate:	2.8%
Salary Increases:	Age related scale with merit and inflation component
COLA Increases:	2.8% for those eligible for a COLA
Pre-Retirement Mortality:	Males – RP2000 Non-Annuitant Table projected 15 years with Scale AA, Females – same as males except with 5 year setback
Post-Retirement Mortality:	Males – RP2000 Male Annuitant Table projected 5 years with Scale AA, Females – Female Annuitant Table projected 10 years with Scale AA

DISCOUNT RATE

The discount rate used to measure the total pension liability was 5.25% for the December 31, 2020 and 2019 valuations. The projection of cash flows used to determine the discount rate assumes that the employees will continue to contribute at the current rates and the employers will continue the historical and legally required practice of contributing to the Plan based on an Actuarially Determined Contribution, reflecting a payment equal to annual normal cost, the expected administrative expenses, and an amount necessary to amortize the remaining Unfunded Actuarial Liability as a level dollar amount over a closed period.

LONG-TERM EXPECTED RATE OF RETURN

The PMRS System's long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates of expected future real rates of return are developed for each major asset class, for the portfolio as a whole and at different levels of probability or confidence.

PERKASIE REGIONAL AUTHORITY

Notes to Financial Statements

December 31, 2020 and 2019

NOTE 8 - RETIREMENT PLAN (CONTINUED)

There are four steps to the method:

- 1) Expected future real rates of return are based primarily on the 20 year historic nominal rates of return as reflected by applicable return indexes and may be adjusted for specific asset classes if, in the Board’s opinion, any such asset classes are expected in the future to significantly vary from its 20 year historical returns.
- 2) The nominal rates of return by asset class are adjusted by the investment expenses and an expected future annual inflation rate of 2.2% to produce the long-term expected real rates of return.
- 3) The long-term expected real rates of return are further adjusted by weighting each asset class using the PMRS portfolio target asset allocations. The results from steps 1 through 3 are shown in the chart below labeled “System Nominal and Real Rates of Return by Asset Class.”
- 4) These weighted real rates of return are then subjected to a probability simulation to understand the likelihood of success in achieving various portfolio return levels. Based on the most recent asset allocation study conducted by Dahab Associates, the minimum acceptable confidence level for the Board has been determined to be 70%.

The target allocation and best estimates of real rates of return for each asset class are summarized in the following table:

Asset Class	Target Asset Allocation	Nominal Rate of Return	Long-Term Expected Rate of Return
Domestic Equities (large capitalized firms)	25%	7.4%	4.7%
Domestic Equities (small capitalized firms)	15%	9.8%	7.1%
International Equities (international developed markets)	15%	5.5%	2.9%
International Equities (emerging markets)	10%	9.9%	7.6%
Real Estate	20%	8.4%	5.3%
Fixed Income	15%	2.2%	0.0%
Total Portfolio	100%	7.1%	4.5%

Based on the four part analysis, the Board established the System’s long-term expected rate of return at 6.7%.

SENSITIVITY TO CHANGES IN DISCOUNT RATE

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

	1% Decrease (4.25%)	Discount Rate (5.25%)	1% Increase (6.25%)
Net pension liability	\$512,219	\$109,099	\$(232,637)

PERKASIE REGIONAL AUTHORITY

Notes to Financial Statements

December 31, 2020 and 2019

NOTE 9 - RATE COVENANT COMPLIANCE

Section 6.02 of the Original and Amended and Restated Trust Indenture requires the Authority to establish water and sewer rates and other charges which, together with any investment income earned on Funds under the Trust Indenture will be sufficient to pay (1) the administrative expenses of the Authority, (2) the expenses of operating, maintaining and repairing the Water and Sewer System, and (3) 110% of the average annual debt service requirements on Water and Sewer Revenue Bonds (but in no event less than the actual debt service requirements of the current fiscal year).

