PERKASIE REGIONAL AUTHORITY

Financial Statements

December 31, 2018 and 2017

PERKASIE REGIONAL AUTHORITY

December 31, 2018 and 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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 32 and 33 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 34 through 37 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
June 10, 2019

Management's Discussion and Analysis

This section of Perkasie 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, 2018. 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

- The Authority's net position increased slightly from $20.9 million in 2017 to $21.7 million in 2018, or an increase of roughly $800k (3.8%).
- Current assets remained relatively the same, increasing slightly from $1.09 million 2017 to $1.11 million in 2018, or an increase of about $25,000 or 2.3%.
- Total non-current assets remained relatively constant at $40.8 million for 2018 compared to $41.3 million for 2017.
- Total liabilities decreased by about 7.0% from $22.2 million in 2017 to $20.6 million in 2018.
- The Authorities total operating expenses increased about $350,000 in 2018 to $3.7 million compared to $3.4 million in 2017, due to a write-off of a discontinued project.

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 increase both water and sewer rates minimally, by an average of less than 1.0%.

- The Authority once again saw some construction activity, which began in 2015, pay off as even more customers were added. The Authority realized roughly 64 new customers in 2018 after having roughly 38 new customers added in 2017. The Authority anticipates another 85 new connections by the end of 2019 and a total of 150 additional connections from new developments by mid-2020.
- Old 309 Corridor (Bethlehem Pike) – A section of West Rockhill Township known as the Old 309 Corridor (or Bethlehem Pike) is stark with old run down commercial buildings and is ripe for redevelopment. West Rockhill Township has noted this area to be redeveloped and the Authority has undertaken the study of providing water and sewer to the area in an effort to "jump start" the redevelopment process. Most of the properties have failing sewer systems and some use rainwater for non-potable water uses, i.e. cleaning and flushing toilets as potable water is not available. The Authority had applied for grants to help defray some of the costs for the property owners, but unfortunately was unsuccessful in landing any grant monies. In 2015, the Authority decided to put this project on hold because of the increasing costs and low expected return on investment. In late 2016, the Authority decided to re-look at this project to determine the feasibility by potentially changing the scope of work. In late 2017 the scope of this project changed yet again to accommodate the wishes of the Township Supervisors. Unfortunately, after accommodating the West Rockhill Township Supervisors requests, the Supervisors still chose not to approve a Mandatory Connection Ordinance so the project has once again been put on hold until the Supervisors approved the ordinance.

- The Pennridge Airport is a privately owned airport in the PRA service area, bordering Perkasie Borough and East Rockhill Township, and the owner is looking into the feasibility of some economic development. The owner of the airport will be adding multiple industrial/commercial buildings which will mean additional tapping fees and customers to the PRA system. This project will break ground in early 2019, with new customers coming on-board as early as late 2019.

- Almont Area – This is an area of West Rockhill Township that is located at the intersection of Ridge Road and Lawn Avenue that is in need of both water and sewer facilities. This area is close to Grandview Hospital and has a lot of open land with the potential to be built upon. The Authority has developed plans to service this area with both water and sewer with the intent on commencing in the next several years. In order to provide sewer service to this area, the Authority has an agreement Sellersville Borough to accept and transport the sewer to the regional sewer plan, Pennridge Wastewater Treatment Authority.

USING THIS ANNUAL REPORT

This annual report consists of three parts: Management's Discussion and Analysis; the Financial Statements; 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 and liabilities 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 and liabilities) 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 "Statements of Net Position" provides a snapshot view of the Authority's financial condition at December 31, 2018, 2017 and 2016. 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, 2018 of 8.9:1 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 5.9:1 as of December 31, 2018 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, 2018 was 0.95:1.

Statements of Net Position

	2018	**2017**	**2016**		**2018**	**2017**	**2016**
Current Assets	$ 1,113,359	$ 1,087,922	$ 1,495,801	Current Liabilities	$ 125,127	$ 104,117	$ 348,701
Property, Plant & Equipment - Net	30,983,816	32,111,758	32,559,058	Current Liabilities From Restr. Assets	1,635,559	1,341,604	1,264,971
Restricted Assets	9,705,710	8,638,589	4,265,216	Long Term Liabilities	18,851,627	20,717,760	17,380,827
Other Assets	105,596	541,892	121,899	Net Positions	21,708,808	20,918,140	20,056,686
Deferred Outflows	668,770	800,994	733,454	Deferred Inflows	256,130	99,534	124,243
Total	$42,577,251	$43,181,155	$39,175,428	Total	$42,577,251	$43,181,155	$39,175,428

Analysis of Net Assets

PRA's total assets exceeded its liabilities by $21.7M, $20.9M, and $20.1M at the end of 2018, 2017 and 2016, 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 $10.9M, $10.8M and $14.4M at the end of 2018, 2017 and 2016, 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 ($9.5M, $8.5M and $4.1M at the end of 2018, 2017 and 2016, respectively) are subject to provisions under our bond indenture for future debt service requirements and on-going capital projects. The unrestricted balance totaled $1.2M, $1.6M and $1.6M at the end of 2018, 2017 and 2016, respectively.

Analysis of Changes in Net Assets

The Authority's financial position remained stable for 2018. Our net position increased from $20.9 million in 2017 to $21.7 million in 2018, for an increase of roughly $800,000. Operating income decreased about $250,000 mostly due to a write-off of about $500,000 due to a discontinued project.

Total Revenues

Total Authority revenues for 2018, 2017 and 2016 amounted to $4.9M, $4.8M, and $4.6M, respectively. The Authority has only increased its water and sewer rates marginally for the last several years which has caused the revenues to remain fairly consistent. The revenues have grown about 2% each year while the rate increases have only been 1% 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 only about 1-3% the past several years.

- Water and Sewer Assessments were $282,000, $271,000, and $130,000 for 2018, 2017 and 2016, 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 increased pretty substantially for 2018 at $48,200 compared to $18,700 in 2017.

- 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 increased substantially from $51,000 in 2017 to $87,000 in 2018 due to the new lease agreement with Andersen Engineering for office space.

