

DERRY TOWNSHIP MUNICIPAL AUTHORITY

***YEARS ENDED
DECEMBER 31, 2017 AND 2016***

DERRY TOWNSHIP MUNICIPAL AUTHORITY

YEARS ENDED DECEMBER 31, 2017 AND 2016

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Independent Auditors' Report

Members of the Board
Derry Township Municipal Authority
Hershey, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of Derry Township Municipal Authority (the Authority), a component unit of the Township of Derry, as of and for the years ended December 31, 2017 and 2016 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.

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 audit 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 auditors consider internal control relevant to the Authority'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 of the effectiveness of the Authority'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 Derry Township Municipal Authority, a component unit of the Township of Derry, as of December 31, 2017 and 2016, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 audits 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 audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The combining statements and schedules of operating expenses listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The combining statements and the schedules of operating expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Brown Schultz Steidan & Fritz

Camp Hill, Pennsylvania
June 4, 2018

DERRY TOWNSHIP MUNICIPAL AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)

YEAR ENDED DECEMBER 31, 2017

INTRODUCTION – The Derry Township Municipal Authority (the Authority) is a governmental entity engaged in business-type activities related to providing wastewater (WW) collection and treatment services to the Township of Derry (the Township). The Authority also provides wastewater collection and treatment services to portions of the Townships of South Hanover, Conewago, Londonderry and Lower Swatara, as well as a small portion of Hummelstown Borough.

Additionally in 2016, the Authority Board approved an amendment to its Articles of Incorporation, adding stormwater (SW) management as a core Authority function. The Authority Board also approved the implementation of a Stormwater Program Fee effective on January 1, 2017, to independently support the Township-wide Stormwater Management Program (SMP). The transition of the SMP from the Township to the Authority was finalized with the transfer of the stormwater infrastructure assets in early 2017. The SMP development also included the establishment of a separate business enterprise in order to accurately account for SMP related revenues and expenses.

This Management's Discussion and Analysis (MD&A) is presented to provide the reader with an understanding of the financial activities of the Authority for the fiscal year ended December 31, 2017, along with selected comparative information for the previous fiscal year. This narrative and analysis also includes supplementary information intended to furnish additional details in support of the basic financial statements that consist of enterprise fund financial statements and notes to those statements.

It should be noted that analyses contained in this MD&A will now generally include the following three parts reflecting the Authority's business enterprise accounting; Combined, WW (wastewater) and SW (stormwater).

OVERVIEW OF THE FINANCIAL STATEMENTS – The financial statements are prepared on an accrual basis of accounting in accordance with generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB). The notes to the financial statements also provide a summary of the Authority's significant accounting policies.

The statements of net position present information on the Authority's total assets and deferred outflows of resources and its liabilities. The difference between the two is considered the Authority's net position. A comparison of the current net position to previous net positions may serve as a useful indicator of whether the overall financial position of the Authority is stable, improving or deteriorating.

The statements of revenues and expenses present information showing how the Authority's net position changed during the two most recent fiscal years. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Revenues are recognized when earned, not when they are received. Expenses are recognized when incurred, not when they are paid. Thus, revenues and expenses are reported in the statements for some items that will only result in cash flows in future fiscal periods (e.g., accrued wages, payables and receivables).

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MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) (CONTINUED)

YEAR ENDED DECEMBER 31, 2017

The statements of cash flows present information on the Authority's flow of cash during the two most recent fiscal years. The flow of cash is broken down into four component activities: operating, noncapital financing activities, capital and related financing and investing. These statements also provide a reconciliation of operating income to cash flows from operating activities.

FINANCIAL HIGHLIGHTS – YEAR ENDED DECEMBER 31, 2017

- ❖ The Authority's total assets and deferred outflows of resources exceeded total liabilities by \$59.89 million, including \$48.97 million invested in capital assets, \$2.51 million in restricted funds in the custody of the Trustee and \$8.41 million in unrestricted funds. The Authority's net position increased by \$9.40 million (~19%).
- ❖ Current assets increased by \$1.89 million (~29%).
- ❖ Current liabilities increased by \$185,600 (~6%).
- ❖ Operating revenues from all sources increased by \$1.99 million (~20%).
- ❖ Operating expenses increased by \$365,200 (~6%).

FINANCIAL ANALYSIS

REVENUES, EXPENSES AND CHANGES IN NET POSITION – A condensed summary of the Authority's statements of revenues, expenses and changes in net position for the years ended December 31, 2017 and 2016 is presented on Schedule A, accompanying this MD&A.

REVENUE

COMBINED – The overall combined 2017 Authority operating revenues, which increased by approximately 20%, was attributable to two primary factors; a significant increase (>400%) in wastewater surcharges from one industrial customer and more importantly, the implementation of the Stormwater Management Program Fee. The Stormwater Program Fee accounted for more than 96% of the increase in combined revenue from direct customers.

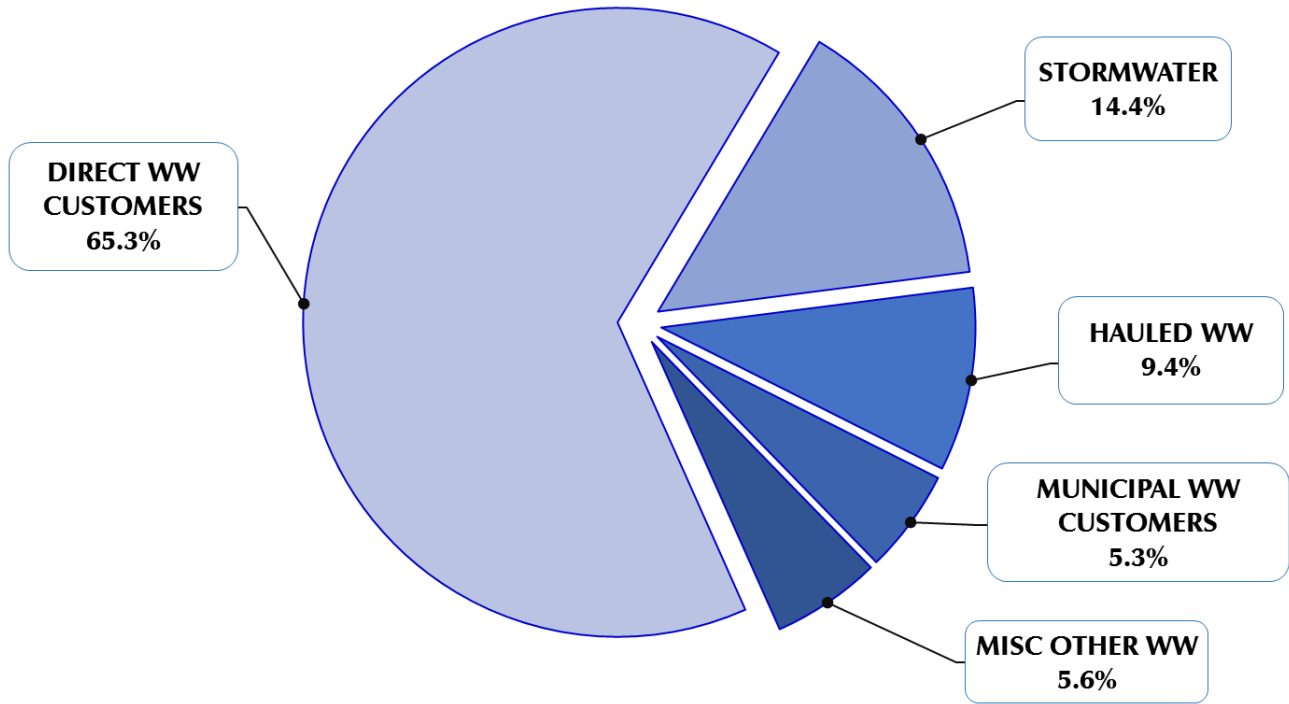
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MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) (CONTINUED)

YEAR ENDED DECEMBER 31, 2017

Figure 1 presents a detailed breakdown of the various components of the Authority's combined operating revenue.

FIGURE 1 - COMBINED OPERATING REVENUE DETAIL



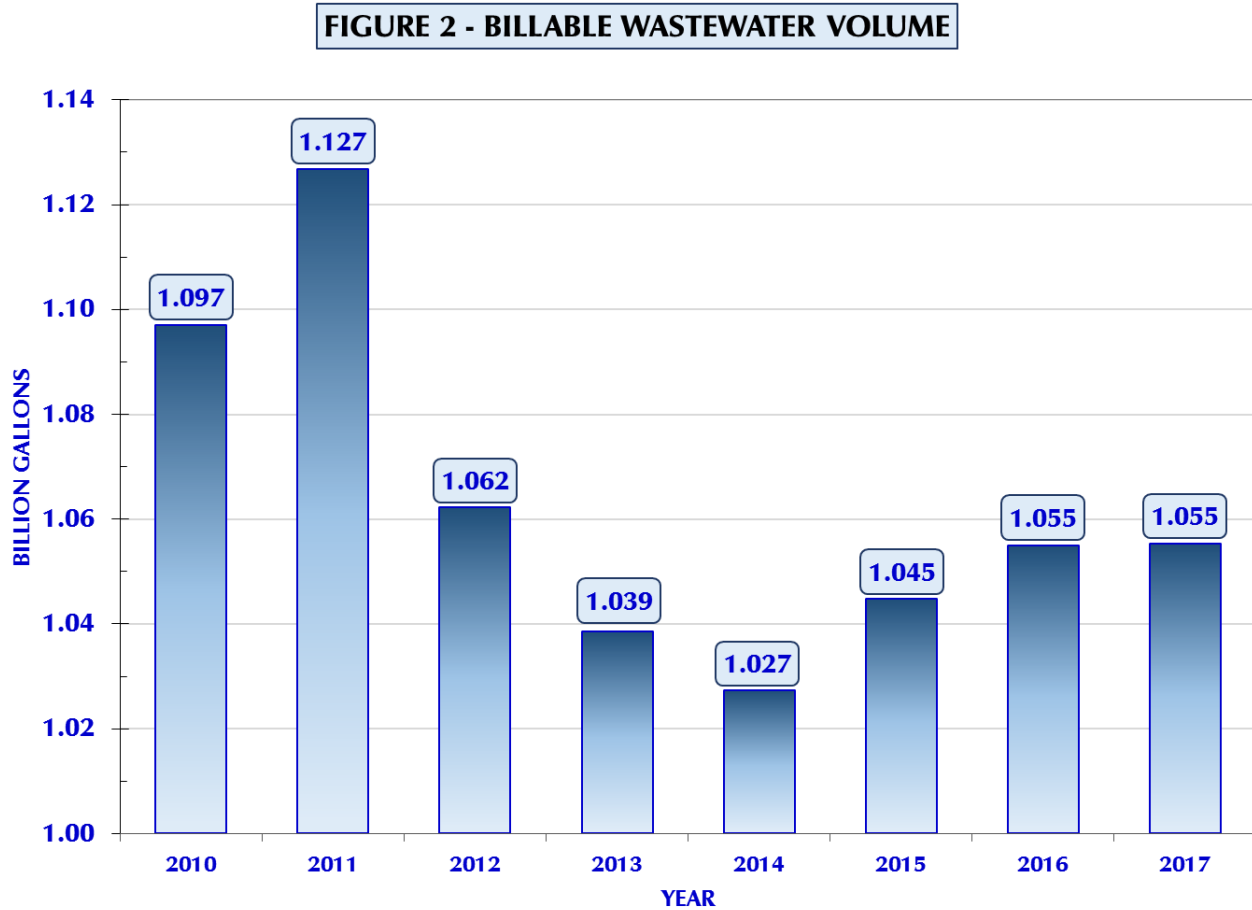
WW REVENUE – It was noted that the 2017 billable wastewater was the same as 2016 and provided a neutral sign that the earlier downward trends have stabilized. The Authority will continue to monitor this trend for future changes.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) (CONTINUED)

