

DERRY TOWNSHIP MUNICIPAL AUTHORITY

***YEARS ENDED
DECEMBER 31, 2018 AND 2017***

DERRY TOWNSHIP MUNICIPAL AUTHORITY

YEARS ENDED DECEMBER 31, 2018 AND 2017

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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, 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.

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, 2018 and 2017, 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.

Change in Accounting Principles

As discussed in Notes 1 and 7 to the financial statements, in 2018 the Authority adopted new accounting guidance Government Accounting Standards Board (GASB) Statement No 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

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 Steidman & Fritz

Camp Hill, Pennsylvania
June 5, 2019

DERRY TOWNSHIP MUNICIPAL AUTHORITY

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

YEAR ENDED DECEMBER 31, 2018

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

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, 2018, 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 include three components to reflect 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).

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.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

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

YEAR ENDED DECEMBER 31, 2018

FINANCIAL HIGHLIGHTS – YEAR ENDED DECEMBER 31, 2018

- ❖ The Authority's total assets and deferred outflows of resources exceeded total liabilities by \$59.74 million, including \$48.03 million invested in capital assets, \$5.87 million in restricted funds in the custody of the Trustee and \$5.84 million in unrestricted funds. The Authority's net position decreased slightly by \$149,067 (~0.2%).
- ❖ Current assets increased by \$2.01 million (~24%).
- ❖ Current liabilities increased by \$396,000 (~12%).
- ❖ Operating revenues from all sources increased by \$641,500 (~5.4%).
- ❖ Operating expenses increased by \$1.78 million (~27.5%).

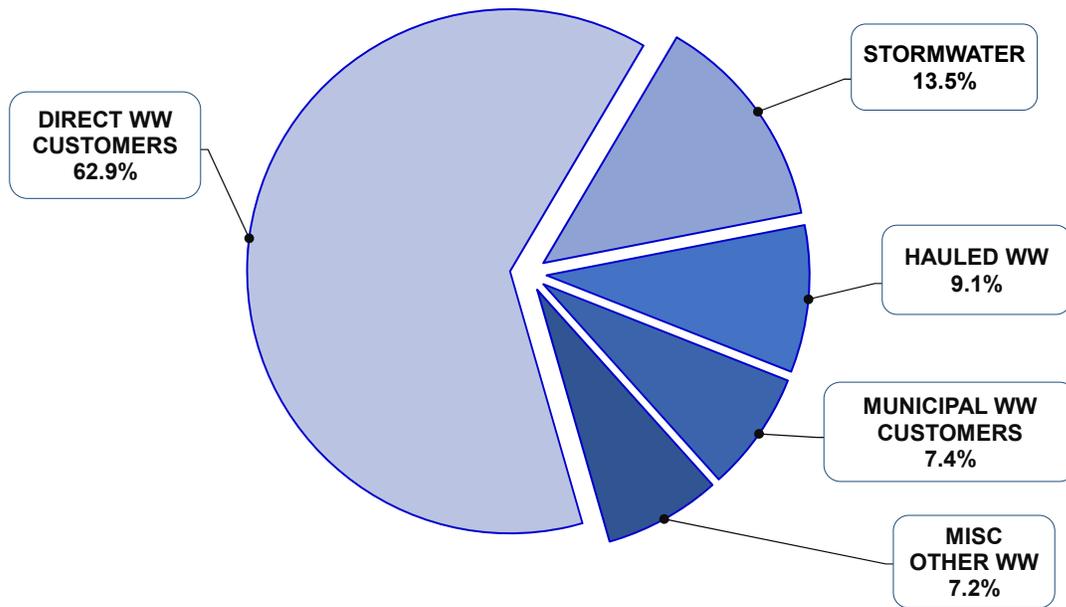
FINANCIAL ANALYSIS

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, 2018 and 2017 is presented on Schedule A, accompanying this MD&A.

DERRY TOWNSHIP MUNICIPAL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)
YEAR ENDED DECEMBER 31, 2018

REVENUE

**FIGURE 1
COMBINED OPERATING REVENUE DETAIL**



COMBINED – The overall combined 2018 Authority operating revenues, which increased by more than 5%, was attributable to two primary factors; a modest 2% WW user rate increase and a continuing significant increase (>60%) in wastewater surcharges received from one industrial customer.

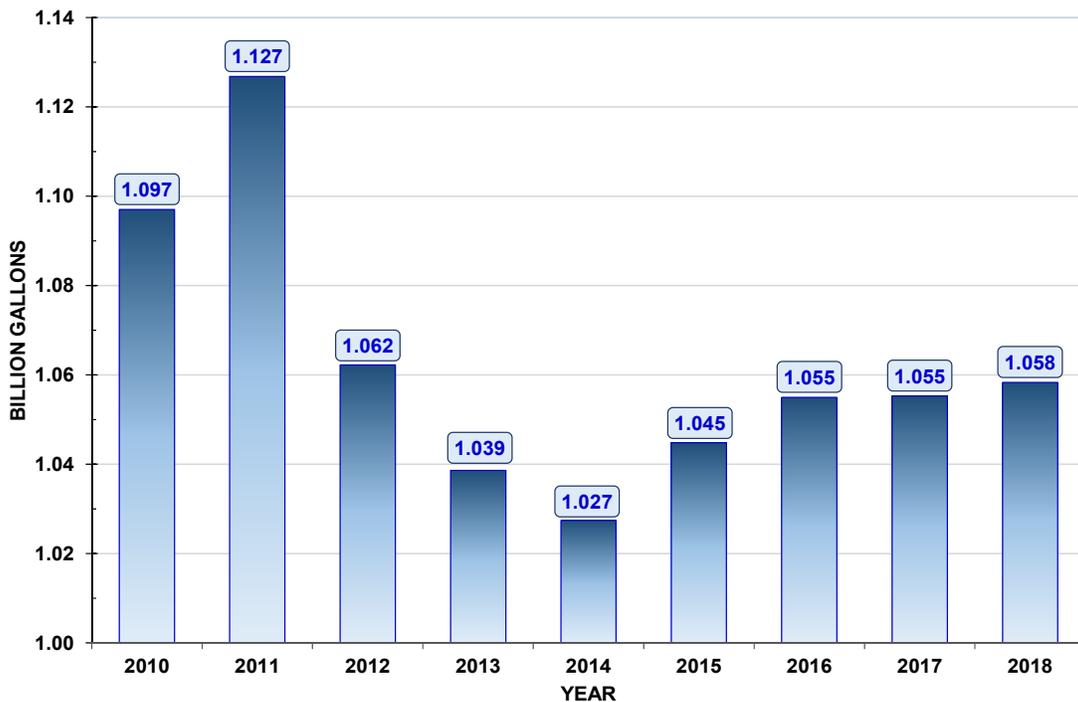
Figure 1 presents a detailed breakdown of the various components of the Authority's combined operating revenue.

DERRY TOWNSHIP MUNICIPAL AUTHORITY
 MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)
 YEAR ENDED DECEMBER 31, 2018

REVENUE

WW REVENUE – The 2018 billable wastewater increased slightly over the 2017 volume continuing the modestly positive sign that the downward trend of decreasing billable WW experienced several years ago have been reversed. Figure 2 presents the most recent nine-year trend of billable wastewater volumes. The Authority will continue to monitor this trend for future changes.

**FIGURE 2
 BILLABLE WASTEWATER VOLUME**



During 2018, WW revenue increased by \$665,900 (6.6%) from all the Authority's WW customers. A significant portion of this revenue increase was attributable to the strength of waste surcharges collected from an industrial user. An approved 2% user rate increase resulted in approximately \$128,000 or ~1.7% from the direct billed customers. The 2018 revenue from the Authority's three separately-billed municipal customers increased due to the user rate increase and modestly higher wastewater flows caused by the wet weather during 2018. Hauled wastewater processing revenue increased in 2018 by \$14,400 (1.3%) due to a similar implemented tipping rate increase and normal annual variation.