A calculation of the Authority's compliance with the requirement for the year ended December 31, 2020 follows:

Description	Amount
Total pledged revenues	\$5,745,545
Total operating expense (net of depreciation)	<u>2,117,062</u>
Amount available for debt service	3,628,483
Average annual debt service @110%	<u>1,576,167</u>
Excess over required funding	<u><u>\$2,052,316</u></u>

NOTE 10 - RISK MANAGEMENT AND COMMITMENTS

LITIGATION

In the normal course of its activities, the Authority is a party to various legal actions and subject to certain asserted and unasserted claims and assessments. The Authority is of the opinion that the outcome of any pending actions will not have a material effect on the Authority's financial position or results of operations.

RISK MANAGEMENT

The Authority is subject to various risks of losses arising from torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters for which the Authority purchases commercial insurance. No settlements have exceeded coverage during the years ended December 31, 2020, 2019 and 2018.

COMMITMENTS

The Authority leases its water tanks to cell tower companies. During the years ended December 31, 2020 and 2019, rental income amounted to \$114,094 and \$114,077, respectively. The Authority expects rental income of approximately \$100,000 per year through 2020.

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic which continues to spread throughout the United States and the World. The Authority is monitoring the outbreak of COVID-19 and its impact on operations, financial position, cash flows and customer payments, in addition to the impact on its employees. Due to the rapid development and fluidity of this situation, the magnitude and duration of the pandemic and its impact on the Authority's operations and liquidity is uncertain as of the date of this report. While there could ultimately be a material impact on operations and liquidity of the Authority, at the time of issuance, the impact could not be determined.

PERKASIE REGIONAL AUTHORITY

Notes to Financial Statements

December 31, 2020 and 2019

NOTE 11 - SEVERANCE AGREEMENT

On March 3, 2014, the Authority entered into a severance agreement with a long time employee that became effective December 31, 2014. The agreement called for a continuation of health and dental insurance payments until the former employee and his spouse reach age 65 which ended in 2020.

NOTE 12 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 13, 2021, which is the date the financial statements were available to be issued. There were no other subsequent events requiring recognition or disclosure in these financial statements as a result of this evaluation.