Stability of Operating Revenues

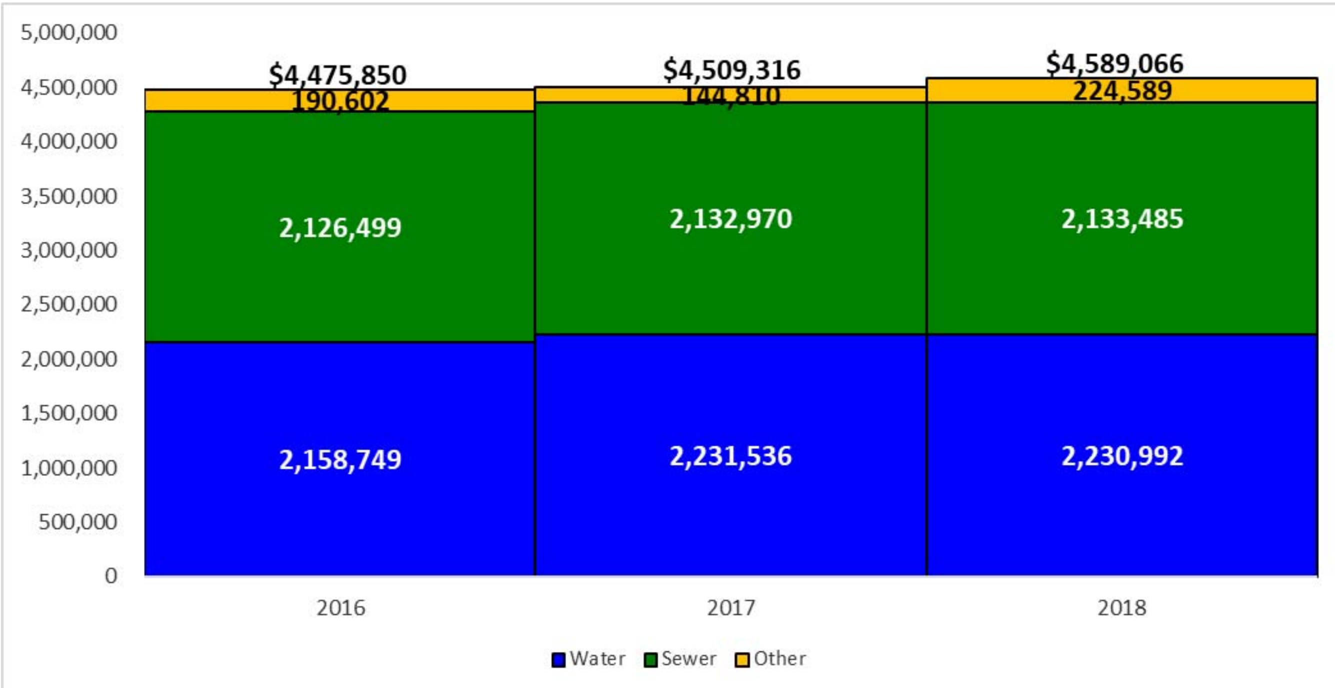
The Authority's rate base is mainly residential with a small amount of commercial and industrial users. The breakdown is as follows:

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 93% 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 Perkasie is also currently marketing a redevelopment area in the middle of the downtown area.

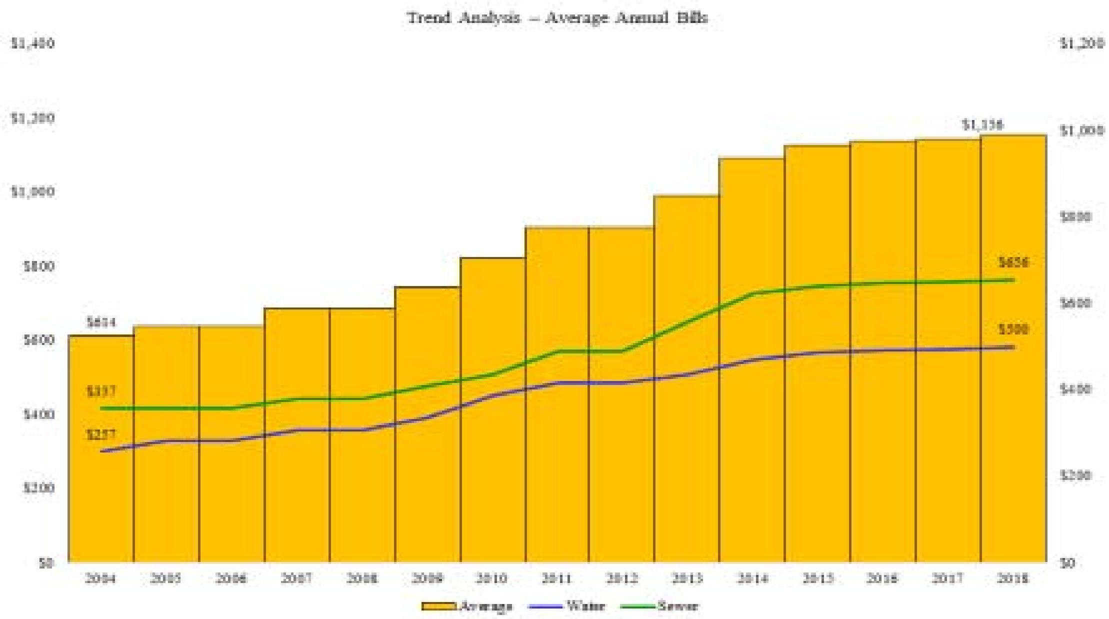
See the chart below for a review of the last three (3) years of operating revenue.