DERRY TOWNSHIP MUNICIPAL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)
YEAR ENDED DECEMBER 31, 2018

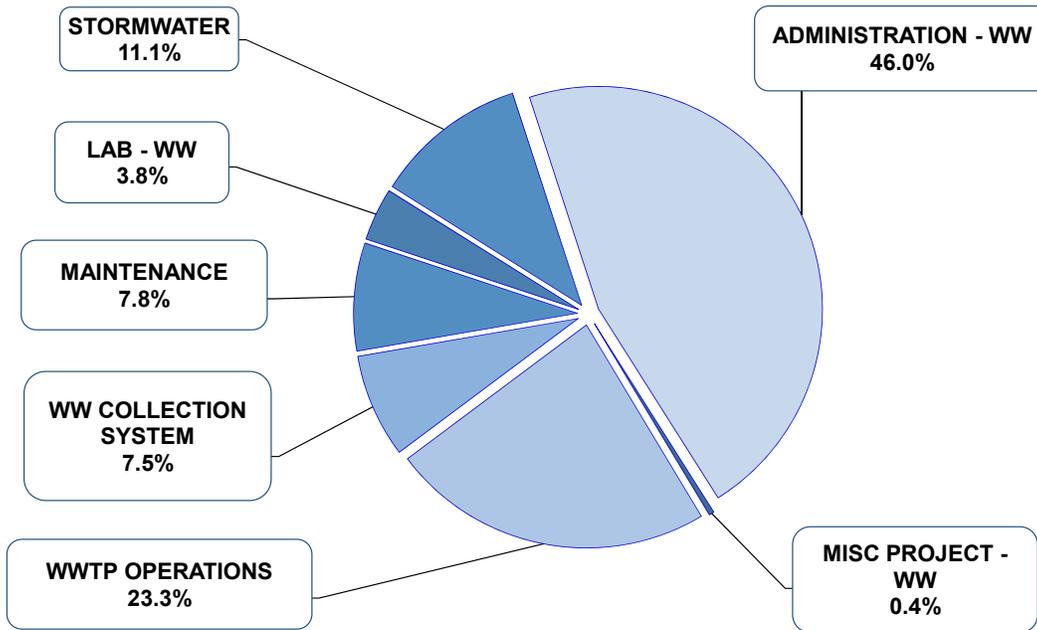
REVENUE

SW REVENUE – During 2018, approximately \$1.68 million in revenues were collected and represented a slight decrease of approximately 1.4%. Based on this revenue number, it appears that the SW revenue stream has stabilized and will remain near this level for the foreseeable future.

EXPENSES

COMBINED OPERATING EXPENSES – The 2018 combined operating expenses before depreciation increased by \$1.78 million (~27%) over the 2017 expenses. Figure 3 presents the breakdown of overall combined 2018 Authority operating expenses.

**FIGURE 3
COMBINED OPERATING EXPENSE DETAIL**



DERRY TOWNSHIP MUNICIPAL AUTHORITY

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

YEAR ENDED DECEMBER 31, 2018

EXPENSES

WW OPERATING EXPENSES – The 2018 WW administrative expenses increased by \$1,303,660 (~45%). This increase is due in large part to the GASB 75 reporting requirements for an OPEB liability resulting from the Authority's implementation of a limited retiree medical coverage program. This \$1.1 million liability was provided by the Authority's actuarial consultant in accordance with the GASB 75 requirements.

Other significant contributors to these increases included professional support services by the Authority's human resource related legal fees, as well as general legal fees related to the undertaking of a Guaranteed Energy Savings Act. Additionally, the Authority experienced increased expenses related to the payout of accrued PTO resulting from staff departures and retirements and the Authority's annual PTO buy back.

The WW collection system costs increased by more than \$90,000 (2%) resulted in large part from repairs to a water supply line, pump station force main and sinkhole and the installation or repair to several service laterals.

Increased costs for operations department were driven primarily by increasing costs for chemicals and biosolids disposal, as well as replacement components for the effluent UV system. Power costs increased due to long repair time for the existing cogeneration unit. Additionally, during 2018, the Authority reorganized and separated operations and maintenance into two separate departments which has resulted in a somewhat skewed presentation of expenses when compared to 2017.

SW OPERATING EXPENSES – During 2018, the SW fund operating expenses were approximately 65% higher than 2017 and in line with the 2018 budget numbers. Increased expense levels were driven by the ongoing program ramp-up including additional engineering services, staffing the field crew with a total of four (4) full-time staff salaries, including benefits. More than \$275,000 was spent on both reactive and proactive repairs to the failing stormwater infrastructure assets.

COMBINED NONOPERATING REVENUE – The 2018 nonoperating revenues, including interest income, grants and capacity fees increased by \$274,600 (62%) over 2017. Capacity fees and interest income showed a significant increase over 2017. 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. The 2018 development activity resulted in a capacity fee increase of \$79,700 (26%). An improved interest rate environment resulted in a revenue increase of \$128,700 (~138%) on investments.

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

YEAR ENDED DECEMBER 31, 2018

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. During 2018, the Authority received developer contributions for sanitary sewer extensions totaling approximately \$14,000.

COMBINED NONOPERATING EXPENSE – In 2018, as a result of a 2018 bond issuance, the overall bonds and notes payable and amortization of bond premiums increased by more than \$80,000 (~9%). Additionally, the Authority experienced a significant flood loss write off of \$590,192 due to the July 2018 flood event. The combined total nonoperating expense increased by more than \$724,000 (~76%). This resulted in a net loss before contributions of more than \$213,000.

TOTAL NET POSITION – As detailed on Schedule B, as of December 31, 2018 and 2017, the Authority had total net positions of \$59,738.8 million and \$59,887.9 million.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

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

YEAR ENDED DECEMBER 31, 2018

ASSETS – The 2018 year-end value of total assets increased by \$3.7 million (4%) when compared to 2017 year end. A breakdown of the total assets by category is presented in Schedule B. The 2018 value of capital assets decreased \$1.68 million over 2017 levels. When 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 Table 1, below.

TABLE 1
PROPERTY, PLANT AND EQUIPMENT
PLACED IN SERVICE IN 2018

Collection system improvements	\$ -
Plant improvements	-
Collection lines	-
New equipment	84,700
Vehicles	224,500
Office improvements	20,200
Developer contributions	420,800
Stormwater assets	<u>169,800</u>
Total additions	920,000
Less retirements	<u>(696,600)</u>
Net increase	<u><u>\$ 223,400</u></u>

There was a net increase of \$3.4 million in other assets. During 2018, as payments related to several ongoing capital projects were made from the 2015 Capital Projects Fund, the fund balance decreased by \$742,000. The remaining balance of \$302,300 will be spent in early 2019 for the ongoing capital projects.

In early 2018, the Authority closed on a \$5 million bond issue for a number of significant wastewater and stormwater projects. During 2018, approximately \$2,260,000 had been expended on several projects including a stormwater infrastructure replacement project, a televisual camera truck for stormwater pipeline inspection, purchase of a centrifuge rotating assembly and the installation of a security camera system for the Clearwater Road plant.

Continued funding of the Wastewater Resource Allocation Fund through capacity fees will continue with a projected transfer of more than \$392,000 in early 2019. 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.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

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

YEAR ENDED DECEMBER 31, 2018

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 2018, this fund increased by \$19,300. The flood fund, which was designated to cover flood insurance deductibles, is capped at \$200,000 and that balance was maintained during 2018.

