

**PERKIOMEN TOWNSHIP
MUNICIPAL AUTHORITY**

Montgomery County, Pennsylvania

December 31, 2018

TABLE OF CONTENTS

Page Number

1	Table of Contents
2 - 3	Independent Auditor's Report
4 - 6	Management's Discussion and Analysis
7	Statements of Net Position as of December 31, 2018 and 2017
8	Statements of Revenues, Expenses, and Changes in Net Position for the Years Ended December 31, 2018 and 2017
9 - 10	Statements of Cash Flows for the Years Ended December 31, 2018 and 2017
11 - 14	Notes to Financial Statements

MEMBER:
American Institute of Certified Public Accountants
Pennsylvania Institute of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Supervisors
Perkiomen Township Municipal Authority
Montgomery County, Pennsylvania

We have audited the accompanying financial statements of the Perkiomen Township Municipal Authority, a component unit of Perkiomen Township, Pennsylvania, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Authority's 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.

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

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 Perkiomen Township Municipal Authority as of December 31, 2018 and 2017, and the changes in its financial position, and its 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 4 through 6 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 management's discussion and analysis 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.

Dreslin and Company, Inc.

East Norriton, Pennsylvania
May 9, 2019

PERKIOMEN TOWNSHIP MUNICIPAL AUTHORITY
A Component Unit of Perkiomen Township
Management's Discussion and Analysis (Unaudited)

Perkiomen Township Municipal Authority's discussion and analysis offers readers of the Authority's financial statements a narrative overview and analysis of the Authority's financial activities for the fiscal year ended December 31, 2018. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in the financial statements and notes to the financial statements (which immediately follow this discussion).

Financial Highlights

- The assets of the Authority exceeded its liabilities by \$7,617,813. Of the net position, \$2,482,239 is invested in capital assets; the remainder may be used for Authority operations.
- The Authority's net position decreased by \$71,555 as compared to a decrease of \$139,066 a year ago. Revenues were slightly higher than the prior year. Sanitary sewer expenses decreased due to lower equipment maintenance and repair expenses in comparison to the previous year. This resulted in an overall reduction in operating loss for the year.
- The Authority has no long-term debt outstanding at December 31, 2018.

Using This Annual Report

The basic financial statements are comprised of the statement of net position, statement of revenues, expenses and changes in net position and statement of cash flows, similar to businesses in the private sector, which is in accordance with the standards and pronouncements of the Governmental Accounting Standards Board, which is the standard-setting body for governmental accounting and reporting.

Basic Financial Statements

The financial statements are designed to provide readers with an overview of the Authority's financial position in a manner similar to a business in the private sector.

The statement of net position presents information on the Authority's assets and liabilities, with the difference between the two reported as net position.

The statement of revenues, expenses and changes in net position presents information on the Authority's revenues and expenses, with the difference reported as the change in net position.

The statement of cash flows presents information on the Authority's sources and uses of cash during the year. The cash flows are reported based on three types of activity, operating, financing and investing activities.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the Authority's financial statements. The notes can be found beginning on Page 11.

Overview of the Financial Statements

A summarized version of the Authority's net position and changes in net position is as follows:

Net Position

ASSETS	2018	2017
Cash	\$ 1,083,827	\$ 1,093,675
Investments	3,789,536	3,725,092
Accounts Receivable	280,334	296,375
Other Assets	16,000	16,000
Total Current and Other Assets	5,169,697	5,131,142
Capital Assets, net	2,482,239	2,602,131
Total Assets	\$ 7,651,936	\$ 7,733,273
LIABILITIES AND NET POSITION		
Liabilities:		
Accounts Payable and Other Current Liabilities	\$ 34,123	\$ 43,905
Net Position:		
Invested in Capital Assets, Net of Related Debt	2,482,239	2,602,131
Unrestricted Net Position	5,135,574	5,087,237
Total Net Position	7,617,813	7,689,368
Total Liabilities and Net Position	\$ 7,651,936	\$ 7,733,273

Changes in Net Position

Sewer Revenues	\$ 788,883	\$ 780,730
Other Income	5,760	3,870
Total Operating Revenue	794,643	784,600
Operating Expenses	936,642	958,045
Operating (Loss)	(141,999)	(173,445)
Non-Operating Revenues - Interest Earned	64,444	28,379
(Loss) Before Capital Contributions	(77,555)	(145,066)
Contributed Capital	6,000	6,000
Change in Net Position	(71,555)	(139,066)
NET POSITION - BEGINNING OF YEAR	7,689,368	7,828,434
NET POSITION - END OF YEAR	\$ 7,617,813	\$ 7,689,368

The Authority's net position decreased \$71,555 from a year ago to \$7,617,813, compared with a decrease in net position last year of \$139,066. The Authority had an operating loss of \$141,999 this year, compared to an operating loss of \$173,445 for last year primarily due to a decrease in the overall sanitary sewer expenses in comparison to the previous year.