REQUIRED SUPPLEMENTARY INFORMATION

PERKASIE REGIONAL AUTHORITY

Schedule of Changes in Net Pension Liability and Related Ratios

Last Six Fiscal Years

	2020	2019	2018	2017	2016	2015
Total Pension Liability - Authority's Portion						
Service cost	\$ 99,302	\$ 92,941	\$ 89,435	\$ 83,496	\$ 95,533	\$ 106,864
Interest	163,318	184,607	178,155	171,007	164,836	165,220
Differences between expected and actual experience	-	(553,998)	-	99,868	(4,901)	(168,060)
Changes of assumptions	-	-	-	95,600	3,889	-
Benefit payments	<u>(123,610)</u>	<u>(135,749)</u>	<u>(155,161)</u>	<u>(185,664)</u>	<u>(98,088)</u>	<u>(91,780)</u>
Net change in total pension liability - Authority's portion	139,010	(412,199)	112,429	264,307	161,269	12,244
Total pension liability - beginning	<u>3,086,488</u>	<u>3,498,687</u>	<u>3,386,258</u>	<u>3,121,951</u>	<u>2,960,682</u>	<u>2,948,438</u>
Total pension liability - ending - Authority's portion	<u>\$ 3,225,498</u>	<u>\$ 3,086,488</u>	<u>\$ 3,498,687</u>	<u>\$ 3,386,258</u>	<u>\$ 3,121,951</u>	<u>\$ 2,960,682</u>
Plan Fiduciary Net Position - Authority's portion						
Contributions - employer	\$ 99,132	\$ 86,277	\$ 86,207	\$ 85,336	\$ 82,722	\$ 44,964
Contributions - PMRS assessment	420	440	460	460	460	-
Contributions - employee	44,410	34,542	29,744	27,655	31,878	32,854
PMRS investment income	174,719	163,819	154,667	135,686	147,816	139,919
Market value investment income	(124,439)	(327,654)	340,759	81,114	(154,434)	18,558
Benefits payments	(123,610)	(135,749)	(155,161)	(185,664)	(98,088)	(91,780)
PMRS administrative expense	(420)	(440)	(460)	(460)	(460)	(480)
Additional administrative expense	<u>(6,039)</u>	<u>(7,311)</u>	<u>(7,113)</u>	<u>(6,647)</u>	<u>(6,162)</u>	<u>(5,336)</u>
Net change in plan fiduciary net position	64,173	(186,076)	449,103	137,480	3,732	138,669
Plan fiduciary net position - beginning	<u>3,052,226</u>	<u>3,238,302</u>	<u>2,789,199</u>	<u>2,651,719</u>	<u>2,647,987</u>	<u>2,509,318</u>
Plan fiduciary net position - ending - Authority's Portion	<u>\$ 3,116,399</u>	<u>\$ 3,052,226</u>	<u>\$ 3,238,302</u>	<u>\$ 2,789,199</u>	<u>\$ 2,651,719</u>	<u>\$ 2,647,987</u>
Net position liability - ending - Authority's Portion	<u>\$ 109,099</u>	<u>\$ 34,262</u>	<u>\$ 260,385</u>	<u>\$ 597,059</u>	<u>\$ 470,232</u>	<u>\$ 312,695</u>
Plan fiduciary net position as a percentage of total pension liability	96.6%	98.9%	92.6%	82.4%	84.9%	89.4%
Covered employee payroll	561,760	604,614	617,991	617,133	673,946	757,952
Net pension liability as a percentage of covered employee payroll	19.4%	5.7%	42.1%	96.7%	69.8%	41.3%

The requirement for this schedule is to present 10 years of information. However, until a full 10 year trend is complete, only available information is presented.

PERKASIE REGIONAL AUTHORITY

Schedule of Contributions

Last Six Fiscal Years

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 99,532	\$ 86,717	\$ 86,667	\$ 85,796	\$ 83,182	\$ 44,197
Contributions in relation to the Actuarially determined contribution	<u>99,552</u>	<u>86,717</u>	<u>86,667</u>	<u>85,796</u>	<u>83,182</u>	<u>44,964</u>
Contribution excess	<u>(20)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(767)</u>
Covered payroll	\$ 561,760	\$ 604,614	\$ 617,991	\$ 617,133	\$ 673,946	\$ 757,952
Contributions as a percentage of covered payroll	17.72%	14.34%	14.02%	13.90%	12.34%	5.93%

The requirement for this schedule is to present 10 years of information. However, until a full 10 year trend is complete, only available information is presented.