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 \$396,430. Accounts payable increased by \$300,400, 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 slightly (~2%) and with ongoing staff departures and new additions, the payroll and payroll deduction liabilities also decreased slightly (~2%).

In 2018, long-term liabilities increased by \$3.28 million (10.5%). The significant contributor to this increase was a long-term OPEB liability of \$1.1 million created by the Authority's implementation of a limited retiree medical coverage program. Capital lease liabilities with Conewago Township and Conewago Municipal Authority decreased by \$331,600 due to normally scheduled principal payments. The portion of long-term debt payments not due within one year of December 31, 2018 decreased by \$1.68 million (13%) over December 31, 2017 levels in accordance with debt repayment schedules. Further information about long-term liabilities can be found in Note 5 to the financial statements.

With the changes in both current and long-term liabilities, the resulting total liabilities increased by \$3.679 million (10.8%) from 2017 levels.

CONCLUDING COMMENTS – In view of increased operating expenses combined with the uncertainty in certain revenue amounts, 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 February 1, 2019. The Authority Board also approved subsequent annual wastewater [sewer] rate adjustments for 2020 and 2021 of 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)
YEAR ENDED DECEMBER 31, 2018

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 2018 with a nearly stable net position (-0.2%). 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.

2019 OUTLOOK – Several events occurred or were pending at the end of 2018 that will impact the Authority's operations for 2019 and beyond.

As the Authority continued to revise its long-range capital planning, it has become clearly evident that the issue of climate change, with more frequent and greater magnitude Swatara Creek flood events, will continue to be problematic for the Authority's facilities. Consequently, the staff has undertaken a multi-year plan to relocate new facilities to a portion of the current site with a much higher elevation. Additional flood proofing and facility resiliency efforts will serve to minimize the impact of flood events, as well as to facilitate post flood facility restoration activities. Two key projects were initiated in early 2019. The projected cost of these projects required the issuance of new money.

Recognizing the forthcoming projects, the Authority authorized their finance team to engage in the issuance of bonds for \$10,000,000 in new money. The bank qualified issuance, will be issued by the Authority as guaranteed sewer revenue (GSR) bonds and will include a guarantee provided by the Township of Derry. The 2019 GSR issue, which will be paid by the Authority through user rates and projected significant energy savings, closed in April 2019 and included a wraparound debt structure to match the Authority's existing debt service and consequently will result in a minimal impact on user rates.

During 2018, 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 \$392,000 generated through the collection of capacity fees. This fund supports the long-range capital asset management program including the renewal or replacement of any fixed asset. All capacity fees collected during any given fiscal year, with a minimum transfer target of \$250,000, will be transferred to this fund. If the capacity fees do not meet the target minimum during any year, 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)
YEAR ENDED DECEMBER 31, 2018

SCHEDULE A
CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	(in thousands of dollars)			% Change
	2018	2017	\$ Change	
Operating revenues	\$ 12,459.1	\$ 11,817.6	\$ 641.5	5.4%
Operating expenses	8,282.1	6,497.3	1,784.8	27.5%
Total operating income before depreciation and amortization	4,177.0	5,320.3	(1,143.3)	-21.5%
Depreciation and amortization	3,334.1	3,369.3	(35.2)	-1.0%
Cost sharing	100.0		100.0	
Total operating income	742.9	1,951.0	(1,208.1)	-61.9%
Nonoperating revenues	715.9	441.2	274.7	62.3%
Nonoperating expenses	1,671.8	946.9	724.9	76.6%
Income before contributions and cost-sharing agreements	(213.0)	1,445.3	(1,658.3)	-114.7%
Cost-sharing agreements	50.0	50.0	-	0.0%
Sewer extensions contributed by developers	14.0	7,906.4	(7,892.4)	-99.8%
Increase (decrease) in net position	<u>\$ (149.0)</u>	<u>\$ 9,401.7</u>	<u>\$ (9,550.7)</u>	<u>-101.6%</u>

DERRY TOWNSHIP MUNICIPAL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)
YEAR ENDED DECEMBER 31, 2018

SCHEDULE B
CONDENSED STATEMENTS OF NET POSITION
DECEMBER 31, 2018 AND 2017

	(in thousands of dollars)			
	2018	2017	VARIANCE	
			\$	%
Assets and deferred outflows of resources				
Current assets	\$ 10,450.6	\$ 8,440.6	\$ 2,010.0	23.8%
Capital assets	77,503.7	79,188.6	(1,684.9)	-2.1%
Other assets	8,213.6	4,808.9	3,404.7	70.8%
Total assets	96,167.9	92,438.1	3,729.8	4.0%
Deferred outflows of resources	1,464.2	1,664.0	(199.8)	-12.0%
Total assets and deferred outflows of resources	<u>\$ 97,632.1</u>	<u>\$ 94,102.1</u>	<u>\$ 3,530.0</u>	<u>3.8%</u>
Liabilities and net position				
Current liabilities	\$ 3,765.2	\$ 3,368.8	\$ 396.4	11.8%
Long-term liabilities	34,128.0	30,845.4	3,282.6	10.6%
Total liabilities	<u>37,893.2</u>	<u>34,214.2</u>	<u>3,679.0</u>	<u>10.8%</u>
Net position:				
Net investment in capital assets	48,026.7	48,966.4	(939.7)	-1.9%
Restricted for debt service and capital projects	5,873.7	2,508.5	3,365.2	134.2%
Unrestricted	5,838.5	8,413.0	(2,574.5)	-30.6%
Total net position	<u>59,738.9</u>	<u>59,887.9</u>	<u>(149.0)</u>	<u>-0.2%</u>
Total liabilities and net position	<u>\$ 97,632.1</u>	<u>\$ 94,102.1</u>	<u>\$ 3,530.0</u>	<u>3.8%</u>

DERRY TOWNSHIP MUNICIPAL AUTHORITY

STATEMENTS OF NET POSITION – DECEMBER 31, 2018 AND 2017

ASSETS

	<u>2018</u>	<u>2017</u>
Current assets:		
Cash	\$ 6,713,593	\$ 3,945,958
Investments	3,107,036	3,865,858
Sewer rents receivable	333,954	220,947
Accounts receivable, other	97,468	198,969
Interest receivable	4,171	3,407
Capital contribution due from Conewago Municipal Authority		
Inventory	7,337	8,640
Prepaid insurance	187,025	196,801
	<hr/>	<hr/>
Total current assets	<u>10,450,584</u>	<u>8,440,580</u>
Property, plant and equipment	134,784,819	134,561,401
Less accumulated depreciation and amortization	<u>58,707,652</u>	<u>55,479,979</u>
	76,077,167	79,081,422
Construction work in progress	707,477	39,386
Projects in progress	<u>719,028</u>	<u>67,824</u>
	<u>77,503,672</u>	<u>79,188,632</u>
Other assets:		
Accounts receivable, long-term		
Cash and investments designated for improvements and contingency	2,339,971	2,300,367
Cash and investments restricted for capital projects and debt service	<u>5,873,677</u>	<u>2,508,521</u>
Total other assets	<u>8,213,648</u>	<u>4,808,888</u>
Total assets	96,167,904	92,438,100
Deferred outflows of resources, deferred loss on refunded debt	<u>1,464,152</u>	<u>1,663,987</u>
Total assets and deferred outflows of resources	<u><u>\$ 97,632,056</u></u>	<u><u>\$ 94,102,087</u></u>

See notes to financial statements.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