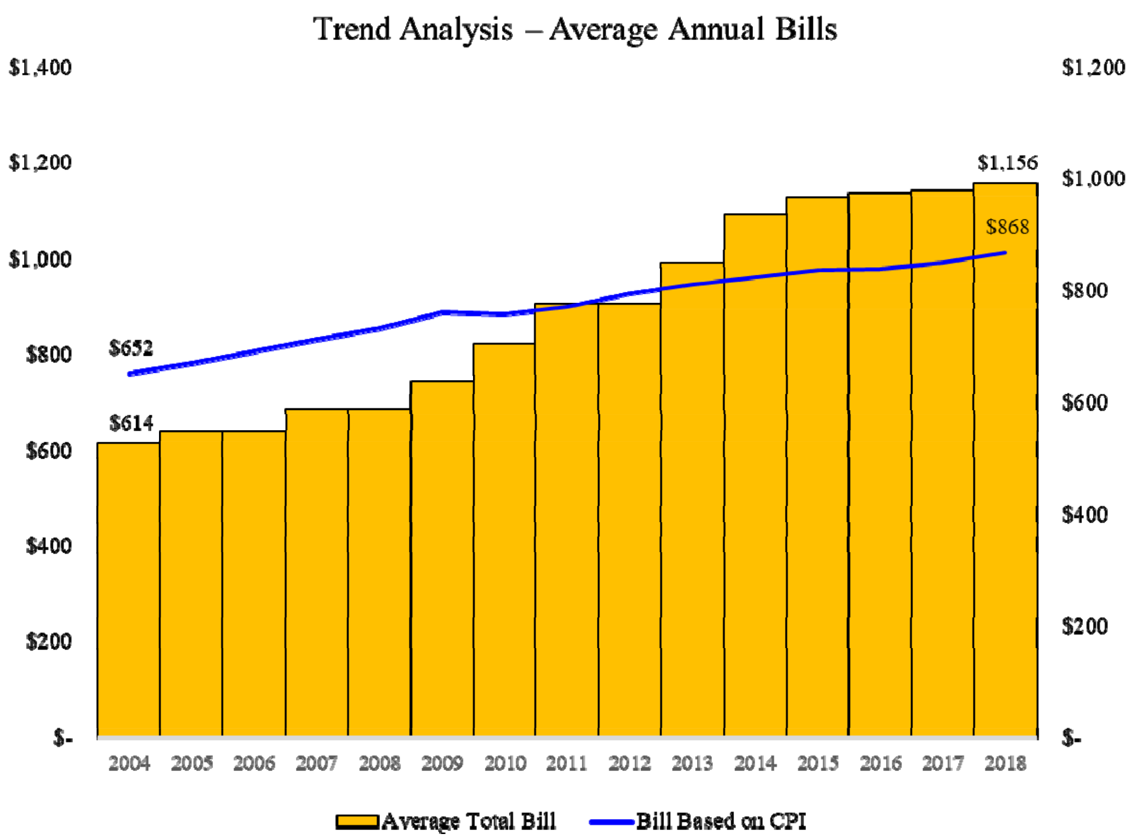
Rates

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 new long-term debt, the base charges for water remained constant at $69.50 per quarter, however increased operational costs caused the usage charges to increase slightly, roughly 2.19%. In turn the base charge for sewer remained constant at $54.50 per quarter with the usage charges increasing roughly 1.41%. 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.



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.



Long-Term Authority Debt:

- During 2017, Univest notified the Authority that it was no longer serving as a trustee for any of its bond issues held with any municipality. Accordingly, the Authority engaged US Bank as its trustee for its 2011A Series and 2014 Series Bonds outstanding. No terms were modified as a result of the change in trustee.

- In December of 2011, the Authority issued the 2011A Bonds - $7,965,000 of Water and Sewer Revenue Bonds for the purpose of refunding the 2005 Bonds and the 2007 Bonds, as well as to pay the costs of issuance. In November of 2017, the Authority obtained a $4,466,000 term loan from TD Bank with an interest rate of 1.59% to advance refund $4,355,000 of outstanding Water and Sewer Revenue Bonds, Series 2011A with an average interest rate of 2.74%. The term loan matures in February 2022.

- In August of 2012, the Authority issued a bank note in the amount of $5,250,000 at the rate of 3% for the construction of its new Operations Center. The note was issued via Univest National Bank & Trust and was payable over 20 years with interest adjustments allowed every 7 years.

- In December of 2017, the Authority obtained a $7,823,000 term loan from Univest Bank for the purposed of refinancing the previous Univest bank note (above). The loan bears 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%. The loan matures in February 2032.

- In December of 2014, the Authority issued $9,150,000 of Water and Sewer Revenue Bonds for the purposed of refunding the 2011 Bonds, as well as to pay the costs of issuance.

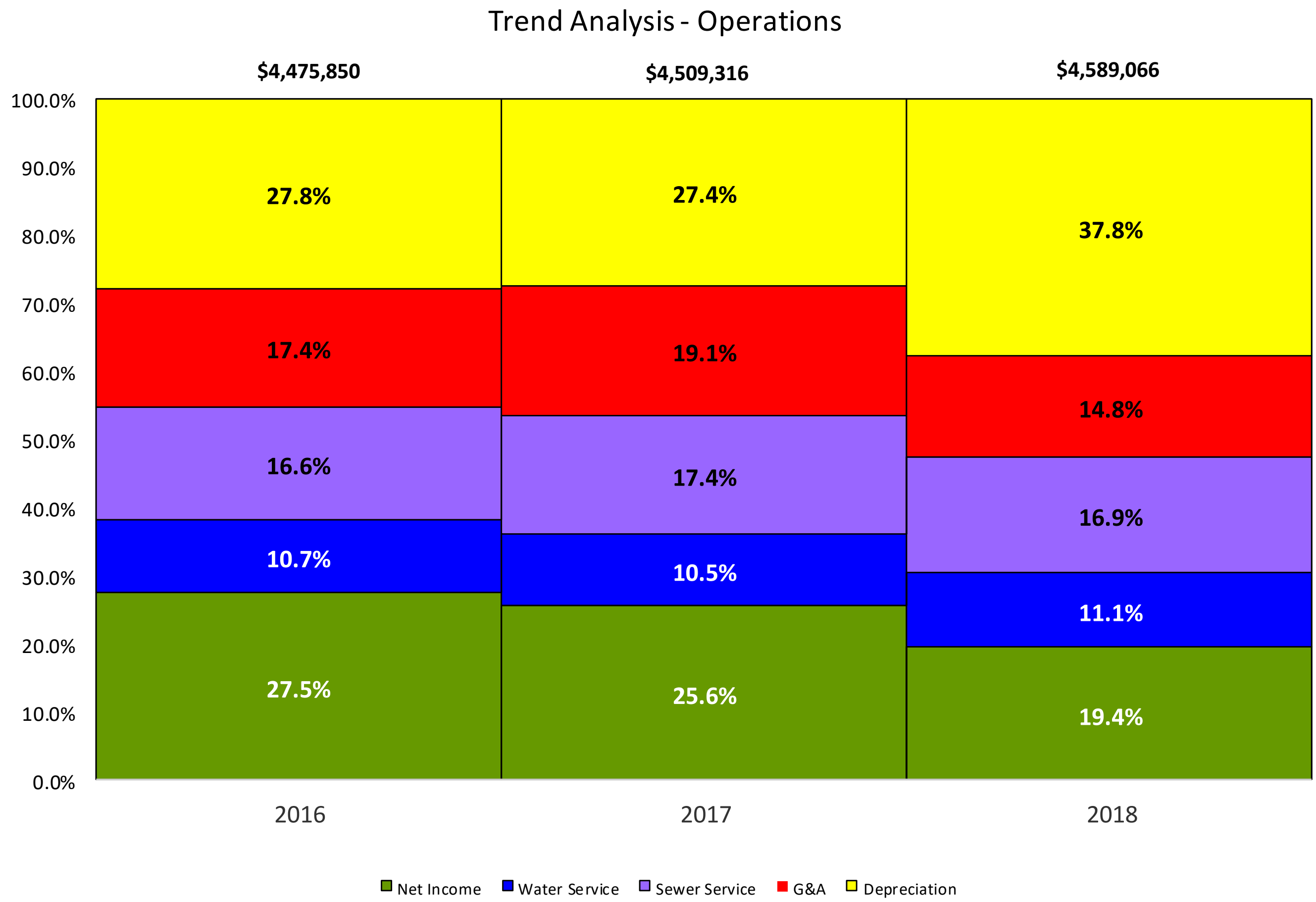
- In December of 2017, the Authority acquired the assets of the Ridge Run Development for a purchase price of $300,000 in exchange for a promissory note. The note does not bear interest and requires 20 quarterly installments of principal payments beginning in February 2018. The promissory note matures in November 2022.