YEAR ENDED DECEMBER 31, 2017

Figure 2 presents the eight-year trend of billable wastewater volumes.



During 2017, WW revenue increased by \$286,700 (~3%) from all the Authority's WW customers. The majority of this increase was attributable to the strength of waste surcharges from an industrial user. Approximately \$69,400 or 1% was from the direct billed customers. The 2017 revenue from the Authority's three separately-billed municipal customers remained approximately the same, while hauled wastewater processing revenue decreased in 2017 by \$74,300 (~6%) due to normal annual variation.

SW REVENUE – During 2017, the first year of collecting the SMP fee, approximately \$1.695 million in revenues was collected. It is anticipated that with credits and adjustments this annual revenue will decrease in future years to approximately \$1.25 million.

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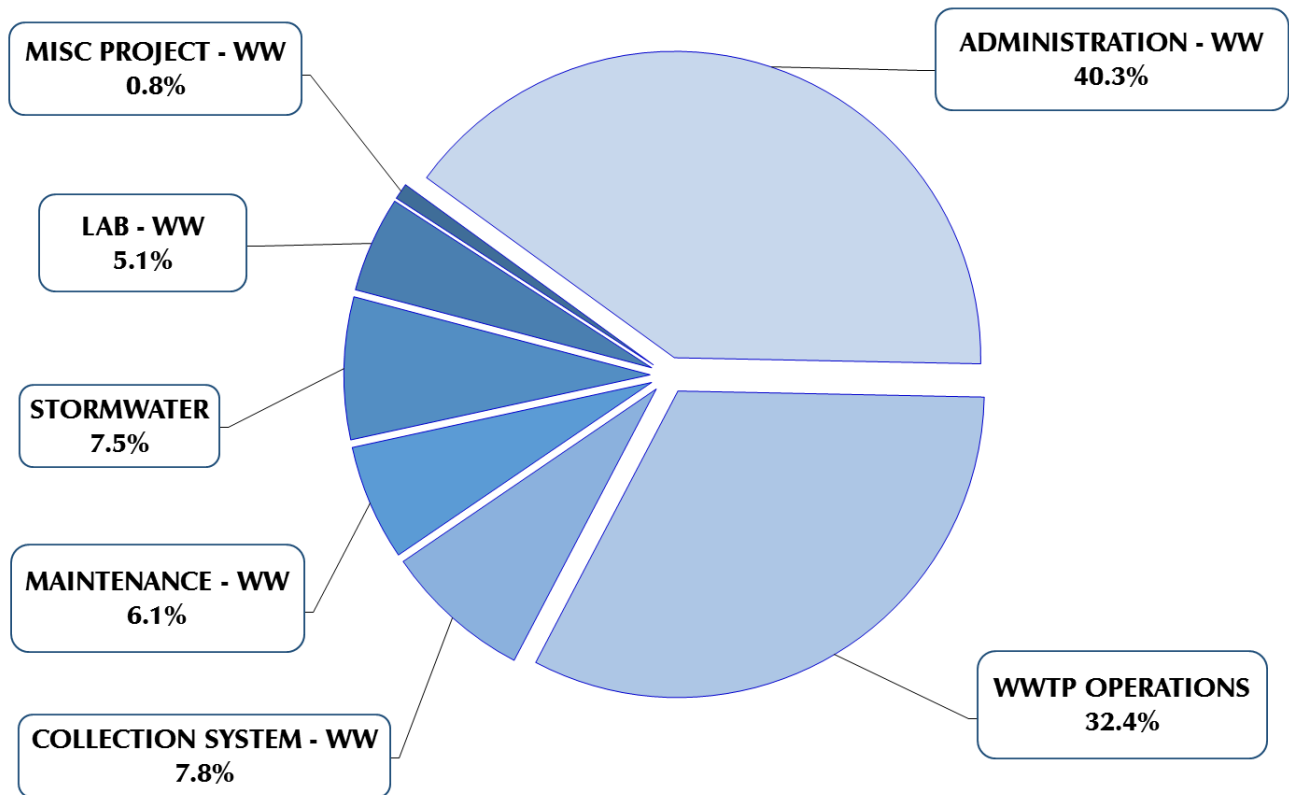
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) (CONTINUED)

YEAR ENDED DECEMBER 31, 2017

EXPENSES

COMBINED OPERATING EXPENSES – The 2017 combined operating expenses before depreciation increased by \$365,200 (~6%) over the 2016 expenses. Figure 3 presents the breakdown of overall combined 2017 Authority operating expenses. A large portion of that increase was attributable to the expenses associated with the administration of the SMP and repairs and improvements to stormwater assets (pipelines). A portion of those expenses were offset by the reduction in miscellaneous WW project expenses.

FIGURE 3 - COMBINED OPERATING EXPENSE DETAIL



DERRY TOWNSHIP MUNICIPAL AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) (CONTINUED)

YEAR ENDED DECEMBER 31, 2017

WW OPERATING EXPENSES – The 2017 WW administrative expenses increased by \$169,000 (~7%). Significant contributors to these increases included professional support services by the Authority's Rate Consultant for several rate studies and human resource related legal fees. Additionally, the Authority experienced increased expenses related to the payout of accrued vacation, sick and compensatory time resulting from the Authority's conversion to a consolidated paid time off (PTO) policy and revisions to the compensatory time policy.

The WW collection system costs decreased by \$9,800 (2%) despite a significant force main related sinkhole repair and the installation of several service laterals.

Technical services expenses increased by \$47,300 (16%) due in part to the purchase of a required new spectrophotometer, as well as a required refurbishing of deteriorated lab cabinetry.

Increased costs for operations department were driven primarily by increasing chemical costs, comprehensive replacement of the UV disinfection system components and a severance payout for a separated employee.

SW OPERATING EXPENSES – During 2017, which was the first year for SMP operation, the SW fund operating expenses were approximately in line with the 2017 budget numbers. Expenses included three (3) full-time staff salaries, including benefits, as well as a significant level of reactive repairs to failing infrastructure assets.

COMBINED NONOPERATING REVENUE – The 2017 non-operating revenues, including interest income, grants and capacity fees decreased by \$347,400 (44%) over 2016. Both government grants and the sale of fixed assets decreased to zero; however, capacity fees and interest income showed a significant increase over 2016. Capacity fees, which often vary widely from year to year, are one-time payments made by individuals, developers and municipalities for the right to use available capacity at the Authority's treatment plants and major interceptors. Development activity resulted in a capacity fee increase of \$124,800 (67%). Interest revenue on investments increased by \$37,400 (67%) due to an improving investment interest rate environment.

COMBINED CONTRIBUTIONS – Extensions to the existing sanitary sewer system and stormwater management facilities that are constructed by and at the expense of developers and others, may be dedicated to the Authority for ownership, operation and maintenance and vary from year to year. For 2017, contributions for new sewer extensions and existing stormwater facilities costing \$7.90 million were accepted by the Authority. These dedicated assets, which included the existing entirety of the Township's stormwater system were added to property, plant and equipment.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) (CONTINUED)

YEAR ENDED DECEMBER 31, 2017

COMBINED NONOPERATING EXPENSE – In 2017, as a result of previous years refinancing, the overall bonds and notes payable and amortization of bond premiums increased; however, the Authority's overall nonoperating expenses decreased by \$125,200 as a result of not undertaking any new bond activity and the resulting associated issuance costs.

TOTAL NET POSITION – As of December 31, 2017 and 2016, the Authority had total net positions of \$59,887.9 and \$50,486.2 (in thousands), as shown on Schedule B.

ASSETS – The 2017 year-end value of total assets increased by \$6.8 million (8%) when compared to 2016 year end. A breakdown of the total assets by category is presented in Schedule B. The 2017 value of capital assets increased by \$4.8 million over 2016 levels. When several 2017 minor construction projects were completed, their values were reclassified from the work in progress account into property, plant and equipment or, as appropriate, were recorded there directly. Assets placed in service and retirements from property, plant and equipment are summarized in the table below.

TABLE 1
PROPERTY, PLANT AND EQUIPMENT
PLACED IN SERVICE IN 2017

Plant improvements	\$ 389,800
New equipment	14,500
Office improvements	25,400
Developer contributions	466,500
Stormwater assets	<u>7,566,100</u>
Total additions	8,462,300
Less retirements	<u>-</u>
Net increase	<u><u>\$ 8,462,300</u></u>

There was a net increase of \$273,700 in other assets. During 2017, the 2015 Capital Projects Fund, decreased by \$111,200. This decrease, was attributable to payments related to several capital projects, including replacing a portion of the facilities hot supply and return heating lines, collections system rehabilitation and a piping project. A remaining balance of \$1,045,300 is available for use of future capital projects.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) (CONTINUED)

YEAR ENDED DECEMBER 31, 2017

Continued funding of the wastewater resource allocation fund through capacity fees increased other assets by \$314,800. The intended use of this fund is as the financing component of the long-range, strategic Wastewater Asset Management Program with the purpose of proactively managing and maintaining the wastewater infrastructure assets of the Authority.