STATEMENTS OF NET POSITION – DECEMBER 31, 2018 AND 2017

LIABILITIES AND NET POSITION

	<u>2018</u>	<u>2017</u>
Current liabilities:		
Accrued interest on debt	\$ 34,240	\$ 30,044
Current maturities of:		
Sewer revenue bonds	1,630,000	1,560,000
Subsidy agreements with Derry Township	855,000	830,000
Capital lease obligations	331,590	328,292
Accounts payable	603,831	303,466
Accrued:		
Vacation and sick leave	202,531	206,898
Payroll and payroll deductions	<u>108,044</u>	<u>110,106</u>
Total current liabilities	<u>3,765,236</u>	<u>3,368,806</u>
Long-term liabilities:		
Other postemployment benefits liability	1,102,231	
Long-term debt, net of current portion:		
Sewer revenue bonds	11,148,389	12,832,431
Subsidy agreements with Derry Township	18,637,623	14,441,615
Capital lease obligations	<u>3,239,739</u>	<u>3,571,330</u>
Total long-term liabilities	<u>34,127,982</u>	<u>30,845,376</u>
Total liabilities	<u>37,893,218</u>	<u>34,214,182</u>
Net position:		
Net investment in capital assets	48,026,694	48,966,421
Restricted for debt service and capital projects	5,873,677	2,508,521
Unrestricted	<u>5,838,467</u>	<u>8,412,963</u>
Total net position	<u>59,738,838</u>	<u>59,887,905</u>
Total liabilities and net position	<u>\$ 97,632,056</u>	<u>\$ 94,102,087</u>

See notes to financial statements.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Operating revenues:		
Service charges:		
Direct customers	\$ 9,509,713	\$ 9,405,973
Municipal customers	920,817	628,214
Hauled waste processing	1,129,349	1,114,907
Surcharges	685,524	420,556
Biosolids processing	81,686	96,836
Connection and related fees	39,467	37,071
Miscellaneous	92,572	114,047
	<u>12,459,128</u>	<u>11,817,604</u>
Operating expenses:		
Administrative, payroll taxes and employee benefits	4,375,157	2,912,622
Collection system	977,747	701,059
Plant operations	1,933,307	2,103,028
Maintenance	647,946	397,179
Technical services	317,328	328,312
Miscellaneous project expense	30,631	55,131
	<u>8,282,116</u>	<u>6,497,331</u>
Operating income before depreciation and amortization	4,177,012	5,320,273
Depreciation and amortization	3,334,100	3,369,374
Cost sharing expense	100,000	
	<u>742,912</u>	<u>1,950,899</u>

(continued)

DERRY TOWNSHIP MUNICIPAL AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (CONTINUED)

YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Operating income (brought forward)	\$ 742,912	\$ 1,950,899
Nonoperating income:		
Capacity fees	391,536	311,840
Interest income	222,081	93,329
Miscellaneous	<u>102,241</u>	<u>36,103</u>
	<u>715,858</u>	<u>441,272</u>
Nonoperating expense:		
Interest on:		
Capital lease	37,494	40,759
Bonds and notes payable	1,052,733	970,402
Loss on disposal of fixed assets	590,192	
Bond issuance costs	59,554	
Amortization of bond premiums	<u>(68,150)</u>	<u>(64,187)</u>
	<u>1,671,823</u>	<u>946,974</u>
Income (loss) before contributions	(213,053)	1,445,197
Stormwater cost-sharing agreement	50,000	50,000
Sewer extensions contributed by developers	<u>13,986</u>	<u>7,906,465</u>
Increase (decrease) in net position	(149,067)	9,401,662
Net position:		
Beginning of year	<u>59,887,905</u>	<u>50,486,243</u>
End of year	<u>\$ 59,738,838</u>	<u>\$ 59,887,905</u>

See notes to financial statements.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

STATEMENTS OF CHANGES IN NET POSITION

YEARS ENDED DECEMBER 31, 2018 AND 2017

	Net position			Net investment in capital assets
	Total	Unrestricted	Restricted	
Balance, January 1, 2017	\$ 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	59,887,905	8,412,963	2,508,521	48,966,421
Increase (decrease) in net position	<u>(149,067)</u>	<u>(2,574,496)</u>	<u>3,365,156</u>	<u>(939,727)</u>
Balance, December 31, 2018	<u>\$ 59,738,838</u>	<u>\$ 5,838,467</u>	<u>\$ 5,873,677</u>	<u>\$ 48,026,694</u>

See notes to financial statements.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Cash received from customers and users	\$ 13,068,782	\$ 11,747,907
Cash payments to:		
Suppliers	(4,917,760)	(4,032,982)
Employees	<u>(2,715,108)</u>	<u>(2,414,144)</u>
Net cash provided by operating activities	<u>5,435,914</u>	<u>5,300,781</u>
Cash flows from capital and related financing activities:		
Nonoperating income	152,241	36,103
Capacity fees	391,536	311,840
Purchase of property, plant and equipment	(2,184,326)	(220,767)
Debt principal paid	(2,390,000)	(2,260,000)
Capital lease paid	(328,293)	(325,025)
Bond proceeds, net of issuance costs, premiums and discounts	4,999,998	
Interest paid on debt, including amounts capitalized	<u>(884,814)</u>	<u>(813,095)</u>
Net cash used in capital and related financing activities	<u>(243,658)</u>	<u>(3,270,944)</u>
Cash flows from investing activities:		
Interest received	221,317	91,432
Change in investments	<u>3,940,656</u>	<u>2,759,988</u>
Net cash provided by investing activities	<u>4,161,973</u>	<u>2,851,420</u>

(continued)

DERRY TOWNSHIP MUNICIPAL AUTHORITY

STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Net increase in cash and cash equivalents	\$ 9,354,229	\$ 4,881,257
Cash and cash equivalents (Note 2):		
Beginning of year	<u>8,680,048</u>	<u>3,798,791</u>
End of year	<u>\$ 18,034,277</u>	<u>\$ 8,680,048</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 742,912	\$ 1,950,899
Adjustments:		
Depreciation and amortization of property, plant and equipment	3,334,100	3,369,374
(Increase) decrease in:		
Receivables	1,874,550	14,268
Inventory	1,303	
Prepaid insurance	9,776	(50,226)
Increase (decrease) in:		
Accounts payable, trade and other	(1,622,529)	4,676
OPEB	1,102,231	
Accrued expenses	<u>(6,429)</u>	<u>11,790</u>
Net cash provided by operating activities	<u>\$ 5,435,914</u>	<u>\$ 5,300,781</u>
Noncash activities:		
Property contributed by developers	\$ 13,986	\$ 7,906,465
Accounts payable for property, plant and equipment at year end	151,742	7,623
Contributions to stormwater		50,000
Amortization of bond premiums	68,150	64,187

See notes to financial statements.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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

YEARS ENDED DECEMBER 31, 2018 AND 2017

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.

Other postemployment benefits plan:

The Authority reports other postemployment benefits obligations as earned by participants using actuarial calculations, which allocate expected costs over employees' service periods.

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. No interest was capitalized in 2018 or 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.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

1. Operations and significant accounting policies (continued):

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.

Use of estimates:

The process of preparing financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources at the date of the financial statements, and the reported amounts of revenue and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Adoption of GASB Statements:

For the year ended December 31, 2018, the Authority implemented the following:

GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement addresses reporting by governments that provide OPEBs to its employees and for governments that finance OPEB for employees of other governments.

GASB issued Statement No. 85, *Omnibus 2017*. This Statement addresses practice issues that have been identified during implementation and application of certain GASB Statements.

GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. This Statement improves guidance regarding in-substance defeasance of debt for accounting and financial reporting purposes and how those activities should be reported.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

1. Operations and significant accounting policies (continued):

Pending GASB statements:

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations. The provisions of GASB Statement No. 83 are effective for the Authority's December 31, 2019 financial statements.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This Statement improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The provisions of GASB Statement No. 84 are effective for the Authority's December 31, 2019 financial statements.