- The Authority also maintains a Bond Reserve Fund in the amount of the combined maximum annual debt service of all outstanding bonds and bank loans.

- 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 2018 increased by roughly $343,000, or 10.3%, from 2017 and was mainly due to a discontinued project write-off of about $495,000. If not for that write-off, the operating expenses would have decreased by about $150,000 or 4.5%. The "operations" chart below shows a graphic history of the Authority's operations over the last three (3) years.



Detailed Analysis of Operating Expenses

- **Water Service**

Costs of providing water service in 2018 increased by about 7.3% or $34,600 primarily due to an increase in material and supply costs as well as additional sampling costs.

- **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 1.9% from $590,361 in 2017 to $601,487 in 2018.

The Authority is responsible for the repairs and maintenance of its own sewage collection system. Sewage collection costs decreased by 10.8% or $20,767 in 2018 mostly due to lower maintenance and repair costs as well as a decreased need for materials and supplies.

- **Professional Fees**

Total professional fees amounted to $100,300, an increase of about $13,000, or almost 15% over 2017. This was mostly attributed to the Authority hiring a financial advisor to help with refinancing as well as increased hydrogeologist costs.

- **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 decreased substantially about $194,000, or 25.1%, from last year, mostly due to a decrease in pension costs as well as minor decreases in payroll, health insurance, office supplies and dues and subscriptions.

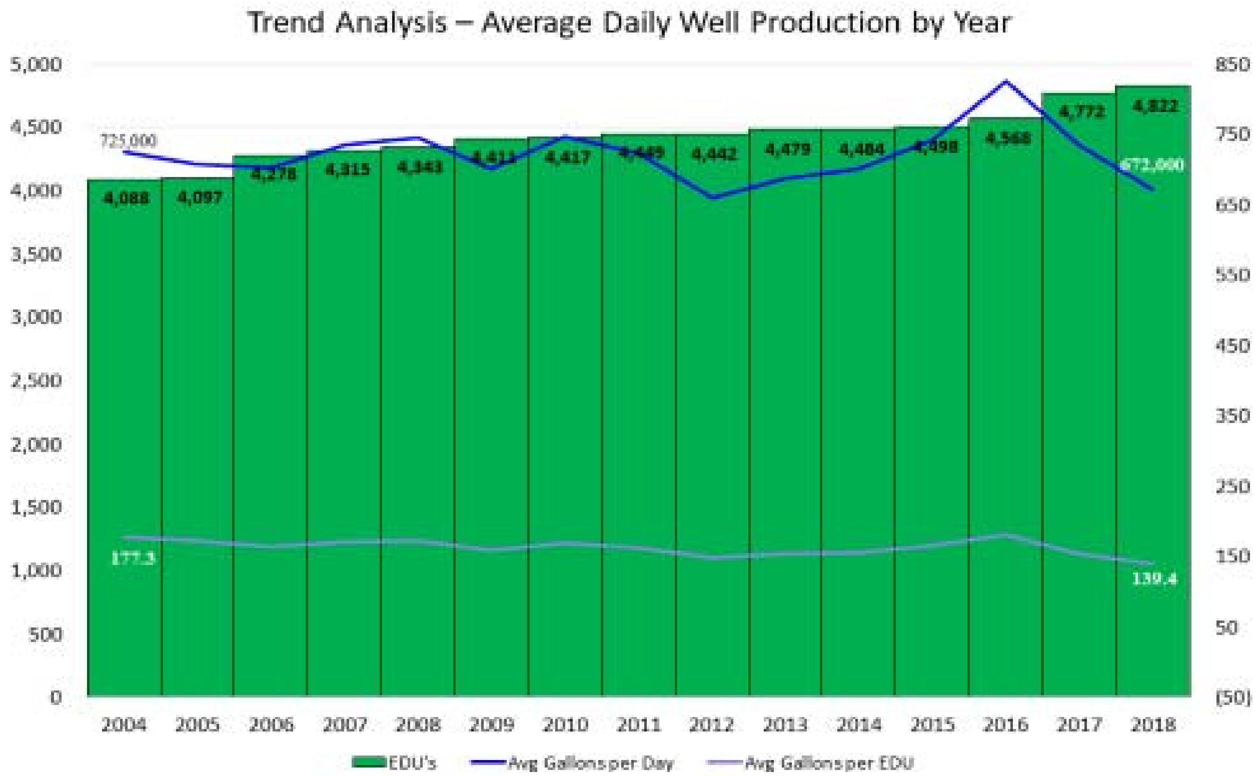
- **Bond Interest**

Interest expense on the Authority's bond issues was $517,500 up roughly $10,000 from the 2017 cost of $507,500.

- **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 139 gallons per day. In 2016, the Authority saw an increase to 180 gallons per day, but that can be attributed to a few leaks that were detected in the system. In 2018, the average production per EDU dropped to an all-time low to roughly 139 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. 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.



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 Authority has been at a critical point in its history for the last several years. 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 needs to be prepared to provide a "stimulus" by extending facilities into or in close proximity to areas scheduled for development.

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@perkasieauthority.org, by visiting our website at www.perkasieauthority.org or by writing Perkasie Regional Authority, 150 Ridge Rd. Sellersville, PA 18960.

PERKASIE REGIONAL AUTHORITY

Statements of Net Position

December 31, 2018 and 2017

		2018		2017
ASSETS				
Current assets:				
Cash and cash equivalents	$	223,340	$	172,528
Accounts receivable		87,160		98,749
Assessments receivable		-		8,314
Unbilled revenue receivable		702,595		722,312
Supply inventory		59,141		65,685
Due from Pennridge Wastewater Treatment Authority		41,123		20,334
Total current assets		1,113,359		1,087,922
Noncurrent assets:				
Restricted cash and cash equivalents		9,705,710		8,638,589
Assessments receivable		105,596		541,892
Capital Assets:				
Non-Depreciable				
Construction in progress		381,185		797,704
Land		790,410		790,410
Depreciable				
Property, plant and equipment		50,920,697		50,439,002
Purchased wastewater treatment capacity		2,990,441		2,941,177
Accumulated depreciation		(24,098,917)		(22,856,535)
Net Capital Assets		30,983,816		32,111,758
Total noncurrent assets		40,795,122		41,292,239
Total assets		41,908,481		42,380,161
Deferred outflows of resources:				
Deferred amounts from refunding, net of amortization of $200,620 and $130,930, respectively		468,692		538,382
Deferred outflows - pension		200,078		262,612
Total deferred outflows		668,770		800,994
Total assets and deferred outflows	$	42,577,251	$	43,181,155