In addition to the wastewater resource allocation fund, the Authority maintains two other restricted reserve funds; the operating reserve fund and the flood fund. The operating reserve fund, which maintains a balance of approximately 10% of the Authority's annual expenses, serves as a fallback against unexpected revenue losses or unexpected expenditures. During 2017, this fund increased by \$109,500. The flood fund, which was designated to cover flood insurance deductibles, is capped at \$200,000 and that balance was maintained during 2017.

DEFERRED OUTFLOWS OF RESOURCES – This section is presented in compliance with GASB 65 to set forth the balances of deferred losses on bond issues.

LIABILITIES – Current liabilities increased by \$185,700. Accounts payable increased modestly by \$42,400, and was driven primarily by an increase in trade accounts payable. This is consistent with the normal fluctuations of purchases and payments. With the conversion to a new PTO policy, vacation and sick leave liabilities decreased by \$11,500 (5%); however, with staff vacancies being filled, the payroll and payroll deduction liabilities increased by \$23,300 (27%).

In 2017, long-term liabilities decreased by \$2.78 million (8.3%). Capital lease liabilities with Conewago Township and Conewago Municipal Authority decreased by \$328,300 due to normally scheduled principal payments. The portion of long-term debt payments not due within one year of December 31, 2017 decreased by \$2.45 million (8.3%) over December 31, 2016 levels in accordance with debt repayment schedules. Further information about long-term liabilities can be found in Note 6 to the financial statements.

With the changes in both current and long-term liabilities, the resulting total liabilities decreased by \$2.597 million (7%) from 2016 levels.

CONCLUDING COMMENTS – In view of the modest increase of operating expenses combined with the uncertainty in certain portions of the revenue sheet, the Authority enacted, as part of a multi-year rate adjustment program, a 2.0% increase in wastewater [sewer] user and hauled wastewater rates, effective on March 1, 2018. The Authority Board also approved subsequent annual wastewater [sewer] rate adjustments for 2019, 2020 and 2021 of 2%, 2% and 3%, respectively. This adopted wastewater [sewer] user rate adjustment strategy will insure that the future revenues will be sufficient to cover normal increases in expenses and continue to fund future capital asset replacements and improvements.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) (CONTINUED)

YEAR ENDED DECEMBER 31, 2017

The anticipated growth in the Authority's service area, together with the strength of the existing customer base, produces a stable economic climate within which the Authority conducts its operations. As the regional and national general economy continues to improve and development continues to increase, the Authority will likely continue to experience an increase in nonoperating revenues in the form of capacity fees moving forward. Significantly, the Authority concluded 2017 with a \$9.4 million increase in net position. The modest past and future annual rate adjustments, increases in development activity and increases in billable wastewater and modest expense increases appear to have positively improved the Authority's net position.

2018 OUTLOOK – Several events occurred or were pending at the end of 2017 that will impact the Authority's operations for 2018 and beyond. In late 2017, as interest rates continued to remain at record low levels, the Authority authorized their finance team to engage in the issuance of a bond for \$5,010,000 in new money. The issuance, which is a general obligation note issued by the Township of Derry, will be paid for by the Authority through the Sixth Amendment to the Township and Authority Subsidy Agreement thereby allowing the note to be classified as self-liquidating Township debt. The closing for this issuance occurred in early February 2018 and the monies will serve to fund various wastewater and stormwater projects.

During 2017, the Authority continued implementation of elements of the strategic planning program, including the continued funding of the wastewater resource allocation fund with a transfer of \$314,300 generated through the collection of capacity fees. Ultimately, this fund will support the long-range capital asset management program. An annual minimum transfer target of \$250,000 has been established. All capacity fees collected during 2018 will be transferred to this fund. If the capacity fees do not meet the target minimum, the difference will be made up with a transfer from cash reserves at the end of each year. Additionally, a detailed analysis of the capacity fee structure was performed in 2017 by the Authority's professional Rate Consultants. Based on the conclusion of that Capacity Fee Study, the Authority board approved an increase in capacity fees effective July 1, 2018.

Additional information on this MD&A and the accompanying financial statements may be obtained by contacting the Executive Director, Derry Township Municipal Authority, 670 Clearwater Road, Hershey, PA 17033.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) (CONTINUED)

YEAR ENDED DECEMBER 31, 2017

SCHEDULE A
CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	(in thousands of dollars)			
	<u>2017</u>	<u>2016</u>	<u>\$ Change</u>	<u>% Change</u>
Operating revenues	\$ 11,817.6	\$ 9,830.1	\$ 1,987.5	20.2%
Operating expenses	<u>6,497.3</u>	<u>6,132.1</u>	<u>365.2</u>	<u>6.0%</u>
Total operating income before depreciation and amortization	5,320.3	3,698.0	1,622.3	43.9%
Depreciation and amortization	<u>3,369.3</u>	<u>3,172.0</u>	<u>197.3</u>	<u>6.2%</u>
Total operating income	1,951.0	526.0	1,425.0	270.9%
Nonoperating revenues	441.2	788.6	(347.4)	-44.1%
Nonoperating expenses	<u>946.9</u>	<u>1,072.2</u>	<u>(125.3)</u>	<u>-11.7%</u>
Income before contributions and cost-sharing agreements	1,445.3	242.4	1,202.9	496.2%
Cost-sharing agreements	50.0	50.0	-	0.0%
Sewer extensions contributed by developers	<u>7,906.4</u>	<u>575.5</u>	<u>7,330.9</u>	<u>1273.8%</u>
Increase in net position	<u>\$ 9,401.7</u>	<u>\$ 867.9</u>	<u>\$ 8,533.8</u>	<u>983.3%</u>

DERRY TOWNSHIP MUNICIPAL AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) (CONTINUED)

YEAR ENDED DECEMBER 31, 2017

SCHEDULE B
CONDENSED STATEMENTS OF NET POSITION
DECEMBER 31, 2017 AND 2016

	(in thousands of dollars)			
	<u>2017</u>	<u>2016</u>	<u>\$ Change</u>	<u>% Change</u>
Assets and deferred outflows of resources				
Current assets	\$ 8,440.6	\$ 6,555.2	\$ 1,885.4	28.8%
Capital assets	79,188.6	74,343.1	4,845.5	6.5%
Other assets	<u>4,808.9</u>	<u>4,535.1</u>	<u>273.8</u>	<u>6.0%</u>
Total assets	92,438.1	85,433.4	7,004.7	8.2%
Deferred outflows of resources	<u>1,664.0</u>	<u>1,863.8</u>	<u>(199.8)</u>	<u>-10.7%</u>
Total assets and deferred outflows of resources	<u>\$ 94,102.1</u>	<u>\$ 87,297.2</u>	<u>\$ 6,804.9</u>	<u>7.8%</u>
Liabilities and net position				
Current liabilities	\$ 3,368.8	\$ 3,183.1	\$ 185.7	5.8%
Long-term liabilities	<u>30,845.4</u>	<u>33,627.9</u>	<u>(2,782.5)</u>	<u>-8.3%</u>
Total liabilities	<u>34,214.2</u>	<u>36,811.0</u>	<u>(2,596.8)</u>	<u>-7.1%</u>
Net position:				
Net investment in capital assets	48,966.4	41,743.7	7,222.7	17.3%
Restricted for debt service and capital projects	2,508.5	2,661.3	(152.8)	-5.7%
Unrestricted	<u>8,413.0</u>	<u>6,081.2</u>	<u>2,331.8</u>	<u>38.3%</u>
Total net position	<u>59,887.9</u>	<u>50,486.2</u>	<u>9,401.7</u>	<u>18.6%</u>
Total liabilities and net position	<u>\$ 94,102.1</u>	<u>\$ 87,297.2</u>	<u>\$ 6,804.9</u>	<u>7.8%</u>

DERRY TOWNSHIP MUNICIPAL AUTHORITY

STATEMENTS OF NET POSITION – DECEMBER 31, 2017 AND 2016

ASSETS

	<u>2017</u>	<u>2016</u>
Current assets:		
Cash	\$ 3,945,958	\$ 2,251,077
Investments	3,865,858	3,716,785
Sewer rents receivable	220,947	228,107
Accounts receivable, other	198,969	202,552
Interest receivable	3,407	1,510
Capital contribution due from Conewago Municipal Authority		
Inventory	8,640	8,640
Prepaid insurance	196,801	146,575
	<u>8,440,580</u>	<u>6,555,246</u>
Property, plant and equipment	134,561,401	126,099,100
Less accumulated depreciation and amortization	<u>55,479,979</u>	<u>52,110,606</u>
	79,081,422	73,988,494
Construction work in progress	39,386	351,410
Projects in progress	<u>67,824</u>	<u>3,150</u>
	<u>79,188,632</u>	<u>74,343,054</u>
Other assets:		
Accounts receivable, long-term		3,525
Cash and investments designated for improvements and contingency	2,300,367	1,870,278
Cash and investments restricted for capital projects and debt service	<u>2,508,521</u>	<u>2,661,295</u>
Total other assets	<u>4,808,888</u>	<u>4,535,098</u>
Total assets	92,438,100	85,433,398
Deferred outflows of resources, deferred loss on refunded debt	<u>1,663,987</u>	<u>1,863,823</u>
Total assets and deferred outflows of resources	<u>\$ 94,102,087</u>	<u>\$ 87,297,221</u>

See notes to financial statements.