In June 2017, the GASB issued Statement No. 87, *Leases*. This Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The provisions of GASB Statement No. 87 are effective for the Authority's December 31, 2020 financial statements.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The provisions of GASB Statement No. 88 are effective for the Authority's December 31, 2019 financial statements.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This Statement is to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. The provisions of GASB Statement No. 89 are effective for the Authority's December 31, 2020 financial statements.

The effect of implementation of these statements has not yet been determined.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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, 2018, the cash balances reported by the financial institutions and included in investment accounts totaled approximately \$18,140,000. Cash held at each financial institution was covered by Federal Deposit Insurance Corporation (FDIC) insurance up to \$250,000 per financial institution. Approximately \$17,390,000 was covered by collateral held in accordance with Act 72 not in the Authority's name.

Investments

As of December 31, 2018 and 2017, the Authority had the following deposits and investments:

<u>Investments</u>	<u>Maturities</u>	<u>Ratings</u>	<u>2018</u>	<u>2017</u>
Cash and money market investments			\$ 11,314,495	\$ 4,734,090
U.S. treasury notes	Less than one year			<u>3,937,082</u>
Total investments			11,314,495	8,671,172
Accrued interest on government securities			6,189	3,574
Total deposits, including petty cash			<u>6,713,593</u>	<u>3,945,958</u>
Total deposits and investments			<u>\$ 18,034,277</u>	<u>\$ 12,620,704</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

YEARS ENDED DECEMBER 31, 2018 AND 2017

2. Cash and investments (continued):

Custodial credit risk, deposits and investments:

Reconciliation to the statements of net position

	<u>2018</u>	<u>2017</u>
Current assets:		
Cash	\$ 6,713,593	\$ 3,945,958
Investments	3,107,036	3,865,858
Other assets, cash and investments	<u>8,213,648</u>	<u>4,808,888</u>
	<u>\$ 18,034,277</u>	<u>\$ 12,620,704</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>2018</u>	<u>2017</u>
Connection fees	\$ 30,637	\$ 35,937
Stormwater charges	46,236	50,574
Miscellaneous	<u>20,595</u>	<u>112,458</u>
	<u>\$ 97,468</u>	<u>\$ 198,969</u>

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

4. Property, plant and equipment:

Property, plant and equipment consisted of the following for 2018 and 2017:

	January 1, 2017	Additions	Deletions	Reclassifications	December 31, 2017	Additions	Deletions	Reclassifications	December 31, 2018
Land and right-of-ways	\$ 2,370,024				\$ 2,370,024				\$ 2,370,024
Collection lines	41,998,486	\$ 466,537			42,465,023	\$ 13,986		\$ 406,861	\$ 42,885,870
Sewage treatment plant	72,139,785			\$ 389,749	72,529,534		\$ (696,620)		71,832,914
Plant equipment	3,831,670	14,476			3,846,146	84,688			3,930,834
Vehicles	1,317,376				1,317,376	224,500			1,541,876
Office equipment	997,855	25,416			1,023,271	20,186			1,043,457
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	7,539,928		26,195	7,666,123	47,740		122,077	7,835,940
Construction in progress	351,410	77,725		(389,749)	39,386	1,083,596	(8,644)	(406,861)	707,477
Projects in progress	3,150	90,869		(26,195)	67,824	785,445	(12,164)	(122,077)	719,028
	126,453,660	8,214,951		-	134,668,611	2,260,141	(717,428)	-	136,211,324
Less accumulated depreciation	52,110,606	3,369,373			55,479,979	3,334,100	(106,427)		58,707,652
	<u>\$ 74,343,054</u>	<u>\$ 4,845,578</u>		<u>\$ -</u>	<u>\$ 79,188,632</u>	<u>\$ (1,073,959)</u>	<u>\$ (611,001)</u>	<u>\$ -</u>	<u>\$ 77,503,672</u>

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

5. 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.

Long-term bonds and leases outstanding at December 31, 2018 are as follows:

	Original borrowing	Date of issue/maturity	Interest rates to maturity	Annual principal payments to maturity	Outstanding December 31, 2018
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	6,145,000
Series of 2016	8,850,000	2016/2025	2.00% to 4.00%	\$525,000 to \$1,120,000	6,265,000
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	4,535,000
Series of 2015	8,610,000	2015/2028	1.00% to 3.25%	\$395,000 to \$990,000	7,565,000
Series of 2016	3,105,000	2016/2025	2.07% to 3.75%	\$10,000 to \$1,660,000	2,230,000
Series of 2018	5,010,000	2018/2030	1.70% to 4.00%	\$5,000 to \$2,445,000	5,010,000
Capital Lease Obligations:					
Phase I	2,740,609	2007/2025	1.00%	\$119,230 to \$157,590	1,029,138
Phase II	4,591,356	2010/2032	1.00%	\$51,453 to \$204,524	2,542,191
	<u>\$ 56,926,965</u>				<u>\$ 35,326,329</u>

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

5. Long-term debt (continued):

An amendment to the May 28, 2010 subsidy agreement with the Township of Derry was signed on February 15, 2018, 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 for 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%).

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

5. Long-term debt (continued):

Changes in long-term liabilities for the year ended December 31, 2018 and 2017 are as follows:

	Balance as of January 1, 2017	Additions	Retirements	Balance as of December 31, 2017	Additions	Retirements	Balance as of December 31, 2018
Sewer revenue bonds:							
Series of 2005	\$ 5,000			\$ 5,000			\$ 5,000
Series of 2015	7,775,000		\$ (730,000)	7,045,000		\$ (900,000)	6,145,000
Series of 2016	7,850,000		(925,000)	6,925,000		(660,000)	6,265,000
Subsidy agreements:							
Series of 2014	4,900,000		(180,000)	4,720,000		(185,000)	4,535,000
Series of 2015	8,080,000		(120,000)	7,960,000		(395,000)	7,565,000
Series of 2016	2,785,000		(305,000)	2,480,000		(250,000)	2,230,000
Series of 2018				-	\$ 5,010,000		5,010,000
Total bonds payable	31,395,000		(2,260,000)	29,135,000	5,010,000	(2,390,000)	31,755,000
Capital lease obligations	4,224,648		(325,026)	3,899,622		(328,293)	3,571,329
	<u>\$ 35,619,648</u>		<u>\$ (2,585,026)</u>	33,034,622	<u>\$ 5,010,000</u>	<u>\$ (2,718,293)</u>	35,326,329
Current maturities				(2,718,292)			(2,816,590)
Unamortized original issue premium, net				529,046			516,012
Long-term debt, net of current maturities				<u>\$ 30,845,376</u>			<u>\$ 33,025,751</u>

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

5. 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 \$1,029,138 at December 31, 2018. The cost of the related capital asset is \$4,229,548, with accumulated depreciation of \$736,524. The capital lease obligation to Conewago Municipal Authority had a balance of \$2,542,191 at December 31, 2018. The cost of the related capital asset is \$4,099,169, with accumulated depreciation of \$461,157.

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>
2019	\$ 2,816,313	\$ 855,764	\$ 3,672,077
2020	2,879,642	782,279	3,661,921
2021	3,283,004	713,175	3,996,179
2022	3,371,399	630,262	4,001,661
2023	3,419,829	582,457	4,002,286
2024-2028	15,654,685	1,775,963	17,430,648
2029-2032	<u>3,901,457</u>	<u>150,388</u>	<u>4,051,845</u>
	<u>\$ 35,326,329</u>	<u>\$ 5,490,288</u>	<u>\$ 40,816,617</u>

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

6. 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 \$132,385 and \$131,278 for the years ended December 31, 2018 and 2017, respectively.

7. Other postemployment benefits:

The Authority applies GASB standards for the measurement, recognition and reporting of expenditures for postemployment benefits (OPEB) other than pensions and the related liabilities in the financial reports of state and local governmental employers.