Non-operating revenues consisted of interest earned on invested funds, which, due to increased interest rates, resulted in earnings of \$64,444 in 2018, compared with \$28,379 in 2017.

Capital contributions consisted of connection fees of \$6,000 for both 2018 and 2017.

The overall financial position of the Authority is healthy. The Authority continues to maintain the system through continual Infiltration and Inflow investigation.

Capital Assets and Debt Administration

The Authority continues to expand its sewer system through developer's construction and dedication of said systems.

There is no outstanding debt for the Authority.

Factors Bearing on the Authority's Future

The Authority owns and maintains approximately 36.36 miles of sewer collection system, which includes 831 manholes and one pumping station. The Lower Perkiomen Valley Regional Sewer Authority (LPVRSA) owns and maintains the Oaks Wastewater Treatment Plant and the Perkiomen Interceptor. The expansion to the Oaks Wastewater Treatment Plant was completed in 2009. The expansion to the Perkiomen Interceptor is still under construction. In January 2013, the LPVRSA increased the treatment charges to \$156 per equivalent dwelling unit (EDU) per year. In order to keep pace with these rising costs, the Authority management increased its user charges in 2013 to \$260 per EDU per year. Also, to improve its collection of user charges, the Authority has instituted new policies on delinquencies and expanded its payment options for users to include the use of debit and credit cards. It has been the policy of the Authority to use a portion of its reserves to manage the increases to its users since the overall financial health of the Authority is good. The decision to continue this policy is reviewed on a regular basis to ensure that the overall financial position of the Authority remains healthy.

The Authority collects a sewer connection fee of \$1,500 for connection to its system. This fee is under review as required by Act 57. Act 57 defines how this fee will be calculated not only for the Authority, but the Regional Authority as well. The result may be a significant limit on the amount both Authorities can charge. Related to this is the amount of development taking place in the Township. The last few years has shown a decrease in the Authority receiving funds from new connections. The regulatory impact of Act 57 and the reduction in new connections may adversely affect the financial future of the Authority.

Contacting the Authority's Management

This financial report is designed to provide citizens, taxpayers, customers and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it received. If you have questions about this report, please contact the Authority at (610) 489-4034.

PERKIOMEN TOWNSHIP MUNICIPAL AUTHORITY

Statements of Net Position December 31, 2018 and 2017

ASSETS	2018	2017
Current Assets:		
Cash	\$ 1,083,827	\$ 1,093,675
Temporary Cash Investments	3,789,536	3,725,092
Accounts Receivable (Net of Allowance for Uncollectible Accounts of \$1,000 in 2018 and 2017)	233,379	245,943
Accounts Receivable - Sewer Access	46,955	50,432
Total Current Assets	5,153,697	5,115,142
Fixed Assets:		
Sewer System	5,655,210	5,655,210
Machinery and Equipment	333,145	333,145
Less: Accumulated Depreciation	(3,506,116)	(3,386,224)
Net Fixed Assets	2,482,239	2,602,131
Other Assets:		
Recoverable Sewer Capacity Fees	16,000	16,000
Total Assets	<u>\$ 7,651,936</u>	<u>\$ 7,733,273</u>
LIABILITIES AND NET POSITION		
Current Liabilities:		
Accounts Payable	\$ 8,980	\$ 19,842
Due to Perkiomen Township	22,850	22,363
Accrued Wages	2,130	1,579
Payroll Taxes Payable	163	121
Total (Current) Liabilities	34,123	43,905
Net Position:		
Invested in Capital Assets, Net of Related Debt	2,482,239	2,602,131
Unrestricted	5,135,574	5,087,237
Total Net Position	7,617,813	7,689,368
Total Liabilities and Net Position	<u>\$ 7,651,936</u>	<u>\$ 7,733,273</u>

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

PERKIOMEN TOWNSHIP MUNICIPAL AUTHORITY
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2018 and 2017