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

Statements of Net Position, Continued

December 31, 2018 and 2017

	2018	2017
LIABILITIES & NET POSITION		
Current liabilities:		
Accounts payable and accrued liabilities	$ 39,282	$ 23,646
Accrued severance	30,803	24,383
Note payable - current portion	50,000	40,000
Capital lease obligations - current portion	5,042	16,088
Total current liabilities	125,127	104,117
Current liabilities (payable from restricted cash):		
Water and sewer revenue bonds - current portion	120,000	125,000
Notes payable - current portion	1,355,000	1,096,000
Accrued interest	160,559	120,604
Total current liabilities (payable from restricted cash)	1,635,559	1,341,604
Total current liabilities	1,760,686	1,445,721
Long-term liabilities:		
Accrued severance	46,799	56,077
Escrow liabilities	36,443	26,582
Capital lease obligations, net of current portion	-	5,042
Net pension liability	260,385	597,059
Note payable, net of current portion	10,048,000	11,453,000
Water and sewer revenue bonds, net of current portion	8,460,000	8,580,000
Total long-term liabilities	18,851,627	20,717,760
Total liabilities	20,612,313	22,163,481
Deferred inflows of resources:		
Deferred inflows - pension	256,130	99,534
Net position:		
Net investments in capital assets	10,945,774	10,796,628
Restricted for debt service	5,300,204	4,414,951
Restricted for capital projects	4,244,947	4,103,034
Unrestricted	1,217,883	1,603,527
Total net position	21,708,808	20,918,140
Total liabilities, deferred inflows and net positions	$ 42,577,251	$ 43,181,155

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, 2018 and 2017

	2018	2017
Revenues:		
Sewer service charges	$ 2,133,485	$ 2,132,970
Water sales	2,230,992	2,231,536
Tapping fees and assessments	281,762	271,450
Other revenue	224,589	144,810
Total revenues	4,870,828	4,780,766
Expenses:		
Sewer service	773,895	783,536
Water service	507,885	473,322
Professional fees	100,314	87,396
General and administrative	579,409	773,306
Write-off of discontinued projects	494,038	-
Depreciation	1,242,382	1,237,182
Total expenses	3,697,923	3,354,742
Operating income	1,172,905	1,426,024
Non-operating income (expense):		
Investment earnings	48,192	18,656
Rental income	87,081	51,114
Debt issue costs	-	(126,816)
Interest expense	(517,510)	(507,524)
Total non-operating income (expense) - net	(382,237)	(564,570)
Increase in net position	790,668	861,454
Net position at beginning of year	20,918,140	20,056,686
Net positions at end of year	$ 21,708,808	$ 20,918,140

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

PERKASIE REGIONAL AUTHORITY

Statements of Cash Flows

Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Cash receipts from customers	$ 4,482,365	$ 4,424,576
Other operating cash receipts	843,518	375,098
Cash payments to employees for services	(877,948)	(940,019)
Cash payments to vendors for goods and services	(1,181,705)	(1,199,090)
Net cash provided by operating activities	3,266,230	2,660,565
Cash flows from capital and related financing activities:		
Additions to capital assets	(598,617)	(489,882)
Debt issue costs	-	(126,816)
Proceeds from the issuance of long term debt	-	12,289,000
Principal payments on long term debt	(1,261,000)	(9,436,250)
Principal payments on capital leases	(16,088)	(15,433)
Interest paid	(407,865)	(546,559)
Net cash (used in) provided by capital and related financing activities	(2,283,570)	1,674,060
Cash flows from investing activities:		
Investment earnings	48,192	18,656
Proceeds from rental income	87,081	51,114
Net cash provided by investing activities	135,273	69,770
Net increase in cash and cash equivalents	1,117,933	4,404,395
Cash and cash equivalents - beginning	8,811,117	4,406,722
Cash and cash equivalents - ending	$ 9,929,050	$ 8,811,117
Reconciliation of cash and cash equivalents:		
Cash - unrestricted	$ 223,340	$ 172,528
Cash - restricted	9,705,710	8,638,589
	$ 9,929,050	$ 8,811,117
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 1,172,905	$ 1,426,024
Adjustment for noncash charges to operations:		
Depreciation	1,242,382	1,237,182
Write-off of discontinued projects	494,038	-
Changes in assets and liabilities:		
Billed and unbilled accounts receivable	31,306	(20,341)
Supply inventory	6,544	-
Assessments receivable	444,610	39,249
Due from Pennridge Wastewater Treatment Authority	(20,789)	-
Net pension liability and deferred inflows and outflows	(117,544)	41,048
Accounts payable and accrued payroll and severance	12,778	(62,597)
Net cash provided by operating activities	$ 3,266,230	$ 2,660,565
Supplemental Disclosure of Noncash Investing and Financing Transactions		
Acquisition of property, plant and equipment via promissory note	$ -	$ 300,000

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

NOTE 1 - DESCRIPTION OF OPERATIONS

The Perkasie 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 Perkasie, 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.

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 8, 2017, with U.S. Bank National Association as Trustee in connection with the issuance of its Water and Sewer Revenue Bonds, Series of 2014. 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 market.

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, 2018 and 2017.

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, 2011 and 2011A 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, 2018 and 2017, the Authority recorded amortization of $69,688 and $55,955, respectively, which was reported as interest expense in the statement of revenues, expenses and changes in net position. Additionally, the Authority also reports its 2018 and 2017 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, 2017. The amounts paid by the Authority in 2018 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.

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, 2018, 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 $9,705,710 at December 31, 2018 and 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.

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.

As of December 31, 2018 and 2017, all amounts held in the Trust funds were considered cash and cash equivalents.