Plan description:

The Authority provides certain postemployment healthcare benefits to its employee retirees through one single-employer, defined benefit other postemployment benefit (OPEB) plan. The Authority's OPEB plan is governed by the Derry Township Municipal Authority Board, which may amend provisions, and which is responsible for the management of plan assets. The OPEB plan does not issue a separate report.

Eligibility: Any employee who retires after having at least 15 years of service and after attaining age 60, or who retires after having at least 10 years of service after attaining age 62.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

7. Other postemployment benefits:

Plan membership:

The OPEB plan membership consisted of the following (actual number of plan members):

Valuation date	December 31, 2018
Active plan members	37
Inactive plan members or beneficiaries currently receiving benefits	<u>1</u>
Total	<u><u>38</u></u>

Benefits provided:

Medical and prescription drug coverage is provided to the retiree until the earlier of Medicare age or five years maximum. The retiree is responsible for paying \$250 per year for coverage. Coverage will not be provided if the retiree is eligible for coverage from another employer, and upon loss of coverage, the retiree is not eligible to return to the plan. Spouses of retirees are also eligible for the same benefits under the same terms as long as they are not eligible for coverage from another employer.

Annual OPEB cost and net OPEB obligation:

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend rate. Amounts determined are subject to continual revision, as actual results are compared to past expectations and new estimates are made about the future.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

7. Other postemployment benefits (continued):

Annual OPEB cost and net OPEB obligation:

The Authority's annual OPEB costs and net OPEB obligations to the plan for the year ended December 31, 2018 were as follows:

Annual OPEB expense, changes in benefit terms	\$ 1,102,231
Contribution made	<u>0</u>
Change in net OPEB liability	1,102,231
Net OPEB liability:	
Beginning of year	<u>0</u>
End of year	<u><u>\$ 1,102,231</u></u>

Annual OPEB cost and net OPEB obligation:

Funded status and schedule of funding progress:

<u>Actuarial valuation date</u>	<u>Actuarial value of assets (a)</u>	<u>Accrued liability (AAL) - entry age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded ratio (a/b)</u>	<u>Annual covered payroll (c)</u>	<u>Percentage of covered payroll ((b-a)/c)</u>
12/31/18	\$ -	\$ 1,102,231	\$ 1,102,231	0.00%	\$ 2,338,104	47.14%

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

7. Other postemployment benefits (continued):

Actuarial methods and assumptions:

The Authority's net OPEB liability was determined as part of an actuarial valuation at December 31, 2018.

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of the valuation and on the historical pattern of sharing the benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculation. The projections of benefits for financial reporting purposes do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

7. Other postemployment benefits (continued):

Actuarial methods and assumptions:

Information as of the latest actuarial valuation is as follows:

Valuation date	12/31/18
Actuarial cost method	Entry age normal
Actuarial assumptions:	
Salary	Annual increase of 5.50%
Annual trend rates:	
	<u>Health Care</u>
2019	5.50%
2020	5.50%
2021	5.50%
2022 and later	5.40%
Disability	No disability was assumed
Retirement	10% for age 60-62, 50% for ages 62-64, and 100% at age 65.
Mortality	IRS 2017 Static Combined Table for Small Plans
Eligible retirees electing coverage	100%
Married at retirement	80%
Spouse age	Wives are assumed to be three years younger than their husbands

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

7. Other postemployment benefits (continued):

Discount rate:

The discount rate used to measure the total OPEB liability was 3.64%. This is based on the S&P Bond 20-Year High Grade Rate Index at December 31, 2018.

Sensitivity of the net OPEB liability to changes in the discount rate:

The following presents the net OPEB liability of the plan calculated using the discount rate described above, as well as what the plan's net OPEB liability would be if they were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rates:

	<u>1% Decrease</u> 2.64%	<u>Current discount rate</u> 3.64%	<u>1% Increase</u> 4.64%
Total net OPEB liability	<u>\$ 1,140,283</u>	<u>\$ 1,102,231</u>	<u>\$ 1,063,283</u>

Sensitivity of the net OPEB liability to changes in the medical trend rate:

The following presents the net OPEB liability of the plan calculated using the healthcare cost trend rate described above, as well as what the plan's net OPEB liability would be if they were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current rates:

	<u>1% Decrease</u>	<u>Current valuation rates</u>	<u>1% Increase</u>
Total net OPEB liability	<u>\$ 1,024,878</u>	<u>\$ 1,102,231</u>	<u>\$ 1,190,705</u>

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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, 2018 and 2017.

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>
2019	\$ 24,000
2020	24,000
2021	24,000
2022	24,000
2023	24,000
2024-2028	120,000
2029-2033	120,000
2034-2038	120,000
2039-2043	120,000
2044-2045	48,000

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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

YEARS ENDED DECEMBER 31, 2018 AND 2017

10. Commitments:

The Authority has active construction projects as of December 31, 2018. At year end, the financial commitments with contractors related to these projects are as follows:

Project	Remaining commitment as of December 31, 2018
Southwest Plant Sludge Thickening	\$ 250,576
Infrastructure Replacement - Phase I	1,524
Manhole Raising	12,191
Centrifuge Bowl & Scroll Rotating Assembly	149,500
Wastewater Treatment Plant Infrastructure Coatings	133,200
Clearwater Road and Southwest Wastewater Treatment Plant Security Cameras	15,978
Sludge Building Boiler Replacement	98,542
Core Data Switching Infrastructure Refresh	7,460
Guaranteed Energy Savings Agreement Project	879,088
Relocation of Power Center #2	6,791
Underground Heating Lines Replacement	170,000
Totals	\$ 1,724,850

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. 2018 Flood:

In July 2018, there was a major flood which resulted in an estimated \$1.8 million in damages between building and equipment. DTMA has made repairs to the damaged building and received insurance proceeds of approximately \$500,000 to make the needed building repairs.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

12. 2018 Flood (continued):

Also, as a result of the flood, DTMA disposed of damaged equipment with a total cost of \$691,000, resulting in a loss of \$590,192. In addition, approximately \$1.5 million of equipment is idle as of December 31, 2018 as it is not operable without the equipment that was damaged. DTMA is currently performing a study to determine if the damaged equipment should be replaced in order to make the idle equipment operable again, or if a newer system should be purchased, in which case the \$1.5 million of idle equipment would be disposed. This has not yet been determined as of May 2019.

13. Subsequent events:

On April 30, 2019, Guaranteed Sewer Revenue Bonds, Series of 2019 were issued in the amount of \$9,535,000. Proceeds from the bonds will be used to pay the costs of issuing the bonds and to finance certain capital projects of the Authority. The annual principal payments range from \$5,000 to \$1,275,000 with final payment due December 15, 2037 (with interest rates ranging from 1.70% to 4.00%).