LIABILITIES AND NET POSITION

	2017	2016
Current liabilities:		
Accrued interest on debt	\$ 30,044	\$ 31,812
Current maturities of:		
Sewer revenue bonds	1,560,000	1,655,000
Subsidy agreements with Derry Township:	830,000	605,000
Capital lease obligations	328,292	325,026
Accounts payable	303,466	261,072
Accrued:		
Vacation and sick leave	206,898	218,406
Payroll and payroll deductions	110,106	86,808
Total current liabilities	3,368,806	3,183,124
Long-term liabilities, net of current portion:		
Sewer revenue bonds	12,832,431	14,446,474
Subsidy agreements with Derry Township	14,441,615	15,281,759
Capital lease obligations	3,571,330	3,899,621
Total long-term liabilities	30,845,376	33,627,854
Total liabilities	34,214,182	36,810,978
Net position:		
Net investment in capital assets	48,966,421	41,743,685
Restricted for debt service and capital projects	2,508,521	2,661,295
Unrestricted	8,412,963	6,081,263
Total net position	59,887,905	50,486,243
Total liabilities and net position	\$ 94,102,087	\$ 87,297,221

DERRY TOWNSHIP MUNICIPAL AUTHORITY

STATEMENTS OF REVENUES AND EXPENSES

YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Operating revenues:		
Service charges:		
Direct customers	\$ 9,405,973	\$ 7,641,577
Municipal customers	628,214	630,442
Hauled waste processing	1,114,907	1,189,209
Surcharges	420,556	80,867
Biosolids processing	96,836	83,658
Connection and related fees	37,071	57,316
Miscellaneous	114,047	147,058
	<u>11,817,604</u>	<u>9,830,127</u>
Operating expenses:		
Administrative, payroll taxes and employee benefits	2,912,622	2,787,156
Collection system	701,059	520,229
Plant operations	2,103,028	2,027,075
Maintenance	397,179	393,951
Technical services	328,312	281,019
Miscellaneous project expense	55,131	122,701
	<u>6,497,331</u>	<u>6,132,131</u>
Operating income before depreciation and amortization	5,320,273	3,697,996
Depreciation and amortization	<u>3,369,374</u>	<u>3,171,976</u>
Operating income (carried forward)	<u>1,950,899</u>	<u>526,020</u>

(continued)

DERRY TOWNSHIP MUNICIPAL AUTHORITY

STATEMENTS OF REVENUES AND EXPENSES (CONTINUED)

YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Operating income (brought forward)	<u>\$ 1,950,899</u>	<u>\$ 526,020</u>
Nonoperating income:		
Government grants		378,740
Capacity fees	311,840	187,041
Interest income	93,329	55,894
Gain on sale of fixed assets		13,670
Miscellaneous	<u>36,103</u>	<u>153,284</u>
	<u>441,272</u>	<u>788,629</u>
Nonoperating expense:		
Interest on:		
Capital lease	40,759	43,992
Bonds and notes payable	970,402	885,812
Bond issuance costs		199,197
Amortization of bond premiums	<u>(64,187)</u>	<u>(56,844)</u>
	<u>946,974</u>	<u>1,072,157</u>
Income before contributions	1,445,197	242,492
Stormwater cost-sharing agreement	50,000	50,000
Sewer extensions contributed by developers	<u>7,906,465</u>	<u>575,490</u>
Increase in net position	<u><u>\$ 9,401,662</u></u>	<u><u>\$ 867,982</u></u>

See notes to financial statements.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

STATEMENTS OF CHANGES IN NET POSITION

YEARS ENDED DECEMBER 31, 2017 AND 2016

	Net position			Net investment in capital assets
	Total	Unrestricted	Restricted	
Balance, January 1, 2016	\$ 49,618,261	\$ 4,219,189	\$ 4,269,542	\$ 41,129,530
Increase (decrease) in net position	<u>867,982</u>	<u>1,862,074</u>	<u>(1,608,247)</u>	<u>614,155</u>
Balance, December 31, 2016	50,486,243	6,081,263	2,661,295	41,743,685
Increase (decrease) in net position	<u>9,401,662</u>	<u>2,331,700</u>	<u>(152,774)</u>	<u>7,222,736</u>
Balance, December 31, 2017	<u>\$ 59,887,905</u>	<u>\$ 8,412,963</u>	<u>\$ 2,508,521</u>	<u>\$ 48,966,421</u>

See notes to financial statements.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Cash received from customers and users	\$ 11,747,907	\$ 9,677,457
Cash payments to:		
Suppliers	(4,032,982)	(3,776,701)
Employees	<u>(2,414,144)</u>	<u>(2,291,175)</u>
Net cash provided by operating activities	<u>5,300,781</u>	<u>3,609,581</u>
Cash flows from noncapital financing activities:		
State sources		256,049
Federal sources		<u>122,691</u>
Net cash provided by noncapital financing activities		<u>378,740</u>
Cash flows from capital and related financing activities:		
Nonoperating income	36,103	153,284
Capacity fees	311,840	187,041
Purchase of property, plant and equipment	(220,767)	(2,233,984)
Debt principal paid	(2,260,000)	(14,165,000)
Capital lease paid	(325,025)	(321,794)
Bond proceeds, net of issuance costs, premiums and discounts		12,137,335
Interest paid on debt, including amounts capitalized	<u>(813,095)</u>	<u>(940,108)</u>
Net cash used in capital and related financing activities	<u>(3,270,944)</u>	<u>(5,183,226)</u>
Cash flows from investing activities:		
Interest received	91,432	56,850
Change in investments	2,759,988	(9,975)
Proceeds from sale or disposal of fixed assets		<u>13,670</u>
Net cash provided by investing activities	<u>2,851,420</u>	<u>60,545</u>

(continued)

DERRY TOWNSHIP MUNICIPAL AUTHORITY

STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Net increase (decrease) in cash and cash equivalents	\$ 4,881,257	\$ (1,134,360)
Cash and cash equivalents (Note 2):		
Beginning of year	<u>3,798,791</u>	<u>4,933,151</u>
End of year	<u><u>\$ 8,680,048</u></u>	<u><u>\$ 3,798,791</u></u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 1,950,899	\$ 526,020
Adjustments:		
Depreciation and amortization of property, plant and equipment	3,369,374	3,171,976
(Increase) decrease in:		
Receivables	14,268	(152,670)
Inventory		7,243
Prepaid insurance	(50,226)	4,889
Increase in:		
Accounts payable, trade and other	4,676	21,011
Accrued expenses	<u>11,790</u>	<u>31,112</u>
Net cash provided by operating activities	<u><u>\$ 5,300,781</u></u>	<u><u>\$ 3,609,581</u></u>
Noncash activities:		
Property contributed by developers	\$ 7,906,465	\$ 575,490
Accounts payable for property, plant and equipment at year end	7,623	45,341
Contributions to stormwater	50,000	50,000
Amortization of bond premiums	64,187	56,843

See notes to financial statements.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

1. Operations and significant accounting policies:

The Authority was incorporated April 20, 1971, under the Municipality Authorities Act of 1945 as amended, to acquire, hold, construct, improve, maintain, operate, own and lease, either in the capacity of lessor or lessee, sewers, sewer systems, interceptor lines, sewage treatment works and works for the treatment and disposal of industrial waste. The Authority is considered a component unit of the Township of Derry due to the Township of Derry's ability to impose its will on the Authority.

Reporting entity:

Generally accepted accounting principles require that the reporting entity include (1) the Authority, (2) organizations for which the Authority is financially accountable and (3) other organizations for which the nature and significance of their relationship with the Authority are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria provided in Governmental Accounting Standards Board Statement No. 61 have been considered, and there are no agencies or entities which should be presented with the Authority.

Measurement focus and basis of accounting:

The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows of resources and all liabilities associated with the operations are included in the statements of net position.

The Authority has adopted the accrual basis of accounting to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing services to the general public on a continuing basis be financed or recovered substantially through user charges. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

The Derry Township Municipal Authority complies with accounting principles generally accepted in the United States of America (GAAP). The Authority applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

Cash equivalents:

For purposes of reporting cash flows, the Authority considers money market investments and all debt instruments with a maturity of 90 days or less when purchased to be cash equivalents.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2017 AND 2016

1. Operations and significant accounting policies (continued):

Investments and fair value measurement:

The Authority reports investments at fair value based on a hierarchy of valuation inputs used to measure the fair value of an asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs and Level 3 inputs are significant unobservable inputs.

Property, plant and equipment:

Property, plant and equipment are carried at cost, except for sewer extensions contributed to the Authority, which are reported at acquisition value based on acquisition costs provided by developers at the date of contribution. Depreciation and amortization have been provided using the straight-line method over the expected economic useful life of the assets.

Interest:

The Authority capitalizes interest as a component of the cost of property, plant and equipment constructed for its own use. In 2016, approximately \$15,000 of interest was capitalized into construction in progress. No interest was capitalized in 2017.

Compensated absences:

The Authority records its obligation to compensate employees for vacation and sick leave (PTO) as the liability is incurred. Employees are permitted to accumulate a maximum of 320 hours of PTO which they can carry forward each fiscal year. Upon termination, an employee will be paid for all accrued PTO at their current base rate.

Deferred outflows of resources:

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods, and thus, will not be recognized as an outflow of resources (expense) until then. The Authority has only one item that qualifies for reporting in this category. It is the deferred loss on refunding debt. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2017 AND 2016

2. Cash and investments:

Custodial credit risk, deposits and investments:

For deposits, custodial credit risk is the risk that, in the event of bank failure, the Authority's deposits may not be returned to it. For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investment or collateral security that is in the possession of an outside party. The Authority's current investment policy follows the requirements set forth in Section 5611 of the Municipality Authorities Act of 1945.

The Authority holds its cash deposits and investments at three financial institutions. As of December 31, 2017, the cash balances reported by the financial institutions and included in investment accounts totaled approximately \$8,768,000. Cash held at each financial institution was covered by Federal Deposit Insurance Corporation (FDIC) insurance up to \$250,000 per financial institution. Approximately \$8,018,000 was covered by collateral held in accordance with Act 72 not in the Authority's name.

Investments

As of December 31, 2017 and 2016, the Authority had the following deposits and investments:

Investments	Maturities	Ratings	2017	2016
Cash and money market investments			\$ 4,734,090	\$ 1,547,714
U.S. treasury notes	Less than one year 1 to 5 years		3,937,082	5,481,146
			<u>8,671,172</u>	<u>1,216,868</u>
Total investments			8,671,172	8,245,728
Accrued interest on government securities			3,574	2,630
Total deposits, including petty cash			<u>3,945,958</u>	<u>2,251,077</u>
Total deposits and investments			<u>\$ 12,620,704</u>	<u>\$ 10,499,435</u>

U.S. treasury notes are considered to be Level 1 investments as described in Note 1.