	2018	2017
OPERATING REVENUES:		
Sewer Rents	\$ 788,883	\$ 780,730
Certification and Lien Fees	3,520	3,870
Refunds of Prior Year Expenditures	2,240	-
Total Operating Revenues	<u>\$ 794,643</u>	<u>\$ 784,600</u>
OPERATING EXPENSES:		
Administration:		
Salaries and Benefits	83,934	78,363
Audit Fee	4,950	4,800
Legal Fees	11,890	10,410
Office and Miscellaneous Expenses	11,497	16,964
Bond Insurance	8,558	7,853
Total Administration Expenses	120,829	118,390
Sanitary Sewers:		
Salaries and Benefits	10,614	14,546
Electric	824	690
Equipment Maintenance & Repairs	109,957	125,148
Small Tools, Minor Equipment & Supplies	12,515	25,064
Engineering Fees	71,417	62,946
Treatment Charges	490,594	490,256
Depreciation Expense	119,892	121,005
Total Sanitary Sewers	815,813	839,655
Total Operating Expenses	936,642	958,045
Operating (Loss)	(141,999)	(173,445)
NON-OPERATING REVENUES:		
Interest Income	64,444	28,379
(Loss) Before Capital Contributions	(77,555)	(145,066)
CAPITAL CONTRIBUTIONS	6,000	6,000
Change in Net Position	(71,555)	(139,066)
NET POSITION - BEGINNING OF YEAR	7,689,368	7,828,434
NET POSITION - END OF YEAR	<u><u>\$ 7,617,813</u></u>	<u><u>\$ 7,689,368</u></u>

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

PERKIOMEN TOWNSHIP MUNICIPAL AUTHORITY
Statements of Cash Flows
For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from Customers	\$ 804,924	\$ 776,700
Payments to Suppliers	(733,064)	(752,039)
Payments to Employees	(93,468)	(93,150)
Other Receipts	<u>5,760</u>	<u>3,870</u>
Net Cash and Cash Equivalents Used by Operating Activities	<u>(15,848)</u>	<u>(64,619)</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital Contributed by Developers and Others	<u>6,000</u>	<u>6,000</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest Received	<u>64,444</u>	<u>28,379</u>
 Net Increase/(Decrease) in Cash and Cash Equivalents	54,596	(30,240)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>4,818,767</u>	<u>4,849,007</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 4,873,363</u>	<u>\$ 4,818,767</u>
 CASH AND CASH EQUIVALENTS		
Cash	\$ 1,083,827	\$ 1,093,675
Temporary Cash Investments	<u>3,789,536</u>	<u>3,725,092</u>
	<u>\$ 4,873,363</u>	<u>\$ 4,818,767</u>

(Continued)

PERKIOMEN TOWNSHIP MUNICIPAL AUTHORITY

Statements of Cash Flows (Continued)

For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating (Loss)	\$ (141,999)	\$ (173,445)
Adjustments to Reconcile Operating Loss to Net Cash		
Provided (Used) by Operating Activities:		
Depreciation	119,892	121,005
(Increase) Decrease in Current Assets:		
Accounts Receivable	12,564	(16,030)
Accounts Receivable - Sewer Access	3,477	8,000
Decrease in Other Assets:		
Recoverable Sewer Capacity Fees	-	4,000
Increase (Decrease) in Current Liabilities:		
Accounts Payable	(10,862)	(7,908)
Accrued Wages	551	51
Payroll Taxes Payable	42	4
Due to Perkiomen Township	<u>487</u>	<u>(296)</u>
 Net Cash and Cash Equivalents Provided (Used) by Operating Activities	 <u>\$ (15,848)</u>	 <u>\$ (64,619)</u>

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

PERKIOMEN TOWNSHIP MUNICIPAL AUTHORITY
Notes to Financial Statements

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

Reporting Entity:

The Perkiomen Township Municipal Authority is a corporation formed on March 20, 1969, under the Municipality Authority Act of 1945. The Authority has constructed and operates a sewage collection system in the Township, which connects with a sewage treatment plant constructed by Montgomery County. Effective in 2003, the Oaks Wastewater Treatment Plant and Perkiomen Interceptor are owned and operated by the Lower Perkiomen Valley Regional Sewer Authority. The attached financial statements contain the financial activity of the Perkiomen Township Municipal Authority, which includes the operation and maintenance of the sewer collection system.

The Authority is a component unit of Perkiomen Township.

Basis of Financial Statements:

The financial statements of the Authority have been prepared in accordance with the Governmental Accounting Standards Board (GASB) standards and pronouncements. The GASB is the standard-setting body for governmental accounting and financial reporting. The more significant accounting policies applying to the Authority are described below.

Basis of Accounting:

The accompanying Statements of Net Position and Statements of Revenue, Expenses, and Changes in Net Position have been prepared on the accrual basis of accounting whereby revenues are recorded when earned and expenses are recorded when incurred.

Cash and Cash Equivalents:

For purposes of the statement of cash flows, all highly liquid investments with a maturity of three months or less when purchased are considered cash equivalents.

Allowance for Doubtful Accounts:

The Authority has stated accounts receivable at the amount management expects to collect from balances outstanding at year-end. Based on management's assessment of credit history with customers, a provision of \$1,000 has been provided for doubtful accounts.