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 $105,596 and $550,206 as of December 31, 2018 and 2017, respectively. As of December 31, 2018, 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, 2018 and 2017 and related accumulated depreciation and depreciation expense for the years then ended follow:

2018

	Beginning	Increases	Decreases	Ending
Depreciable				
Building	$6,252,630	$26,725	$-	$ 6,279,355
Water System	27,527,873	356,942	-	27,884,815
Sewer System	16,023,422	63,825	-	16,087,247
Furniture and Equipment	393,964	12.403	-	406,367
Vehicles	241,113	21,800	-	262,913
Purchased Wastewater Treatment Capacity	2,941,177	49,264	-	2,990,441
Non-Depreciable				
Land	790,410	-	-	790,410
Construction in Progress	797,704	-	416,519	381,185
Total	**$54,968,293**	**$530,960**	**$380,902**	**$55,082,733**

Accumulated Depreciation

	Beginning	Increases	Decreases	Ending
Building	$637,642	$ 156,616	$ -	$794,259
Water System	11,485,234	679,257	-	12,164,491
Sewer System	9,061,515	311,960	-	9,373,475
Furniture and Equipment	323,968	19,705	-	343,673
Vehicles	240,850	726	-	241,576
Purchased Wastewater Treatment Capacity	1,107,326	74,117	-	1,181,443
Total	**$22,856,535**	**$1,242,381**	**$ -**	**$24,098,917**
Net	**$32,111,758**			**$30,983,816**

2017

	Beginning	Increases	Decreases	Ending
Depreciable				
Building	$6,232,630	$20,000	$-	$6,252,630
Water System	26,991,441	536,432	-	27,527,873
Sewer System	15,940,031	83,391	-	16,023,422
Furniture and Equipment	353,964	40,000	-	393,964
Vehicles	241,113	-	-	241,113
Purchased Wastewater Treatment Capacity	2,899,361	41,816	-	2,941,177
Non-Depreciable				
Land	785,410	5,000	-	790,410
Construction in Progress	734,462	63,242	-	797,704
Total	**$54,178,412**	**$789,881**	**$-**	**$54,968,293**

NOTE 5 - CAPITAL ASSETS (CONTINUED)

Accumulated Depreciation

	Beginning	Increases	Decreases	Ending
Building	$481,427	$156,216	$ -	$637,642
Water System	10,821,813	663,421	-	11,485,234
Sewer System	8,734,653	326,862	-	9,061,515
Furniture and Equipment	306,263	17,705	-	323,968
Vehicles	240,850	-	-	240,850
Purchases Wastewater Treatment Capacity	1,034,348	72,978	-	1,107,326
Total	**$21,619,354**	**$1,237,182**	**$ -**	**$22,856,535**
Net	**$32,559,058**			**$32,111,758**

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 $601,487 and $590,361 for the years ended December 31, 2018 and 2017, respectively. Amounts due from PWTA for advances in excess of actual expenses totaled $41,123 and $20,334 at December 31, 2018 and 2017, 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.

During 2017, Univest notified the Authority that it was no longer serving as a trustee for any of its bond issues held with any municipality. Accordingly, the Authority engaged U.S. Bank as it trustee for its 2014 Series Bonds outstanding. No terms were modified as a result of the change in trustee.

On November 8, 2017, the Authority obtained a $4,466,000 term loan from TD Bank with an interest rate of 1.59% to advance refund $4,355,000 of outstanding Water and Sewer Revenue Bonds, Series 2011A with an average interest rate of 2.74%. The term loan matures on February 1, 2022. The Authority deposited the proceeds from the 2017 term loan into an escrow account to provide for future debt service payments on the old debt which was retired on February 1, 2018.

NOTE 7 - LONG-TERM DEBT (CONTINUED)

In September 2012, Univest Bank and Trust Company extended the Authority a construction note for up to $5,200,000 for the purpose of constructing the Authority's new headquarters building. Repayment terms called for two hundred forty (240) monthly payments. The first eighteen (18) monthly payments consisted of interest only at 3% followed by sixty-six (66) monthly payments of principal and interest, amortized over two hundred twenty-two (222) months.

On December 6, 2017, Univest bank refinanced the Authority's existing construction with a new $7,823,000 term loan. The loan bears 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%. The loan matures on February 1, 2032.

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.

A summary of long term debt activity for the year ended December 31, 2018 and amounts due at December 31, 2018 follow:

	December 31, 2017	Additions	Reductions	December 31, 2018	Amounts Due Within One Year
Bond Series 2014	$8,705,000	$ -	$ (125,000)	$8,580,000	120,000
TD Bank Loan	4,466,000	-	(1,061,000)	3,405,000	1,081,000
Univest Loan	7,823,000	-	(35,000)	7,788,000	274,000
	12,289,000		(1,096,000)	11,193,000	1,355,000
Ridge Run Loan	300,000	-	(40,000)	260,000	50,000
Grand Total	$21,294,000	$ -	$ (1,256,000)	$20,033,000	$ 1,525,000

Interest expense on long term debt amounted to $517,510 and $507,524 for the years ended December 31, 2018 and 2017, respectively.

NOTE 7 - LONG-TERM DEBT (CONTINUED)

Scheduled future principal and interest maturities with respect to long term debt at December 31, 2018, follow:

Year	Bond Principal	Notes Payable	Total Long-Term Debt	Interest	Total Debt Service Requirement
2019	$120,000	$1,405,000	$1,525,000	$475,227	$2,000,227
2020	120,000	1,447,000	1,567,000	448,649	2,015,649
2021	120,000	1,481,000	1,601,000	420,507	2,021,507
2022	1,175,000	471,000	1,646,000	387,972	2,033,972
2023	1,345,000	304,000	1,649,000	348,545	1,997,545
2024-2028	5,700,000	2,403,000	8,103,000	1,053,598	9,156,598
2029-2032	-	3,942,000	3,942,000	194,101	4,136,101
Total	$8,580,000	$11,453,000	$20,033,000	$3,328,597	$23,361,597

NOTE 8 - CAPITAL LEASE OBLIGATIONS

As of December 31, 2018 and 2017, equipment owned under a capital lease and included within property, plant and equipment is as follows:

	2018	2017
Capitalized cost	$75,060	$75,060
Less: accumulated amortization	55,472	40,460
Capitalized cost, net	19,588	34,600
Lease amortization including depreciation expense	$15,012	$15,012

Future minimum payments under the capital lease together with the present value, calculated based upon the Authority’s incremental borrowing rate at the date of inception of the lease follow:

Years Ending December 31	Total
2019	5,094
Total Minimum Lease Payments	$5,094
Less: Amount Representing Interest	52
Present Value of Future Minimum Rental	5,042
Less: Current Portion	5,042
Total Noncurrent	$-

NOTE 9 - 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.

NOTE 9 - 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.
Coverage and Benefit Provisions	
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, 2018 (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	10
Inactive employees entitled to, but not yet receiving benefits	3
Active employees	10
Total participant count	23

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, 2017 measurement date. The Authority's proportionate share of the net pension liability as of December 31, 2017 and 2016 was $260,385 and $597,059, respectively.

NOTE 9 - 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, 2018 was measured as of December 31, 2017, 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, 2018 and 2017 amounted to $86,717 and $86,667, respectively.

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

For the years ended December 31, 2018 and 2017, the Authority's pension expense amounted to ($30,827) and $127,715 respectively. At December 31, 2018 and 2017, the Authority reported $86,717 and $86,667, respectively, of deferred outflows of resources for its contributions subsequent to the December 31, 2017 and 2016 measurement dates and through December 31, 2018 and 2017, respectively.