For cash flow purposes, cash and cash equivalents are comprised of cash, money market investments and total deposits.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2017 AND 2016

2. Cash and investments (continued):

Custodial credit risk, deposits and investments (continued):

Reconciliation to the statements of net position

	<u>2017</u>	<u>2016</u>
Current assets:		
Cash	\$ 3,945,958	\$ 2,251,077
Investments	3,865,858	3,716,785
Other assets, cash and investments	<u>4,808,888</u>	<u>4,531,573</u>
	<u>\$ 12,620,704</u>	<u>\$ 10,499,435</u>

Interest rate risk:

The Authority has a formal investment policy that permits investments as authorized by law and requires that maturities of investments are consistent with cash flow requirements. The policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates since it is anticipated that investments will be held to maturity.

Custodial credit risk:

The Authority does not currently have a formal policy for custodial credit risk.

3. Accounts receivable:

Accounts receivable consisted of the following:

	<u>2017</u>	<u>2016</u>
Connection fees	\$ 35,937	\$ 37,678
Stormwater charges	50,574	
Miscellaneous	<u>112,458</u>	<u>164,874</u>
	<u>\$ 198,969</u>	<u>\$ 202,552</u>

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2017 AND 2016

4. Property, plant and equipment:

Property, plant and equipment consisted of the following for 2017 and 2016:

	January 1, 2016	Additions	Deletions	Reclassifications	December 31, 2016	Additions	Deletions	Reclassifications	December 31, 2017
Land and right-of-ways	\$ 2,370,024				\$ 2,370,024				\$ 2,370,024
Collection lines	40,724,106	\$ 950,693		\$ 323,687	41,998,486	\$ 466,537			42,465,023
Sewage treatment plant	71,371,736			768,049	72,139,785			\$ 389,749	72,529,534
Plant equipment	3,548,740			282,930	3,831,670	14,476			3,846,146
Vehicles	1,294,678		\$ (44,466)	67,164	1,317,376				1,317,376
Office equipment	830,624			167,231	997,855	25,416			1,023,271
Miscellaneous equipment	76,448				76,448				76,448
Capitalized interest and financing costs prior to plant operation	3,267,456				3,267,456				3,267,456
Stormwater system		100,000			100,000	7,539,928		26,195	7,666,123
Construction in progress	68,034	1,711,170		(1,427,794)	351,410	77,725		(389,749)	39,386
Projects in progress	46,957	184,416	(46,956)	(181,267)	3,150	90,869		(26,195)	67,824
	123,598,803	2,946,279	(91,422)	-	126,453,660	8,214,951		-	134,668,611
Less accumulated depreciation	48,983,096	3,171,976	(44,466)		52,110,606	3,369,373			55,479,979
	<u>\$ 74,615,707</u>	<u>\$ (225,697)</u>	<u>\$ (46,956)</u>	<u>\$ -</u>	<u>\$ 74,343,054</u>	<u>\$ 4,845,578</u>		<u>\$ -</u>	<u>\$ 79,188,632</u>

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2017 AND 2016

5. Londonderry Township sewer line purchase:

On October 19, 2009, the Authority entered into an agreement with Londonderry Township to purchase their sanitary sewer system comprised of approximately 1,000 linear feet of eight-inch gravity sewer lines. The final purchase was made on May 16, 2016 with a closing date of October 1, 2016. The Authority recorded two assets for the Londonderry Township sewer lines and a dedicated developer sewer line. The capital contributions for these assets were \$174,400 and \$77,000, respectively.

6. Long-term debt:

The Authority's long-term debt consists of three types of obligations. The Authority has issued its own debt instruments in the form of Sewer Revenue Bonds, which are typically guaranteed by the Township of Derry. In addition, in certain circumstances, the Authority has requested the Township of Derry to issue General Obligation Bonds or Notes to fund Authority projects and the Township has done so. This approach has provided certain financial benefits to the Authority. The Authority and Township have entered into subsidy agreements and amendments thereto which make the Authority fully responsible to the Township to repay the debt associated with the Authority's projects. Finally, the Authority has entered into capital lease obligations with neighboring Conewago Township and Conewago Municipal Authority.

The subsidy agreements with the Township of Derry contain various covenants of the Authority. Included in the subsidy agreements, as well as in the Guaranteed Sewer Revenue Bonds, are covenants to impose and collect sewer rentals, rates and other charges in each year sufficient, together with other available funds, to pay the administrative expenses and operation and maintenance expenses of the Authority's sewer system. Additionally, in accordance with the terms of the subsidy agreements, the Authority is bound to pay its share of the debt service on the related debt.

The Guaranteed Sewer Revenue Bonds are secured solely by the receipts and revenues of the sewer system.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2017 AND 2016

6. Long-term debt (continued):

Long-term bonds and leases outstanding at December 31, 2017 are as follows:

	Original borrowing	Date of issue/maturity	Interest rates to maturity	Annual principal payments to maturity	Outstanding December 31, 2017
Guaranteed Sewer Revenue Bonds:					
Series of 2005	\$ 10,000,000	2005/2028	4.50%	\$5,000	\$ 5,000
Series of 2015	9,020,000	2015/2024	2.00% to 3.00%	\$900,000 to \$1,290,000	7,045,000
Series of 2016	8,850,000	2016/2025	2.00% to 4.00%	\$525,000 to \$1,120,000	6,925,000
Township of Derry, General Obligation Bonds - subsidy agreements:					
Series of 2014	5,000,000	2014/2027	1.00% to 3.00%	\$15,000 to \$2,295,000	4,720,000
Series of 2015	8,610,000	2015/2028	1.00% to 3.25%	\$395,000 to \$990,000	7,960,000
Series of 2016	3,105,000	2016/2025	2.07% to 3.75%	\$10,000 to \$1,660,000	2,480,000
Capital Lease Obligations:					
Phase I	2,740,609	2007/2025	1.00%	\$119,230 to \$157,590	1,177,679
Phase II	4,591,356	2010/2032	1.00%	\$51,453 to \$204,524	2,721,943
	<u>\$ 51,916,965</u>				<u>\$ 33,034,622</u>

On March 29, 2016, Guaranteed Sewer Revenue Bonds, Series of 2016 were issued in the amount of \$8,850,000. Proceeds from the bonds were used to pay the costs of issuing the bonds and refund the Guaranteed Sewer Revenue Bonds, Series of 2009. The annual principal payments range from \$525,000 to \$1,120,000 with final payment due December 15, 2025 (with interest rates ranging from 2.00% to 4.00%). The present value savings of this issue was approximately \$794,070.

An amendment to the May 28, 2010 subsidy agreement with the Township of Derry was signed on May 18, 2016, and a General Obligation Note Series of 2016 was issued on May 18, 2016 in the amount of \$3,105,000. Proceeds from the Note were used to pay the costs of issuing the Note and refund the General Obligation Bonds, Series of 2011. The annual principal payments range from \$10,000 to \$1,660,000 with final payment due December 15, 2025 (with interest rates ranging from 2.07% to 3.75%). The present value savings of this issue was approximately \$182,790.

The Authority did not issue any new debt in 2017.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2017 AND 2016

6. Long-term debt (continued):

Changes in long-term liabilities for the year ended December 31, 2017 and 2016 are as follows:

	Balance as of January 1, 2016	Additions	Retirements	Balance as of December 31, 2016	Additions	Retirements	Balance as of December 31, 2017
Sewer revenue bonds:							
Series of 2005	\$ 5,000			\$ 5,000			\$ 5,000
Series of 2009	8,915,000		\$ (8,915,000)	-			-
Series of 2015	8,500,000		(725,000)	7,775,000		\$ (730,000)	7,045,000
Series of 2016		\$ 8,850,000	(1,000,000)	7,850,000		(925,000)	6,925,000
Subsidy agreements:							
Series of 2011	2,995,000		(2,995,000)	-			-
Series of 2014	4,995,000		(95,000)	4,900,000		(180,000)	4,720,000
Series of 2015	8,195,000		(115,000)	8,080,000		(120,000)	7,960,000
Series of 2016		3,105,000	(320,000)	2,785,000		(305,000)	2,480,000
Total bonds payable	33,605,000	11,955,000	(14,165,000)	31,395,000		(2,260,000)	29,135,000
Capital lease obligations	4,546,442		(321,794)	4,224,648		(325,026)	3,899,622
	<u>\$ 38,151,442</u>	<u>\$ 11,955,000</u>	<u>\$ (14,486,794)</u>	35,619,648		<u>\$ (2,585,026)</u>	33,034,622
Current maturities				(2,585,026)			(2,718,292)
Unamortized original issue (discount) premium, net				593,232			529,046
Long-term debt, net of current maturities				<u>\$ 33,627,854</u>			<u>\$ 30,845,376</u>

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2017 AND 2016

6. Long-term debt (continued):

Capital lease obligations:

The Authority has entered into two capital leases with Conewago Township and Conewago Municipal Authority, respectively. Under two separate sewer service and lease agreements, Conewago Township and its Authority lease their sewer systems to the Derry Township Municipal Authority for operation and maintenance. The capital lease obligation to Conewago Township had a balance of \$1,179,141 at December 31, 2017. The cost of the related capital asset is \$4,229,548, with accumulated depreciation of \$683,601. The capital lease obligation to Conewago Municipal Authority had a balance of \$2,723,713 at December 31, 2017. The cost of the related capital asset is \$4,099,169, with accumulated depreciation of \$409,917.

Debt service requirements to maturity:

The annual requirements for the Authority's long-term debt are shown below

<u>Year ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 2,718,018	\$ 758,595	\$ 3,476,613
2019	2,811,313	702,574	3,513,887
2020	2,874,642	629,174	3,503,816
2021	3,278,004	560,157	3,838,161
2022	3,366,399	477,337	3,843,736
2023-2027	16,471,032	1,413,454	17,884,486
2028-2032	1,515,214	40,804	1,556,018
	<u>\$ 33,034,622</u>	<u>\$ 4,582,095</u>	<u>\$ 37,616,717</u>

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2017 AND 2016

7. Defined contribution pension plan:

Under the authority of the Municipality Authorities Act of 1945 and by resolution of the Board, the Authority has established a defined contribution plan which provides pension benefits for all of its employees who meet specified service requirements. Benefits depend solely on amounts contributed to the plan plus investment earnings. Board action requires that the Authority contribute an amount equal to 6.0% of the employee's total compensation each month. The Authority's contributions for each employee (and earnings allocated to the employee's account) are fully vested after seven years of continuous service. Authority contributions for, and earnings forfeited by, employees who leave employment before being fully vested are used to reduce the Authority's current period contribution requirement. Voluntary participant contributions are permitted by the plan. The Authority made the required contributions in the gross amounts of \$131,278 and \$121,862 for the years ended December 31, 2017 and 2016, respectively.