The Authority has evaluated subsequent events through June 5, 2019, 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, 2018

(See independent auditors' report)

ASSETS				
	Wastewater fund	Stormwater fund	Eliminations	Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Current assets:				
Cash	\$ 6,712,593	\$ 1,000		\$ 6,713,593
Investments	2,296,658	810,378		3,107,036
Sewer rents receivable	333,954			333,954
Accounts receivable, other, net of reserve of \$90,888 for the wastewater fund	458,642	991,919	\$ (1,353,093)	97,468
Interest receivable	4,171			4,171
Inventory	7,337			7,337
Prepaid insurance	187,025			187,025
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total current assets	<u>10,000,380</u>	<u>1,803,297</u>	<u>(1,353,093)</u>	<u>10,450,584</u>
Property, plant and equipment	126,721,744	8,063,075		134,784,819
Less accumulated depreciation and amortization	<u>58,325,028</u>	<u>382,624</u>		<u>58,707,652</u>
	68,396,716	7,680,451		76,077,167
Construction work in progress	707,477			707,477
Projects in progress	<u>80,751</u>	<u>638,277</u>		<u>719,028</u>
	<u>69,184,944</u>	<u>8,318,728</u>		<u>77,503,672</u>
Other assets:				
Cash and investments designated for improvements and contingency	2,339,971			2,339,971
Cash and investments restricted for capital projects and debt service	<u>4,863,104</u>	<u>1,010,573</u>		<u>5,873,677</u>
Total other assets	<u>7,203,075</u>	<u>1,010,573</u>		<u>8,213,648</u>
Total assets	86,388,399	11,132,598	(1,353,093)	96,167,904
Deferred outflows of resources, deferred loss on refunded debt	<u>1,464,152</u>			<u>1,464,152</u>
Total assets and deferred outflows of resources	<u>\$ 87,852,551</u>	<u>\$ 11,132,598</u>	<u>\$ (1,353,093)</u>	<u>\$ 97,632,056</u>

See notes to financial statements.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

COMBINING STATEMENT OF NET POSITION

YEAR ENDED DECEMBER 31, 2018

(See independent auditors' report)

LIABILITIES AND NET POSITION

	<u>Wastewater fund</u>	<u>Stormwater fund</u>	<u>Eliminations</u>	<u>Total</u>
Current liabilities:				
Accrued interest on debt	\$ 32,006	\$ 2,234		\$ 34,240
Current maturities of:				
Sewer revenue bonds	1,630,000			1,630,000
Subsidy agreements with Derry Township	853,250	1,750		855,000
Capital lease obligations	331,590			331,590
Accounts payable	1,549,514	407,410	\$ (1,353,093)	603,831
Accrued:				
Vacation and sick leave	191,732	10,799		202,531
Payroll and payroll deductions	<u>108,044</u>			<u>108,044</u>
 Total current liabilities	 <u>4,696,136</u>	 <u>422,193</u>	 <u>(1,353,093)</u>	 <u>3,765,236</u>
Long-term liabilities:				
Other postemployment benefits liability	980,986	121,245		1,102,231
Long-term debt, net of current portion:				
Sewer revenue bonds	11,148,389			11,148,389
Subsidy agreements with Derry Township	16,867,970	1,769,653		18,637,623
Capital lease obligations	<u>3,239,739</u>			<u>3,239,739</u>
 Total long-term liabilities	 <u>32,237,084</u>	 <u>1,890,898</u>		 <u>34,127,982</u>
 Total liabilities	 <u>36,933,220</u>	 <u>2,313,091</u>	 <u>(1,353,093)</u>	 <u>37,893,218</u>
 Net position:				
Net investment in capital assets	40,450,893	7,575,801		48,026,694
Restricted for debt service and capital projects	4,863,104	1,010,573		5,873,677
Unrestricted	<u>5,605,334</u>	<u>233,133</u>		<u>5,838,467</u>
 Total net position	 <u>50,919,331</u>	 <u>8,819,507</u>		 <u>59,738,838</u>
 Total liabilities and net position	 <u>\$ 87,852,551</u>	 <u>\$ 11,132,598</u>	 <u>\$ (1,353,093)</u>	 <u>\$ 97,632,056</u>

See notes to financial statements.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

COMBINING STATEMENT OF NET POSITION

YEAR ENDED DECEMBER 31, 2017

(See independent auditors' report)

ASSETS

	<u>Wastewater fund</u>	<u>Stormwater fund</u>	<u>Eliminations</u>	<u>Total</u>
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
	<hr/>	<hr/>	<hr/>	<hr/>
Property, plant and equipment	126,895,278	7,666,123		134,561,401
Less accumulated depreciation and amortization	<u>55,296,371</u>	<u>183,608</u>		<u>55,479,979</u>
	71,598,907	7,482,515		79,081,422
Construction work in progress	39,386			39,386
Projects in progress	<u>29,655</u>	<u>38,169</u>		<u>67,824</u>
	<hr/>	<hr/>	<hr/>	<hr/>
	71,667,948	7,520,684		79,188,632
Other assets:				
Cash and investments designated for improvements and contingency	2,300,367			2,300,367
Cash and investments restricted for capital projects and debt service	<u>2,508,521</u>			<u>2,508,521</u>
Total other assets	<u>4,808,888</u>			<u>4,808,888</u>
Total assets	85,082,067	9,151,201	(1,795,168)	92,438,100
Deferred outflows of resources, deferred loss on refunded debt	<u>1,663,987</u>			<u>1,663,987</u>
Total assets and deferred outflows of resources	<u>\$ 86,746,054</u>	<u>\$ 9,151,201</u>	<u>\$ (1,795,168)</u>	<u>\$ 94,102,087</u>

See notes to financial statements.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

COMBINING STATEMENT OF NET POSITION

YEAR ENDED DECEMBER 31, 2017

(See independent auditors' report)

LIABILITIES AND NET POSITION

	<u>Wastewater fund</u>	<u>Stormwater fund</u>	<u>Eliminations</u>	<u>Total</u>
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	<u>110,106</u>			<u>110,106</u>
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>

See notes to financial statements.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

COMBINING STATEMENT OF REVENUES AND EXPENSES

YEAR ENDED DECEMBER 31, 2018
(See independent auditors' report)

	<u>Wastewater fund</u>	<u>Stormwater fund</u>	<u>Total</u>
Operating revenues:			
Sewer service charges:			
Direct customers	\$ 7,839,008	\$ 1,670,705	\$ 9,509,713
Municipal customers	920,817		920,817
Hauled waste processing	1,129,349		1,129,349
Surcharges	685,524		685,524
Biosolids processing	81,686		81,686
Connection and related fees	39,467		39,467
Miscellaneous	86,952	5,620	92,572
	<u>10,782,803</u>	<u>1,676,325</u>	<u>12,459,128</u>
Operating expenses:			
Administrative, payroll taxes and employee benefits	3,923,006	452,151	4,375,157
Collection system	623,499	354,248	977,747
Plant operations	1,933,307		1,933,307
Maintenance	647,946		647,946
Technical services	317,328		317,328
Miscellaneous project expense	30,631		30,631
	<u>7,475,717</u>	<u>806,399</u>	<u>8,282,116</u>
Operating income before depreciation and amortization	3,307,086	869,926	4,177,012
Depreciation and amortization	3,135,084	199,016	3,334,100
Cost sharing expense		100,000	100,000
Operating income (carried forward)	<u>172,002</u>	<u>570,910</u>	<u>742,912</u>

(continued)

DERRY TOWNSHIP MUNICIPAL AUTHORITY

COMBINING STATEMENT OF REVENUES AND EXPENSES (CONTINUED)

YEAR ENDED DECEMBER 31, 2018
(See independent auditors' report)

	<u>Wastewater fund</u>	<u>Stormwater fund</u>	<u>Total</u>
Operating income (brought forward)	<u>\$ 172,002</u>	<u>\$ 570,910</u>	<u>\$ 742,912</u>
Nonoperating income:			
Capacity fees	391,536		391,536
Interest income	188,161	33,920	222,081
Miscellaneous	<u>102,241</u>		<u>102,241</u>
	<u>681,938</u>	<u>33,920</u>	<u>715,858</u>
Nonoperating expense:			
Interest on:			
Capital lease	37,494		37,494
Bonds and notes payable	1,005,819	46,914	1,052,733
Bond issuance costs	38,710	20,844	59,554
Loss on disposal of fixed assets	590,192		590,192
Amortization of bond premiums	<u>(66,763)</u>	<u>(1,387)</u>	<u>(68,150)</u>
	<u>1,605,452</u>	<u>66,371</u>	<u>1,671,823</u>
Income (loss) before contributions	(751,512)	538,459	(213,053)
Stormwater cost-sharing agreement		50,000	50,000
Sewer extensions contributed by developers	<u>13,986</u>		<u>13,986</u>
Increase (decrease) in net position	(737,526)	588,459	(149,067)
Net position:			
Beginning of year	<u>51,656,857</u>	<u>8,231,048</u>	<u>59,887,905</u>
End of year	<u>\$ 50,919,331</u>	<u>\$ 8,819,507</u>	<u>\$ 59,738,838</u>