The Authority also recorded deferred outflows of resources of $200,078 for changes in assumptions ($70,507), differences between expected and actual experience ($71,334), and 2018 contributions to the Plan ($86,717), less 2018 amortization expense ($28,480). The Authority also recorded deferred inflows of resources of $256,130 for the difference between expected and actual experience ($74,825) and the net difference between projected and actual earnings on investments ($263,212), less 2018 amortization expense ($81,907).

NOTE 9 - RETIREMENT PLAN (CONTINUED)

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

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	
2019	$36,999
2020	(80,600)
2021	(40,375)
2022	27,924
Thereafter	-
Total	($56,052)

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:	5.50%
Inflation Rate:	3.0%
Salary Increases:	Age related scale with merit and inflation component
COLA Increases:	3.0% 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, 2017 and 2016 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.

NOTE 9 - RETIREMENT PLAN (CONTINUED)

LONG-TERM EXPECTED RATE OF RETURN (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. These nominal rates of return further assume that investment expenses will be offset by the additional return performance derived from active investment management.
2) The nominal rates of return by asset class are adjusted by a constant rate of expected future annual inflation rate of 3% to produce real rates of return.
3) The 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 chart below labeled "Confidence Levels for System Nominal and Real Rates of Return" identifies simulated portfolio returns at various confidence levels.

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%	8.6%	5.6%
Domestic Equities (small capitalized firms)	15%	10.2%	7.2%
International Equities (international developed markets)	15%	7.6%	4.6%
International Equities (emerging markets)	10%	11.7%	8.7%
Real Estate	20%	9.2%	6.2%
Fixed Income	15%	5.1%	2.1%
Total Portfolio	100%	8.6%	5.6%

Based on the four part analysis, the Board established the System's long-term expected rate of return at 7.3%.

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	$664,526	$260,385	$(81,023)

NOTE 10 - RATE COVENANT COMPLIANCE

Section 6.02 of the 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, 2018 follows:

Description	Amount
Total pledged revenues	$5,006,101
Total operating expense (net of depreciation)	1,974,139
Amount available for debt service	3,031,962
Average annual debt service @110%	1,641,646
Excess over required funding	$1,390,316

NOTE 11 - 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, 2018, 2017 and 2016.

COMMITMENTS

The Authority leases its water tanks to cell tower companies. During the years ended December 31, 2017 and 2016, rental income amounted to $87,081 and $51,114, respectively. The Authority expects rental income of approximately $50,000 per year through 2020.

SEVERANCE AGREEMENT

On February 25, 2013, the Authority entered into a severance agreement with a long time employee. The agreement called for a continuation of health and dental insurance payments until the former employee and his spouse reach age 65 which occurred in 2018.

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 is expected to occur in 2021.

NOTE 11 - RISK MANAGEMENT AND COMMITMENTS (CONTINUED)

SEVERANCE AGREEMENT (CONTINUED)

The health and dental insurance payments for all severance agreements are indexed for inflation at 6% per year and all future severance amounts are discounted to present value at the rate of 4%. The present value liability for all severance payments remaining as of December 31, 2018 and 2017, totaled $77,602 and $80,460, respectively.

A summary of projected future severance payments for health insurance as of December 31, 2018 follows:

Year	Amount
2019	25,846
2020	21,770
2021	12,744
	60,360
Less: Present Value Discount	4,283
Total	56,077

NOTE 12 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through June 10, 2019, which is the date the financial statements were available to be issued. There were no 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 Four Fiscal Years

	2018	2017	2016	2015
Total Pension Liability - Authority's Portion				
Service cost	$ 89,435	$ 83,496	$ 95,533	$ 106,864
Interest	178,155	171,007	164,836	165,220
Differences between expected and actual experience	-	99,868	(4,901)	(168,060)
Changes of assumptions	-	95,600	3,889	-
Benefit payments	(155,161)	(185,664)	(98,088)	(91,780)
Net change in total pension liability - Authority's portion	112,429	264,307	161,269	12,244
Total pension liability - beginning	3,386,258	3,121,951	2,960,682	2,948,438
Total pension liability - ending - Authority's portion	$ 3,498,687	$ 3,386,258	$ 3,121,951	$ 2,960,682
Plan Fiduciary Net Position - Authority's portion				
Contributions - employer	$ 86,207	$ 85,336	$ 82,722	$ 44,964
Contributions - PMRS assessment	460	460	460	-
Contributions - employee	29,744	27,655	31,878	32,854
PMRS investment income	154,667	135,686	147,816	139,919
Market value investment income	340,759	81,114	(154,434)	18,558
Benefits payments	(155,161)	(185,664)	(98,088)	(91,780)
PMRS administrative expense	(460)	(460)	(460)	(480)
Additional administrative expense	(7,113)	(6,647)	(6,162)	(5,336)
Net change in plan fiduciary net position	449,103	137,480	3,732	138,669
Plan fiduciary net position - beginning	2,789,199	2,651,719	2,647,987	2,509,318
Plan fiduciary net position - ending - Authority's Portion	$ 3,238,302	$ 2,789,199	$ 2,651,719	$ 2,647,987
Net position liability - ending - Authority's Portion	$ 260,385	$ 597,059	$ 470,232	$ 312,695
Plan fiduciary net position as a percentage of total pension liability	92.6%	82.4%	84.9%	89.4%
Covered employee payroll	617,991	617,133	673,946	757,952
Net pension liability as a percentage of covered employee payroll	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 Four Fiscal Years

	2018	2017	2016	2015
Actuarially determined contribution	$ 86,667	$ 85,796	$ 83,182	$ 44,197
Contributions in relation to the Actuarially determined contribution	86,667	85,796	83,182	44,964
Contribution excess	-	-	-	(767)
Covered payroll	$ 617,991	$ 617,133	$ 673,946	$ 757,952
Contributions as a percentage of covered payroll	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, 2018 and 2017