SUPPLEMENTARY INFORMATION

PERKASIE REGIONAL AUTHORITY

Schedule of Operating Expenses

Years Ended December 31, 2020 and 2019

	2020	%	2019	%	Variance Increase (Decrease)
SEWER SERVICE					
Salaries	\$ 81,517	1.5	\$ 81,705	1.7	\$ (188)
Payroll Taxes	6,642	0.1	6,719	0.1	(77)
Materials and Supplies	2,770	0.0	10,414	0.2	(7,644)
Electric	381	0.0	309	0.0	72
Maintenance and Repairs	22,532	0.4	28,172	0.6	(5,640)
Vehicle	5,665	0.1	12,433	0.3	(6,768)
Uniforms	592	0.0	599	0.0	(7)
Treatment Fees - Operating	670,761	12.0	641,269	13.2	29,492
Total Sewer Service	<u>790,860</u>	14.1	<u>781,620</u>	16.1	<u>9,240</u>
WATER SERVICE					
Salaries	266,326	4.8	253,518	5.2	12,808
Payroll Taxes	21,701	0.4	20,848	0.4	853
Materials and Supplies	30,107	0.5	18,387	0.4	11,720
Electric	83,124	1.5	77,040	1.6	6,084
Maintenance and Repairs	106,322	1.9	76,087	1.6	30,235
Vehicle	7,016	0.1	21,544	0.4	(14,528)
Uniforms	2,105	0.0	2,721	0.1	(616)
Testing	17,483	0.3	23,148	0.5	(5,665)
Meters	1,724	0.0	6,269	0.1	(4,545)
Total Water Service	<u>535,908</u>	9.5	<u>499,562</u>	10.3	<u>36,346</u>
PROFESSIONAL FEES					
Consulting Engineer	23,508	0.4	12,060	0.2	11,448
Accounting and Audit	37,080	0.7	33,475	0.7	3,605
Legal	15,428	0.3	16,490	0.3	(1,062)
Other	7,290	0.1	-	0.0	7,290
Hydrogeologist	20,304	0.4	42,065	0.9	(21,761)
Total Professional Fees	<u>103,610</u>	1.9	<u>104,090</u>	2.1	<u>(480)</u>
GENERAL AND ADMINISTRATIVE					
Office Payroll	229,799	4.1	212,684	4.4	17,115
Employee Insurance	142,137	2.5	91,359	1.9	50,778
Payroll Taxes	20,342	0.4	18,690	0.4	1,652
Pension	31,862	0.6	(16,384)	(0.3)	48,246
Office Equipment	46,145	0.8	44,794	0.9	1,351
General Business Insurance	55,728	1.0	51,064	1.1	4,664
Communications	12,046	0.2	12,503	0.3	(457)
Postage	7,136	0.1	9,021	0.2	(1,885)
Education	2,430	0.0	4,834	0.1	(2,404)
Utilities	16,302	0.3	12,434	0.3	3,868
Maintenance and Repairs - Office	53,950	1.0	35,101	0.7	18,849
Office Supplies	2,823	0.1	3,262	0.1	(439)
Newsletter	1,086	0.0	1,047	0.0	39
Trustee Fees	750	0.0	7,965	0.2	(7,215)
Dues and Subscriptions	44,709	0.8	45,617	0.9	(908)
Miscellaneous	16,456	0.3	20,466	0.4	(4,010)
Vehicles	1,053	0.0	1,793	0.0	(740)
Billing	1,430	0.0	1,566	0.0	(136)
Website	500	0.0	2,988	0.1	(2,488)
Total General and Administrative Expenses	<u>686,684</u>	12.2	<u>560,804</u>	11.6	<u>125,880</u>
Total Operating Expenses	<u>\$ 2,117,062</u>	12.2	<u>\$ 1,946,076</u>	11.7	<u>\$ 170,986</u>

PERKASIE REGIONAL AUTHORITY

Schedule of Revenues and Expenses - Budget and Actual

Year Ended December 31, 2020

	Actual	Budget	Variance
OPERATING REVENUES			
Sewer Service Charges:			
Single Family	\$ 1,652,681	\$ 1,571,800	\$ 80,881
Multi-Family	301,295	312,900	(11,605)
Commercial	95,566	154,600	(59,034)
Industrial	32,703	34,000	(1,297)
School	34,224	65,500	(31,276)
Church	7,545	7,000	545
Public	32,515	28,300	4,215
Mixed	23,927	27,000	(3,073)
Miscellaneous	7,853	41,000	(33,147)
Total Sewer Service Charges	2,188,309	2,242,100	(53,791)
Water Sales:			
Single Family	1,753,362	1,629,700	123,662
Multi-Family	259,500	278,300	(18,800)
Commercial	111,360	134,400	(23,040)
Industrial	28,919	27,400	1,519
School	46,266	62,500	(16,234)
Church	13,964	11,100	2,864
Public	20,348	26,900	(6,552)
Mixed	23,777	24,800	(1,023)
Miscellaneous	9,531	42,100	(32,569)
Total Water Sales	2,267,027	2,237,200	29,827
Other Revenue:			
Fire Charges	93,001	79,200	13,801
Other	107,223	49,470	57,753
Total Other Revenue	200,224	128,670	71,554
Total Operating Revenues	\$ 4,655,560	\$ 4,607,970	\$ 47,590
OPERATING EXPENSES			
Sewer Service:			
Salaries	\$ 81,517	\$ 91,300	\$ (9,783)
Materials and Supplies	2,770	10,000	(7,230)
Electric	381	400	(19)
Maintenance and Repairs	22,532	27,000	(4,468)
Vehicle	5,665	19,310	(13,645)
Uniforms	592	1,350	(758)
Treatment Fees	670,761	737,000	(66,239)
Total Sewer Service	784,218	886,360	(102,142)