See notes to financial statements.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

COMBINING STATEMENT OF REVENUES AND EXPENSES

YEAR ENDED DECEMBER 31, 2017
(See independent auditors' report)

	<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
(See independent auditors' report)

	<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	879,392	8,522,270	9,401,662
Net position:			
Beginning of year	<u>50,777,465</u>	<u>(291,222)</u>	<u>50,486,243</u>
End of year	<u><u>\$ 51,656,857</u></u>	<u><u>\$ 8,231,048</u></u>	<u><u>\$ 59,887,905</u></u>

See notes to financial statements.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

COMBINING STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2018

(See independent auditors' report)

	<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	\$ 11,359,983	\$ 355,706	\$ 1,353,093	\$ 13,068,782
Cash payments to:				
Suppliers	(4,065,311)		(852,449)	(4,917,760)
Employees	<u>(2,214,464)</u>		<u>(500,644)</u>	<u>(2,715,108)</u>
Net cash provided by operating activities	<u>5,080,208</u>	<u>355,706</u>	<u>-</u>	<u>5,435,914</u>
Cash flows from capital and related financing activities:				
Nonoperating income	102,241	50,000		152,241
Capacity fees	391,536			391,536
Purchase of property, plant and equipment	(1,165,064)	(1,019,262)		(2,184,326)
Debt principal paid	(2,390,000)			(2,390,000)
Capital lease paid	(328,293)			(328,293)
Bond proceeds, net of issuance costs, premiums and discounts	3,249,439	1,750,559		4,999,998
Interest paid on debt	<u>(841,521)</u>	<u>(43,293)</u>		<u>(884,814)</u>
Net cash provided by (used in) capital and related financing activities	<u>(981,662)</u>	<u>738,004</u>		<u>(243,658)</u>
Cash flows from investing activities:				
Interest received	187,397	33,920		221,317
Change in investments	<u>3,940,656</u>			<u>3,940,656</u>
Net cash provided by investing activities	<u>4,128,053</u>	<u>33,920</u>		<u>4,161,973</u>

(continued)

DERRY TOWNSHIP MUNICIPAL AUTHORITY

COMBINING STATEMENT OF CASH FLOWS (CONTINUED)

YEAR ENDED DECEMBER 31, 2018
(See independent auditors' report)

	<u>Wastewater fund</u>	<u>Stormwater fund</u>	<u>Eliminations</u>	<u>Total</u>
Net increase in cash and cash equivalents	\$ 8,226,599	\$ 1,127,630	\$ -	\$ 9,354,229
Cash and cash equivalents (Note 2):				
Beginning of year	<u>7,985,727</u>	<u>694,321</u>		<u>8,680,048</u>
End of year	<u>\$ 16,212,326</u>	<u>\$ 1,821,951</u>	<u>\$ -</u>	<u>\$ 18,034,277</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 172,002	\$ 570,910		\$ 742,912
Adjustments:				
Depreciation and amortization of property, plant and equipment	3,135,084	199,016		3,334,100
(Increase) decrease in:				
Receivables	577,180	(55,723)	\$ 1,353,093	1,874,550
Inventory	1,303			1,303
Prepaid insurance	9,776			9,776
Increase (decrease) in:				
Accounts payable, trade and other	210,498	(479,934)	(1,353,093)	(1,622,529)
OPEB	980,986	121,245		1,102,231
Accrued expenses	<u>(6,621)</u>	<u>192</u>		<u>(6,429)</u>
Net cash provided by operating activities	<u>\$ 5,080,208</u>	<u>\$ 355,706</u>	<u>\$ -</u>	<u>\$ 5,435,914</u>
Noncash activities:				
Property contributed by developers	\$ 13,986			\$ 13,986
Accounts payable for property, plant and equipment at year end	151,742			151,742
Amortization of bond premiums	66,763	\$ 1,387		68,150

See notes to financial statements.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

COMBINING STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2017

(See independent auditors' report)

	<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	<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
(See independent auditors' report)

	<u>Wastewater fund</u>	<u>Stormwater fund</u>	<u>Eliminations</u>	<u>Total</u>
Net change 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

See notes to financial statements.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

SCHEDULE OF OPERATING EXPENSES

YEARS ENDED DECEMBER 31, 2018
(See independent auditors' report)

	<u>Wastewater</u> fund	<u>Stormwater</u> fund	<u>Total</u>
Administrative, payroll taxes and employee benefits:			
Salaries	\$ 731,918	\$ 137,155	\$ 869,073
Materials and supplies	20,042	143	20,185
General expense	671,374	10,209	681,583
Payroll taxes and employee benefits	2,121,717	227,179	2,348,896
Maintenance and repairs	11,795		11,795
Professional services	<u>366,160</u>	<u>77,465</u>	<u>443,625</u>
	<u>3,923,006</u>	<u>452,151</u>	<u>4,375,157</u>
Collection system:			
Salaries	315,698	57,347	373,045
Materials and supplies	15,836	17,321	33,157
General expense	5,790	3,958	9,748
Maintenance and repairs	192,832	275,622	468,454
Utilities	<u>93,343</u>		<u>93,343</u>
	<u>623,499</u>	<u>354,248</u>	<u>977,747</u>
Plant operations:			
Salaries	734,616		734,616
Materials and supplies	43,412		43,412
General expense	29,474		29,474
Utilities	547,572		547,572
Chemicals	284,602		284,602
Special services	<u>293,631</u>		<u>293,631</u>
	<u>1,933,307</u>		<u>1,933,307</u>

(continued)

DERRY TOWNSHIP MUNICIPAL AUTHORITY

SCHEDULE OF OPERATING EXPENSES (CONTINUED)

YEARS ENDED DECEMBER 31, 2018
(See independent auditors' report)

	<u>Wastewater fund</u>	<u>Stormwater fund</u>	<u>Total</u>
Maintenance:			
Salaries	\$ 183,140		\$ 183,140
Materials and supplies	8,385		8,385
General expense	6,747		6,747
Equipment repairs	413,043		413,043
Vehicle repairs	31,010		31,010
Automation control services	5,621		5,621
	<u>647,946</u>		<u>647,946</u>
Technical services:			
Salaries	242,471		242,471
Materials and supplies	15,721		15,721
General expense	4,747		4,747
Special services	54,389		54,389
	<u>317,328</u>		<u>317,328</u>
Miscellaneous project expense	<u>30,631</u>		<u>30,631</u>
Total operating expenses	<u>\$ 7,475,717</u>	<u>\$ 806,399</u>	<u>\$ 8,282,116</u>

DERRY TOWNSHIP MUNICIPAL AUTHORITY

SCHEDULE OF OPERATING EXPENSES

YEARS ENDED DECEMBER 31, 2017
(See independent auditors' report)

	<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	260,768	51,661	312,429
	<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	78,371		78,371
	<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	257,041		257,041
	<u>2,103,028</u>		<u>2,103,028</u>

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DERRY TOWNSHIP MUNICIPAL AUTHORITY

SCHEDULE OF OPERATING EXPENSES (CONTINUED)

YEARS ENDED DECEMBER 31, 2017
(See independent auditors' report)

	<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	13,240		13,240
	<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	65,046		65,046
	<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>