	2018	2017	Variance Increase (Decrease)
SEWER SERVICE			
Salaries	$ 138,138	$ 132,379	$ 5,759
Payroll Taxes	11,229	10,900	329
Materials and Supplies	3,642	8,816	(5,174)
Electric	334	279	55
Maintenance and Repairs	9,785	28,539	(18,754)
Vehicle	7,905	11,455	(3,550)
Uniforms	1,375	807	568
Treatment Fees - Operating	601,487	590,361	11,126
Total Sewer Service	773,895	783,536	(9,641)
WATER SERVICE			
Salaries	239,619	227,414	12,205
Payroll Taxes	19,479	18,725	754
Materials and Supplies	54,544	24,748	29,796
Electric	88,114	81,508	6,606
Maintenance and Repairs	66,790	97,758	(30,968)
Vehicle	12,814	9,057	3,757
Uniforms	2,224	2,742	(518)
Testing	22,358	10,440	11,918
Meters	1,943	930	1,013
Total Water Service	507,885	473,322	34,563
PROFESSIONAL FEES			
Consulting Engineer	10,087	14,381	(4,294)
Accounting and Audit	35,406	30,900	4,506
Legal	19,711	20,415	(704)
Other	9,000	-	9,000
Hydrogeologist	26,110	21,700	4,410
Total Professional Fees	100,314	87,396	12,918
GENERAL AND ADMINISTRATIVE			
Office Payroll	204,810	239,538	(34,728)
Employee Insurance	156,824	169,512	(12,688)
Payroll Taxes	18,274	21,037	(2,763)
Pension	(30,827)	127,715	(158,542)
Office Equipment	46,002	41,987	4,015
General Business Insurance	54,128	52,963	1,165
Communications	11,476	11,423	53
Postage	9,808	8,006	1,802
Education	6,441	3,866	2,575
Utilities	14,083	12,861	1,222
Maintenance and Repairs - Office	32,953	31,709	1,244
Office Supplies	3,792	8,419	(4,627)
Newsletter	5,002	2,055	2,947
Trustee Fees	1,500	-	1,500
Dues and Subscriptions	20,765	23,098	(2,333)
Miscellaneous	15,356	9,984	5,372
Vehicles	4,080	3,257	823
Billing	1,443	2,332	(889)
Website	3,499	3,544	(45)
Total General and Administrative Expenses	579,409	773,306	(193,897)
Total Operating Expenses	$ 1,961,503	$ 2,117,560	$ (156,057)

PERKASIE REGIONAL AUTHORITY

Schedule of Revenues and Expenses - Budget and Actual

Year Ended December 31, 2018

	Actual	Budget	Variance
OPERATING REVENUES			
Sewer Service Charges:			
Single Family	$ 1,527,702	$ 1,539,200	$ (11,498)
Multi-Family	303,595	313,700	(10,105)
Commercial	103,200	141,700	(38,500)
Industrial	34,632	33,400	1,232
School	51,700	67,000	(15,300)
Church	8,688	7,300	1,388
Public	33,223	27,900	5,323
Mixed	25,843	27,600	(1,757)
Miscellaneous	44,902	39,900	5,002
Total Sewer Service Charges	2,133,485	2,197,700	(64,215)
Water Sales:			
Single Family	1,644,944	1,611,700	33,244
Multi-Family	266,038	288,900	(22,862)
Commercial	117,532	130,400	(12,868)
Industrial	29,441	25,300	4,141
School	61,404	63,600	(2,196)
Church	12,512	11,600	912
Public	20,807	27,700	(6,893)
Mixed	24,629	25,900	(1,271)
Miscellaneous	53,685	41,600	12,085
Total Water Sales	2,230,992	2,226,700	4,292
Other Revenue:			
Fire Charges	86,582	74,300	12,282
Other	137,935	98,200	39,735
Total Other Revenue	224,517	172,500	52,017
Total Operating Revenues	$ 4,588,994	$ 4,596,900	$ (7,906)
OPERATING EXPENSES			
Sewer Service:			
Salaries	$ 138,138	$ 148,400	$ (10,262)
Materials and Supplies	3,642	8,000	(4,358)
Electric	334	500	(166)
Maintenance and Repairs	9,785	20,000	(10,215)
Vehicle	7,905	25,480	(17,575)
Uniforms	1,375	2,300	(925)
Treatment Fees	601,487	688,000	(86,513)
Total Sewer Service	762,666	892,680	(130,014)

PERKASIE REGIONAL AUTHORITY

Schedule of Revenues and Expenses - Budget and Actual, Continued

Year Ended December 31, 2018

	Actual	Budget	Variance
Water Service:			
Salaries	239,619	249,200	(9,581)
Materials and Supplies	54,544	34,300	20,244
Electric	88,114	89,300	(1,186)
Maintenance and Repairs	66,790	113,200	(46,410)
Vehicle	12,814	15,820	(3,006)
Uniforms	2,224	4,970	(2,746)
Testing	22,358	15,400	6,958
Meters	1,943	6,000	(4,057)
Total Water Service	488,406	528,190	(39,784)
Professional Fees:			
Consulting Engineer	10,087	41,200	(31,113)
Auditor	35,406	36,100	(694)
Legal	19,645	21,700	(2,055)
Other	9,000	-	9,000
Hydrogeologist	26,110	31,900	(5,790)
Total Professional Fees	100,248	130,900	(30,652)
General and Administrative:			
Salaries	204,810	208,100	(3,290)
Employee Benefits	174,979	352,100	(177,121)
Materials and Supplies	47,251	85,400	(38,149)
Utilities	14,083	21,700	(7,617)
Communications	14,975	16,800	(1,825)
Maintenance and Repairs - Office	46,002	37,680	8,322
Vehicles	2,111	2,800	(689)
Maintenance and Repairs - Building	32,953	15,100	17,853
Lease of Vehicles	1,969	17,000	(15,031)
NPWA Agreement	-	40,000	(40,000)
Trustee Fees	1,500	5,100	(3,600)
Insurance	54,128	61,300	(7,172)
Miscellaneous	15,350	2,000	13,350
Total General and Administrative	610,111	865,080	(254,969)
Total Operating Expenses	1,961,431	2,416,850	(455,419)
Operating Income	$ 2,627,563	$ 2,180,050	$ 447,513

PERKASIE REGIONAL AUTHORITY

Schedule of Revenues and Expenses - Budget and Actual, Continued

Year Ended December 31, 2018

	Actual	Budget	Variance
Operating Income	$ 2,627,563	$ 2,180,050	$ 447,513
Nonoperating Revenues (Expenses):			
Investment Income	48,192	-	48,192
Rental Income	87,081	-	87,081
Interest Expense	(517,510)	-	(517,510)
Principal Payments on Debt	(1,312,422)	(1,627,568.00)	315,146
Transfer for Debt Coverage	-	(552,482)	552,482
Total Nonoperating Revenues (Expenses) - Net	(1,694,659)	(2,180,050)	485,391
Revenues Over Expenses	$ 932,904	$ (0)	$ 932,904

Reconciliation of Budget Reporting to Financial Statements:

Revenues Over Expenses	$ 932,904
Principal Payments on Debt	1,312,422
Tapping Fees	281,762
Write-off of discontinued projects	(494,038)
Depreciation and Amortization	(1,242,382)
Increase in Net Position per Statement of Revenues, Expenses, and Changes in Net Position	$ 790,668