Fixed Assets:

Machinery and Equipment purchased by the Authority is recorded at cost and is being depreciated over five to ten years using the straight-line method. The sewer system is recorded at cost and is being depreciated over 50 years using the straight-line method. Depreciation on fixed assets totaled \$119,892 and \$121,005 for the years ended December 31, 2018 and 2017, respectively.

Use of Estimates:

Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results may vary from the estimates that were used.

Net Position:

The Authority's net position is comprised of two components:

- Invested in Capital Assets, net of related debt
- Unrestricted Net Position

Invested in Capital Assets consists of capitalized fixed assets net of any acquisition debt outstanding at year-end. Unrestricted Net Position represents all other net position not included in other categories.

2. DEPOSITS AND INVESTMENTS:**Custodial Credit Risk - Deposits:**

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority's deposit policy for custodial credit risk is to have uninsured deposits collateralized, pursuant to Pennsylvania Act 72 of 1971, as amended.

Deposits:

At December 31, 2018, the carrying amount of the Authority deposits was \$1,083,827, and the bank balance was \$1,084,567. For the year ending December 31, 2017, the carrying amount was \$1,093,675 and the bank balance was \$1,098,852. The bank balances are covered by federal depository insurance or pooled collateral held by the applicable custodial financial institution under the provisions of Act 72 of 1971. As of December 31, 2018 and 2017 the portion of the balance exposed to custodial credit risk was as follows:

	<u>2018</u>	<u>2017</u>
Uninsured and collateral held by pledging banks' Trust Department, not in the Authority's name	<u>\$ 834,567</u>	<u>\$ 848,852</u>

Investments:

At December 31, 2018 and 2017, the carrying amount and bank balances of the Authority investments were \$3,789,536 and \$3,725,092, respectively. The funds are invested with the Pennsylvania Local Government Investment Trust and are categorized as category 3 investments, which are uninsured and unregistered for which the securities are held by the broker or dealer or by its trust department or agent but not in the Authority's name.

Custodial Credit Risk - Investments:

For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Authority may not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The Authority has no formal investment policy with respect to custodial credit risk. Under the Municipal Authority Act, each year the Authority appoints the financial institutions for which deposit services are provided.

Interest Rate Risk - Investments:

The Authority has no formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - Investments:

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. While the Authority has no formal investment policy, its practice is to limit the investment of funds to the safest type of securities and to pre-qualify the financial institutions, broker/dealers and advisors with which it conducts business.

3. **ACCOUNTS RECEIVABLE – SEWER ACCESS:**

The Authority provided sewer access to various properties on Acoma Lane, Godshall Road and Bonnie Lane. The assessment for this access ranges from \$3,477 to \$4,000 per property and is due from the property owners. The outstanding receivables due at December 31, 2018 and 2017 were \$46,955 and \$50,432, respectively.

4. RECOVERABLE SEWER CAPACITY FEES:

During 1995, the Perkiomen Township Municipal Authority entered into an agreement with the Montgomery County Sewer Authority to purchase 37 equivalent dwelling units (EDUs) grandfathered capacity fees at \$2,000 per EDU. The fees were for owners of properties who are required to connect to the system. Twenty-nine of these owners have connected to the system through December 31, 2018, and reimbursed the Township. Recoverable fees for the years ending December 31, 2018 and December 31, 2017 were \$16,000.

5. PROPERTY AND EQUIPMENT:

Property and equipment as of December 31, 2018 and 2017 consisted of the following:

	Beginning Balance	Additions	Disposals	Ending Balance
Perkiomen Township Municipal Authority:				
Capital Assets Being Depreciated:				
Sewer System	\$ 5,655,210	\$ -	\$ -	\$ 5,655,210
Equipment	333,145	-	-	333,145
Totals Capital Assets Being Depreciated	5,988,355	-	-	5,988,355
Less: Accumulated Depreciation:				
Sewer System	(3,076,591)	(113,104)	-	(3,189,695)
Equipment	(309,633)	(6,788)	-	(316,421)
Total Accumulated Depreciation	(3,386,224)	(119,892)	-	(3,506,116)
Capital Assets, Net	\$ 2,602,131	\$ (119,892)	\$ -	\$ 2,482,239

6. DUE TO PERKIOMEN TOWNSHIP:

The Authority has no employees; therefore, it utilizes Perkiomen Township personnel to assist in the management, operation, and accounting of the sewer operations. Salaries and benefits for the use of these personnel are billed to the Authority on a quarterly basis. There were expenses due to the Township for wages as of December 31, 2018 and 2017 of \$22,850 and \$22,363, respectively.

7. SUBSEQUENT EVENT:

The Authority has evaluated subsequent events through May 9, 2019, the date that the financial statements were available to be issued. No events have occurred that would have a material effect on the financial statements of the Authority as of that date.