8. Lease with the Township of Derry Industrial and Commercial Development Authority:

On January 1, 2006, the Derry Township Municipal Authority entered into an agreement with the Township of Derry Industrial and Commercial Development Authority (the ICDA) to lease to the ICDA approximately 12 acres of land along Hersheypark Drive, Hershey, Pennsylvania. The cost of the land was \$1,104,304. The ICDA has constructed three buildings to provide office and operational space for the Township of Derry's administrative staff, police force and Tax Collection Association. The lease is for a period of 40 years and provides for varying levels of rental payments over the term of the lease, currently \$2,000 per month. Rental income pertaining to the lease was \$24,000 for each of the years ended December 31, 2017 and 2016.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2017 AND 2016

8. Lease with the Township of Derry Industrial and Commercial Development Authority (continued):

The following is a schedule by years of minimum future rentals relating to the land leased to the ICDA:

<u>Year ended</u>	<u>Amount</u>
2018	\$ 24,000
2019	24,000
2020	24,000
2021	24,000
2022	24,000
2023-2027	120,000
2028-2032	120,000
2033-2037	120,000
2038-2042	120,000
2043-2045	72,000

9. Deferred compensation plan:

In September 1992, the Authority entered into an agreement with The International City Management Association (ICMA) Retirement Corporation to provide a deferred compensation plan in accordance with Internal Revenue Code, Section 457 on a voluntary basis to full-time employees. The plan permits employees to defer a portion of their salary until future years. The deferred compensation is only available to participants at employment termination, retirement, death or unforeseeable emergencies. In 2016, an employee loan provision was added to the plan. The Authority makes a matching contribution to the plan in the amount of 50% of the first 4% of salary deferred by the employee. In accordance with federal law, a trust fund was established for the deposit of Section 457 assets. The trust fund is for the exclusive benefit of plan participants and beneficiaries. Because the assets are not owned by the Authority, but are held in a trust, the deferred compensation assets and related liabilities are not recorded in the Authority's financial statements. The Authority's responsibilities are to submit participant payroll deductions and enrollment change forms to the plan administrator (ICMA Retirement Corporation) and review the quarterly statements for accuracy. Investments are managed by the plan's trustee, with various investment options available. The choice of the investment options is made by the employee.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2017 AND 2016

10. Commitments:

The Authority has active construction projects as of December 31, 2017. At year end, the financial commitments with contractors related to these projects are as follows:

<u>Project</u>	<u>Remaining commitment as of December 31, 2017</u>
Sanitary sewer rehabilitation	\$ 132,827
Sanitary sewer CIPP relining and manhole replacement	250,673
Spring creek interceptor condition assessment	24,600
Southwest WWTP volute thickener	<u>167,000</u>
Totals	<u>\$ 575,100</u>

11. Stormwater management program:

In August 2015, the Authority Board approved an amendment to its Articles of Incorporation, adding stormwater management as a core function. During 2016, the Authority developed and implemented a comprehensive Stormwater Management Program (SMP) that included an SMP fee to provide a dedicated revenue stream to support the program's goals. The final transfer of the stormwater infrastructure assets from the Township to the Authority took place in early 2017.

12. Subsequent events:

An amendment to the May 28, 2010 subsidy agreement with the Township of Derry was signed on May 18, 2016, and a General Obligation Bond, Series of 2018 was issued in February 2018 in the amount of \$5,010,000. Proceeds from the bond will be used to finance certain capital projects of the Authority including the design, planning, acquisition, construction and/or equipping of renovations to the wastewater and stormwater systems, sewage sludge processing equipment, a digester biogas fired cogeneration unit and to pay the costs of issuance of the bonds. The annual principal payments range from \$5,000 to \$2,445,000 with final payment due December 15, 2030 (with interest rates ranging from 1.70% to 4.00%).

The Authority has evaluated subsequent events through June 4, 2018, which is the date the financial statements were available to be issued.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

COMBINING STATEMENT OF NET POSITION

YEAR ENDED DECEMBER 31, 2017

	ASSETS			
	Wastewater fund	Stormwater fund	Eliminations	Total
Current assets:				
Cash	\$ 3,944,958	\$ 1,000		\$ 3,945,958
Investments	3,172,537	693,321		3,865,858
Sewer rents receivable	220,947			220,947
Accounts receivable, other	1,057,941	936,196	\$ (1,795,168)	198,969
Interest receivable	3,407			3,407
Inventory	8,640			8,640
Prepaid insurance	196,801			196,801
	<hr/>	<hr/>	<hr/>	<hr/>
Total current assets	8,605,231	1,630,517	(1,795,168)	8,440,580
Property, plant and equipment	126,895,278	7,666,123		134,561,401
Less accumulated depreciation and amortization	55,296,371	183,608		55,479,979
	<hr/>	<hr/>		<hr/>
	71,598,907	7,482,515		79,081,422
Construction work in progress	39,386			39,386
Projects in progress	29,655	38,169		67,824
	<hr/>	<hr/>		<hr/>
	71,667,948	7,520,684		79,188,632
Other assets:				
Accounts receivable, long-term				
Cash and investments designated for improvements and contingency	2,300,367			2,300,367
Cash and investments restricted for capital projects and debt service	2,508,521			2,508,521
	<hr/>			<hr/>
Total other assets	4,808,888			4,808,888
Total assets	85,082,067	9,151,201	(1,795,168)	92,438,100
Deferred outflows of resources, deferred loss on refunded debt	1,663,987			1,663,987
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets and deferred outflows of resources	\$ 86,746,054	\$ 9,151,201	\$ (1,795,168)	\$ 94,102,087

(continued)

LIABILITIES AND NET POSITION

	Wastewater fund	Stormwater fund	Eliminations	Total
Current liabilities:				
Accrued interest on debt	\$ 30,044			\$ 30,044
Current maturities of:				
Sewer revenue bonds	1,560,000			1,560,000
Subsidy agreements with Derry Township	830,000			830,000
Capital lease obligations	328,292			328,292
Accounts payable	1,189,088	\$ 909,546	\$ (1,795,168)	303,466
Accrued:				
Vacation and sick leave	196,291	10,607		206,898
Payroll and payroll deductions	110,106			110,106
Total current liabilities	<u>4,243,821</u>	<u>920,153</u>	<u>(1,795,168)</u>	<u>3,368,806</u>
Long-term liabilities, net of current portion:				
Sewer revenue bonds	12,832,431			12,832,431
Subsidy agreements with Derry Township	14,441,615			14,441,615
Capital lease obligations	<u>3,571,330</u>			<u>3,571,330</u>
Total long-term liabilities	<u>30,845,376</u>			<u>30,845,376</u>
Total liabilities	<u>35,089,197</u>	<u>920,153</u>	<u>(1,795,168)</u>	<u>34,214,182</u>
Net position:				
Net investment in capital assets	41,342,587	7,623,834		48,966,421
Restricted for debt service and capital projects	2,508,521			2,508,521
Unrestricted	<u>7,805,749</u>	<u>607,214</u>		<u>8,412,963</u>
Total net position	<u>51,656,857</u>	<u>8,231,048</u>		<u>59,887,905</u>
Total liabilities and net position	<u>\$ 86,746,054</u>	<u>\$ 9,151,201</u>	<u>\$ (1,795,168)</u>	<u>\$ 94,102,087</u>

DERRY TOWNSHIP MUNICIPAL AUTHORITY

COMBINING STATEMENT OF NET POSITION

YEAR ENDED DECEMBER 31, 2016

ASSETS

	<u>Wastewater fund</u>	<u>Stormwater fund</u>	<u>Eliminations</u>	<u>Total</u>
Current assets:				
Cash	\$ 2,250,077	\$ 1,000		\$ 2,251,077
Investments	3,706,778	10,007		3,716,785
Sewer rents receivable	228,107			228,107
Accounts receivable, other	602,576		\$ (400,024)	202,552
Interest receivable	1,510			1,510
Inventory	8,640			8,640
Prepaid insurance	146,575			146,575
	<u>6,944,263</u>	<u>11,007</u>	<u>(400,024)</u>	<u>6,555,246</u>
Total current assets				
Property, plant and equipment	125,999,100	100,000		126,099,100
Less accumulated depreciation and amortization	<u>52,110,606</u>			<u>52,110,606</u>
	73,888,494	100,000		73,988,494
Construction work in progress	351,410			351,410
Projects in progress		<u>3,150</u>		<u>3,150</u>
	<u>74,239,904</u>	<u>103,150</u>		<u>74,343,054</u>
Other assets:				
Accounts receivable, long-term	3,525			3,525
Cash and investments designated for improvements and contingency	1,870,278			1,870,278
Cash and investments restricted for capital projects and debt service	<u>2,661,295</u>			<u>2,661,295</u>
Total other assets	<u>4,535,098</u>			<u>4,535,098</u>
Total assets	85,719,265	114,157	(400,024)	85,433,398
Deferred outflows of resources, deferred loss on refunded debt	<u>1,863,823</u>			<u>1,863,823</u>
Total assets and deferred outflows of resources	<u>\$ 87,583,088</u>	<u>\$ 114,157</u>	<u>\$ (400,024)</u>	<u>\$ 87,297,221</u>

(continued)