PERKASIE REGIONAL AUTHORITY

Schedule of Revenues and Expenses - Budget and Actual, Continued

Year Ended December 31, 2020

	Actual	Budget	Variance
Water Service:			
Salaries	266,326	268,000	(1,674)
Materials and Supplies	30,107	42,000	(11,893)
Electric	83,124	101,910	(18,786)
Maintenance and Repairs	106,322	130,700	(24,378)
Vehicle	7,016	20,370	(13,354)
Uniforms	2,105	3,940	(1,835)
Testing	17,483	18,000	(517)
Meters	1,724	7,000	(5,276)
Total Water Service	514,207	591,920	(77,713)
Professional Fees:			
Consulting Engineer	23,508	43,700	(20,192)
Auditor	37,080	38,300	(1,220)
Legal	15,428	23,100	(7,672)
Other	7,290	-	7,290
Hydrogeologist	20,304	33,900	(13,596)
Total Professional Fees	103,610	139,000	(35,390)
General and Administrative:			
Salaries	229,799	226,100	3,699
Employee Benefits	222,684	327,200	(104,516)
Materials and Supplies	59,614	91,600	(31,986)
Utilities	16,302	22,800	(6,498)
Communications	12,546	18,200	(5,654)
Maintenance and Repairs - Office	46,145	49,400	(3,255)
Vehicles	1,053	2,970	(1,917)
Maintenance and Repairs - Building	53,950	17,600	36,350
Lease of Vehicles	-	17,000	(17,000)
NPWA Agreement	-	60,000	(60,000)
Trustee Fees	750	5,100	(4,350)
Insurance	55,728	66,700	(10,972)
Miscellaneous	16,456	2,200	14,256
Total General and Administrative	715,027	906,870	(191,843)
Total Operating Expenses	2,117,062	2,524,150	(407,088)
Operating Revenues Over Expenses	\$ 2,538,498	\$ 2,083,820	\$ 454,678

PERKASIE REGIONAL AUTHORITY

Schedule of Revenues and Expenses - Budget and Actual, Continued

Year Ended December 31, 2020

	Actual	Budget	Variance
Operating Revenues Over Expenses	\$ 2,538,498	\$ 2,083,820	\$ 454,678
Nonoperating Revenues (Expenses):			
Investment Income	12,721	-	12,721
Rental Income	114,094	112,500	1,594
Interest Expense	(491,365)	-	(491,365)
Principal Payments on Debt	(1,306,000)	(1,646,188)	340,188
Transfer for Debt Coverage	-	(550,132)	550,132
	(1,670,550)	(2,083,820)	413,270
Total Nonoperating Revenues (Expenses) - Net			
Total Revenues Over Expenses	\$ 867,948	\$ 0	\$ 867,948
Reconciliation of Budget Reporting to Financial Statements:			
Revenues Over Expenses	\$ 867,948		
Principal Payments on Debt	1,306,000		
Property Dedication	485,380		
Tapping Fees	949,040		
Depreciation and Amortization	(1,266,559)		
Increase in Net Position per Statement of Revenues, Expenses, and Changes in Net Position	\$ 2,341,809		