LIABILITIES AND NET POSITION

	Wastewater fund	Stormwater fund	Eliminations	Total
Current liabilities:				
Accrued interest on debt	\$ 31,812			\$ 31,812
Current maturities of:				
Sewer revenue bonds	1,655,000			1,655,000
Subsidy agreements with Derry Township	605,000			605,000
Capital lease obligations	325,026			325,026
Accounts payable	261,072	\$ 400,024	\$ (400,024)	261,072
Accrued:				
Vacation and sick leave	213,051	5,355		218,406
Payroll and payroll deductions	86,808			86,808
Total current liabilities	3,177,769	405,379	(400,024)	3,183,124
Long-term liabilities, net of current portion:				
Sewer revenue bonds	14,446,474			14,446,474
Subsidy agreements with Derry Township	15,281,759			15,281,759
Capital lease obligations	3,899,621			3,899,621
Total long-term liabilities	33,627,854			33,627,854
Total liabilities	36,805,623	405,379	(400,024)	36,810,978
Net position:				
Net investment in capital assets	41,640,535	103,150		41,743,685
Restricted for debt service and capital projects	2,661,295			2,661,295
Unrestricted	6,475,635	(394,372)		6,081,263
Total net position	50,777,465	(291,222)		50,486,243
Total liabilities and net position	\$ 87,583,088	\$ 114,157	\$ (400,024)	\$ 87,297,221

DERRY TOWNSHIP MUNICIPAL AUTHORITY

COMBINING STATEMENT OF REVENUES AND EXPENSES

YEAR ENDED DECEMBER 31, 2017

	<u>Wastewater fund</u>	<u>Stormwater fund</u>	<u>Total</u>
Operating revenues:			
Sewer service charges:			
Direct customers	\$ 7,711,024	\$ 1,694,949	\$ 9,405,973
Municipal customers	628,214		628,214
Hauled waste processing	1,114,907		1,114,907
Surcharges	420,556		420,556
Biosolids processing	96,836		96,836
Connection and related fees	37,071		37,071
Miscellaneous	108,248	5,799	114,047
	<u>10,116,856</u>	<u>1,700,748</u>	<u>11,817,604</u>
Operating expenses:			
Administrative, payroll taxes and employee benefits	2,619,345	293,277	2,912,622
Collection system	506,811	194,248	701,059
Plant operations	2,103,028		2,103,028
Maintenance	397,179		397,179
Technical services	328,312		328,312
Miscellaneous project expense	55,131		55,131
	<u>6,009,806</u>	<u>487,525</u>	<u>6,497,331</u>
Operating income before depreciation and amortization	4,107,050	1,213,223	5,320,273
Depreciation and amortization	<u>3,185,766</u>	<u>183,608</u>	<u>3,369,374</u>
Operating income (carried forward)	<u>921,284</u>	<u>1,029,615</u>	<u>1,950,899</u>

(continued)

DERRY TOWNSHIP MUNICIPAL AUTHORITY

COMBINING STATEMENT OF REVENUES AND EXPENSES (CONTINUED)

YEAR ENDED DECEMBER 31, 2017

	<u>Wastewater fund</u>	<u>Stormwater fund</u>	<u>Total</u>
Operating income (brought forward)	<u>\$ 921,284</u>	<u>\$ 1,029,615</u>	<u>\$ 1,950,899</u>
Nonoperating income:			
Capacity fees	311,840		311,840
Interest income	90,602	2,727	93,329
Miscellaneous	<u>36,103</u>		<u>36,103</u>
	<u>438,545</u>	<u>2,727</u>	<u>441,272</u>
Nonoperating expense:			
Interest on:			
Capital lease	40,759		40,759
Bonds and notes payable	970,402		970,402
Amortization of bond premiums	<u>(64,187)</u>		<u>(64,187)</u>
	<u>946,974</u>		<u>946,974</u>
Income before contributions	412,855	1,032,342	1,445,197
Stormwater cost-sharing agreement		50,000	50,000
Sewer extensions contributed by developers	<u>466,537</u>	<u>7,439,928</u>	<u>7,906,465</u>
Increase in net position	<u><u>\$ 879,392</u></u>	<u><u>\$ 8,522,270</u></u>	<u><u>\$ 9,401,662</u></u>

DERRY TOWNSHIP MUNICIPAL AUTHORITY

COMBINING STATEMENT OF REVENUES AND EXPENSES

YEAR ENDED DECEMBER 31, 2016

	<u>Wastewater fund</u>	<u>Stormwater fund</u>	<u>Total</u>
Operating revenues:			
Sewer service charges:			
Direct customers	\$ 7,641,577		\$ 7,641,577
Municipal customers	630,442		630,442
Hauled waste processing	1,189,209		1,189,209
Surcharges	80,867		80,867
Biosolids processing	83,658		83,658
Connection and related fees	57,316		57,316
Miscellaneous	147,058		147,058
	<u>9,830,127</u>		<u>9,830,127</u>
Operating expenses:			
Administrative, payroll taxes and employee benefits	2,450,144	\$ 337,012	2,787,156
Collection system	516,687	3,542	520,229
Plant operations	2,026,400	675	2,027,075
Maintenance	393,951		393,951
Technical services	281,019		281,019
Miscellaneous project expense	122,701		122,701
	<u>5,790,902</u>	<u>341,229</u>	<u>6,132,131</u>
Operating income (loss) before depreciation and amortization	4,039,225	(341,229)	3,697,996
Depreciation and amortization	<u>3,171,976</u>		<u>3,171,976</u>
Operating income (loss) (carried forward)	<u>867,249</u>	<u>(341,229)</u>	<u>526,020</u>

(continued)

DERRY TOWNSHIP MUNICIPAL AUTHORITY

COMBINING STATEMENT OF REVENUES AND EXPENSES (CONTINUED)

YEAR ENDED DECEMBER 31, 2016

	<u>Wastewater fund</u>	<u>Stormwater fund</u>	<u>Total</u>
Operating income (loss) (brought forward)	<u>\$ 867,249</u>	<u>\$ (341,229)</u>	<u>\$ 526,020</u>
Nonoperating income:			
Government grants	378,740		378,740
Capacity fees	187,041		187,041
Interest income	55,887	7	55,894
Gain on sale of fixed assets	13,670		13,670
Miscellaneous	<u>153,284</u>		<u>153,284</u>
	<u>788,622</u>	<u>7</u>	<u>788,629</u>
Nonoperating expense:			
Interest on:			
Capital lease	43,992		43,992
Bonds and notes payable	885,812		885,812
Bond issuance costs	199,197		199,197
Amortization of bond premiums	<u>(56,844)</u>		<u>(56,844)</u>
	<u>1,072,157</u>		<u>1,072,157</u>
Income (loss) before contributions	583,714	(341,222)	242,492
Stormwater cost-sharing agreement		50,000	50,000
Sewer extensions contributed by developers	<u>575,490</u>		<u>575,490</u>
Increase (decrease) in net position	<u><u>\$ 1,159,204</u></u>	<u><u>\$ (291,222)</u></u>	<u><u>\$ 867,982</u></u>

DERRY TOWNSHIP MUNICIPAL AUTHORITY

COMBINING STATEMENT OF CHANGES IN NET ASSETS (DEFICIT)

YEAR ENDED DECEMBER 31, 2017 AND 2016

	Wastewater net position			Net investment in capital assets
	Total	Unrestricted	Restricted	
Balance, January 1, 2016	\$ 49,618,261	\$ 4,219,189	\$ 4,269,542	\$ 41,129,530
Increase (decrease) in net position	<u>1,159,204</u>	<u>2,256,446</u>	<u>(1,608,247)</u>	<u>511,005</u>
Balance, December 31, 2016	50,777,465	6,475,635	2,661,295	41,640,535
Increase (decrease) in net position	<u>879,392</u>	<u>1,330,114</u>	<u>(152,774)</u>	<u>(297,948)</u>
Balance, December 31, 2017	<u>\$ 51,656,857</u>	<u>\$ 7,805,749</u>	<u>\$ 2,508,521</u>	<u>\$ 41,342,587</u>
	Stormwater net position			
	Total	Unrestricted	Restricted	Net investment in capital assets
Balance, January 1, 2016				
Increase (decrease) in net position	<u>\$ (291,222)</u>	<u>\$ (394,372)</u>		<u>\$ 103,150</u>
Balance, December 31, 2016	(291,222)	(394,372)		103,150
Increase in net position	<u>8,522,270</u>	<u>1,001,586</u>		<u>7,520,684</u>
Balance, December 31, 2017	<u>\$ 8,231,048</u>	<u>\$ 607,214</u>		<u>\$ 7,623,834</u>
	Total net position			
	Total	Unrestricted	Restricted	Net investment in capital assets
Balance, January 1, 2016	\$ 49,618,261	\$ 4,219,189	\$ 4,269,542	\$ 41,129,530
Increase (decrease) in net position	<u>867,982</u>	<u>1,862,074</u>	<u>(1,608,247)</u>	<u>614,155</u>
Balance, December 31, 2016	50,486,243	6,081,263	2,661,295	41,743,685
Increase (decrease) in net position	<u>9,401,662</u>	<u>2,331,700</u>	<u>(152,774)</u>	<u>7,222,736</u>
Balance, December 31, 2017	<u>\$ 59,887,905</u>	<u>\$ 8,412,963</u>	<u>\$ 2,508,521</u>	<u>\$ 48,966,421</u>

DERRY TOWNSHIP MUNICIPAL AUTHORITY

COMBINING STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2017

	<u>Wastewater fund</u>	<u>Stormwater fund</u>	<u>Eliminations</u>	<u>Total</u>
Cash flows from operating activities:				
Cash received from customers and users	\$ 9,672,176	\$ 680,587	\$ 1,395,144	\$ 11,747,907
Cash payments to:				
Suppliers	(2,945,297)		(1,087,685)	(4,032,982)
Employees	<u>(2,217,899)</u>		<u>(196,245)</u>	<u>(2,414,144)</u>
Net cash provided by operating activities	<u>4,508,980</u>	<u>680,587</u>	<u>111,214</u>	<u>5,300,781</u>
Cash flows from capital and related financing activities:				
Nonoperating income	36,103			36,103
Capacity fees	311,840			311,840
Purchase of property, plant and equipment	(109,553)		(111,214)	(220,767)
Debt principal paid	(2,260,000)			(2,260,000)
Capital lease paid	(325,025)			(325,025)
Interest paid on debt, including amounts capitalized	<u>(813,095)</u>			<u>(813,095)</u>
Net cash used in capital and related financing activities	<u>(3,159,730)</u>		<u>(111,214)</u>	<u>(3,270,944)</u>
Cash flows from investing activities:				
Interest received	88,705	2,727		91,432
Change in investments	<u>2,759,988</u>			<u>2,759,988</u>
Net cash provided by investing activities	<u>2,848,693</u>	<u>2,727</u>		<u>2,851,420</u>

(continued)

DERRY TOWNSHIP MUNICIPAL AUTHORITY

COMBINING STATEMENT OF CASH FLOWS (CONTINUED)

YEAR ENDED DECEMBER 31, 2017

	<u>Wastewater fund</u>	<u>Stormwater fund</u>	<u>Eliminations</u>	<u>Total</u>
Net increase in cash and cash equivalents	\$ 4,197,943	\$ 683,314	\$ -	\$ 4,881,257
Cash and cash equivalents (Note 2):				
Beginning of year	<u>3,787,784</u>	<u>11,007</u>		<u>3,798,791</u>
End of year	<u>\$ 7,985,727</u>	<u>\$ 694,321</u>	<u>\$ -</u>	<u>\$ 8,680,048</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 921,284	\$ 1,029,615		\$ 1,950,899
Adjustments:				
Depreciation and amortization of property, plant and equipment	3,185,766	183,608		3,369,374
(Increase) decrease in:				
Receivables	(444,680)	(936,196)	\$ 1,395,144	14,268
Prepaid insurance	(50,226)			(50,226)
Increase (decrease) in:				
Accounts payable, trade and other	890,298	398,308	(1,283,930)	4,676
Accrued expenses	<u>6,538</u>	<u>5,252</u>		<u>11,790</u>
Net cash provided by operating activities	<u>\$ 4,508,980</u>	<u>\$ 680,587</u>	<u>\$ 111,214</u>	<u>\$ 5,300,781</u>
Noncash activities:				
Property contributed by developers	\$ 466,537	\$ 7,439,928		\$ 7,906,465
Accounts payable for property, plant and equipment at year end	7,623			7,623
Cost-sharing agreement contributions		100,000	\$ (50,000)	50,000
Amortization of bond premiums	64,187			64,187

DERRY TOWNSHIP MUNICIPAL AUTHORITY

COMBINING STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2016

	<u>Wastewater fund</u>	<u>Stormwater fund</u>	<u>Eliminations</u>	<u>Total</u>
Cash flows from operating activities:				
Cash received from customers and users	\$ 9,277,433		\$ 400,024	\$ 9,677,457
Cash payments to:				
Suppliers	(3,507,997)		(268,704)	(3,776,701)
Employees	<u>(2,213,005)</u>		<u>(78,170)</u>	<u>(2,291,175)</u>
Net cash provided by operating activities	<u>3,556,431</u>		<u>53,150</u>	<u>3,609,581</u>
Cash flows from noncapital financing activities:				
Interfund transfers	(11,000)	\$ 11,000		-
State sources	256,049			256,049
Federal sources	<u>122,691</u>			<u>122,691</u>
Net cash provided by noncapital financing activities	<u>367,740</u>	<u>11,000</u>		<u>378,740</u>
Cash flows from capital and related financing activities:				
Nonoperating income	153,284			153,284
Capacity fees	187,041			187,041
Purchase of property, plant and equipment	(2,180,834)		(53,150)	(2,233,984)
Debt principal paid	(14,165,000)			(14,165,000)
Capital lease paid	(321,794)			(321,794)
Bond proceeds, net of issuance costs, premiums and discounts	12,137,335			12,137,335
Interest paid on debt, including amounts capitalized	<u>(940,108)</u>			<u>(940,108)</u>
Net cash used in capital and related financing activities	<u>(5,130,076)</u>		<u>(53,150)</u>	<u>(5,183,226)</u>
Cash flows from investing activities:				
Interest received	56,843	7		56,850
Change in investments	(9,975)			(9,975)
Proceeds from sale or disposal of fixed assets	<u>13,670</u>			<u>13,670</u>
Net cash provided by investing activities	<u>60,538</u>	<u>7</u>		<u>60,545</u>

(continued)

DERRY TOWNSHIP MUNICIPAL AUTHORITY

COMBINING STATEMENT OF CASH FLOWS (CONTINUED)

YEAR ENDED DECEMBER 31, 2016

	<u>Wastewater fund</u>	<u>Stormwater fund</u>	<u>Eliminations</u>	<u>Total</u>
Net increase (decrease) in cash and cash equivalents	\$ (1,145,367)	\$ 11,007		\$ (1,134,360)
Cash and cash equivalents (Note 2):				
Beginning of year	<u>4,933,151</u>			<u>4,933,151</u>
End of year	<u>\$ 3,787,784</u>	<u>\$ 11,007</u>	<u>\$ -</u>	<u>\$ 3,798,791</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	\$ 867,249	\$ (341,229)		\$ 526,020
Adjustments:				
Depreciation and amortization of property, plant and equipment	3,171,976			3,171,976
(Increase) decrease in:				
Receivables	(552,694)		\$ 400,024	(152,670)
Inventory	7,243			7,243
Prepaid insurance	4,889			4,889
Increase (decrease) in:				
Accounts payable, trade and other	32,011	335,874	(346,874)	21,011
Accrued expenses	<u>25,757</u>	<u>5,355</u>		<u>31,112</u>
Net cash provided by operating activities	<u>\$ 3,556,431</u>	<u>\$ -</u>	<u>\$ 53,150</u>	<u>\$ 3,609,581</u>
Noncash activities:				
Property contributed by developers	\$ 575,490			\$ 575,490
Accounts payable for property, plant and equipment at year end	45,341			45,341
Cost-sharing agreement contributions		\$ 100,000	\$ (50,000)	50,000
Amortization of bond premiums	56,843			56,843

DERRY TOWNSHIP MUNICIPAL AUTHORITY

SCHEDULE OF OPERATING EXPENSES

YEARS ENDED DECEMBER 31, 2017

	<u>Wastewater fund</u>	<u>Stormwater fund</u>	<u>Total</u>
Administrative, payroll taxes and employee benefits:			
Salaries	\$ 633,542	\$ 163,875	\$ 797,417
Materials and supplies	20,950	1,520	22,470
General expense	552,955	15,150	568,105
Payroll taxes and employee benefits	1,139,678	61,071	1,200,749
Maintenance and repairs	11,452		11,452
Professional services	<u>260,768</u>	<u>51,661</u>	<u>312,429</u>
	<u>2,619,345</u>	<u>293,277</u>	<u>2,912,622</u>
Collection system:			
Salaries	313,490	37,622	351,112
Materials and supplies	5,869		5,869
General expense	7,259	699	7,958
Maintenance and repairs	101,822	155,927	257,749
Utilities	<u>78,371</u>		<u>78,371</u>
	<u>506,811</u>	<u>194,248</u>	<u>701,059</u>
Plant operations:			
Salaries	1,040,972		1,040,972
Materials and supplies	56,530		56,530
General expense	13,537		13,537
Utilities	483,175		483,175
Chemicals	251,773		251,773
Special services	<u>257,041</u>		<u>257,041</u>
	<u>2,103,028</u>		<u>2,103,028</u>

(continued)

DERRY TOWNSHIP MUNICIPAL AUTHORITY

SCHEDULE OF OPERATING EXPENSES (CONTINUED)

YEARS ENDED DECEMBER 31, 2017

	<u>Wastewater fund</u>	<u>Stormwater fund</u>	<u>Total</u>
Maintenance:			
Materials and supplies	\$ 8,432		\$ 8,432
General expense	10,649		10,649
Equipment repairs	335,601		335,601
Vehicle repairs	29,257		29,257
Automation control services	<u>13,240</u>		<u>13,240</u>
	<u>397,179</u>		<u>397,179</u>
Technical services:			
Salaries	236,433		236,433
Materials and supplies	16,403		16,403
General expense	10,430		10,430
Special services	<u>65,046</u>		<u>65,046</u>
	<u>328,312</u>		<u>328,312</u>
Miscellaneous project expense	<u>55,131</u>		<u>55,131</u>
Total operating expenses	<u>\$ 6,009,806</u>	<u>\$ 487,525</u>	<u>\$ 6,497,331</u>

DERRY TOWNSHIP MUNICIPAL AUTHORITY

SCHEDULE OF OPERATING EXPENSES

YEARS ENDED DECEMBER 31, 2016

	<u>Wastewater fund</u>	<u>Stormwater fund</u>	<u>Total</u>
Administrative, payroll taxes and employee benefits:			
Salaries	\$ 653,034	\$ 79,308	\$ 732,342
Materials and supplies	23,479		23,479
General expense	494,726	22,939	517,665
Payroll taxes and employee benefits	987,631	14,405	1,002,036
Maintenance and repairs	15,819		15,819
Professional services	<u>275,455</u>	<u>220,360</u>	<u>495,815</u>
	<u>2,450,144</u>	<u>337,012</u>	<u>2,787,156</u>
Collection system:			
Salaries	343,527	3,542	347,069
Materials and supplies	11,930		11,930
General expense	14,968		14,968
Maintenance and repairs	63,754		63,754
Utilities	<u>82,508</u>		<u>82,508</u>
	<u>516,687</u>	<u>3,542</u>	<u>520,229</u>
Plant operations:			
Salaries	1,031,531	675	1,032,206
Materials and supplies	30,009		30,009
General expense	18,699		18,699
Utilities	486,446		486,446
Chemicals	224,684		224,684
Special services	<u>235,031</u>		<u>235,031</u>
	<u>2,026,400</u>	<u>675</u>	<u>2,027,075</u>

(continued)

DERRY TOWNSHIP MUNICIPAL AUTHORITY

SCHEDULE OF OPERATING EXPENSES (CONTINUED)

YEARS ENDED DECEMBER 31, 2016

	<u>Wastewater fund</u>	<u>Stormwater fund</u>	<u>Total</u>
Maintenance:			
Materials and supplies	\$ 6,141		\$ 6,141
General expense	7,755		7,755
Equipment repairs	350,634		350,634
Vehicle repairs	19,564		19,564
Automation control services	<u>9,857</u>		<u>9,857</u>
	<u>393,951</u>		<u>393,951</u>
Technical services:			
Salaries	210,670		210,670
Materials and supplies	18,957		18,957
General expense	5,529		5,529
Special services	<u>45,863</u>		<u>45,863</u>
	<u>281,019</u>		<u>281,019</u>
Miscellaneous project expense	<u>122,701</u>		<u>122,701</u>
Total operating expenses	<u><u>\$ 5,790,902</u></u>	<u><u>\$ 341,229</u></u>	<u><u>\$ 6,132,131</u></u>