

DERRY TOWNSHIP MUNICIPAL AUTHORITY

**YEARS ENDED
DECEMBER 31, 2019 AND 2018**



CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

A Professional Corporation

DERRY TOWNSHIP MUNICIPAL AUTHORITY

YEARS ENDED DECEMBER 31, 2019 AND 2018

TABLE OF CONTENTS

	Page
Independent auditor's report	1-2
Management's discussion and analysis (MD&A) (unaudited)	3-17
Financial statements:	
Statements of net position	18-19
Statements of revenues, expenses and changes in net position	20-21
Statements of changes in net position	22
Statements of cash flows	23-24
Notes to financial statements	25-45
Supplementary information:	
Combining statements of net position	46-49
Combining statements of revenues and expenses	51-53
Combining statements of cash flows	54-57
Schedule of operating expenses	58-61

Independent Auditor's 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, 2019 and 2018 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other 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
August 14, 2020

DERRY TOWNSHIP MUNICIPAL AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) YEAR ENDED DECEMBER 31, 2019

INTRODUCTION

The Derry Township Municipal Authority (the Authority) is a governmental entity engaged in business-type activities related to providing services for the wastewater 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 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, 2019, 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 includes three components to reflect the Authority's business enterprise accounting; Combined, Wastewater (WW) and Stormwater (SW).

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements are prepared on the 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, 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, 2019

FINANCIAL HIGHLIGHTS – YEAR ENDED DECEMBER 31, 2019

- ❖ The Authority's total assets and deferred outflows of resources exceeded total liabilities by \$60.04 million, including \$47 million invested in capital assets, \$2.04 million restricted for debt service, and \$11 million unrestricted. The Authority's net position increased slightly by \$330,521 (0.5%).
- ❖ Current assets increased by \$1.47 million (14.1%).
- ❖ Current liabilities decreased by \$313,700 (-8.3%).
- ❖ Operating revenues from all sources increased by \$470,800 (3.8%).
- ❖ Operating expenses decreased by \$811,740 (-9.8%).

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, 2019 and 2018 is presented in Table 1, below.

TABLE 1
CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	(in thousands of dollars)			
	2019	2018	\$ Change	% Change
Operating revenues	\$ 12,929.9	\$ 12,459.1	\$ 470.8	3.8 %
Operating expenses	7,470.4	8,282.1	(811.7)	(9.8) %
Total operating income before depreciation and amortization	5,459.5	4,177.0	1,282.5	30.7 %
Depreciation and amortization	3,335.0	3,334.1	0.9	0.0 %
Cost sharing	100.0	100.0	-	
Total operating income	2,024.5	742.9	1,281.6	172.5 %
Nonoperating revenues	1,023.2	715.8	307.4	42.9 %
Nonoperating expenses	2,797.1	1,671.8	1,125.3	67.3 %
Income (loss) before contributions and cost-sharing agreements	250.6	(213.1)	463.7	(217.6) %
Cost-sharing agreements	50.0	50.0	-	0.0 %
Sewer extensions contributed by developers		14.0	(14.0)	(100.0) %
Increase (decrease) in net position	300.6	(149.1)	\$ 449.7	(301.6) %
Net position:				
Beginning of year	59,738.8	59,887.9		
End of year	<u>\$ 60,039.4</u>	<u>\$ 59,738.8</u>		

DERRY TOWNSHIP MUNICIPAL AUTHORITY

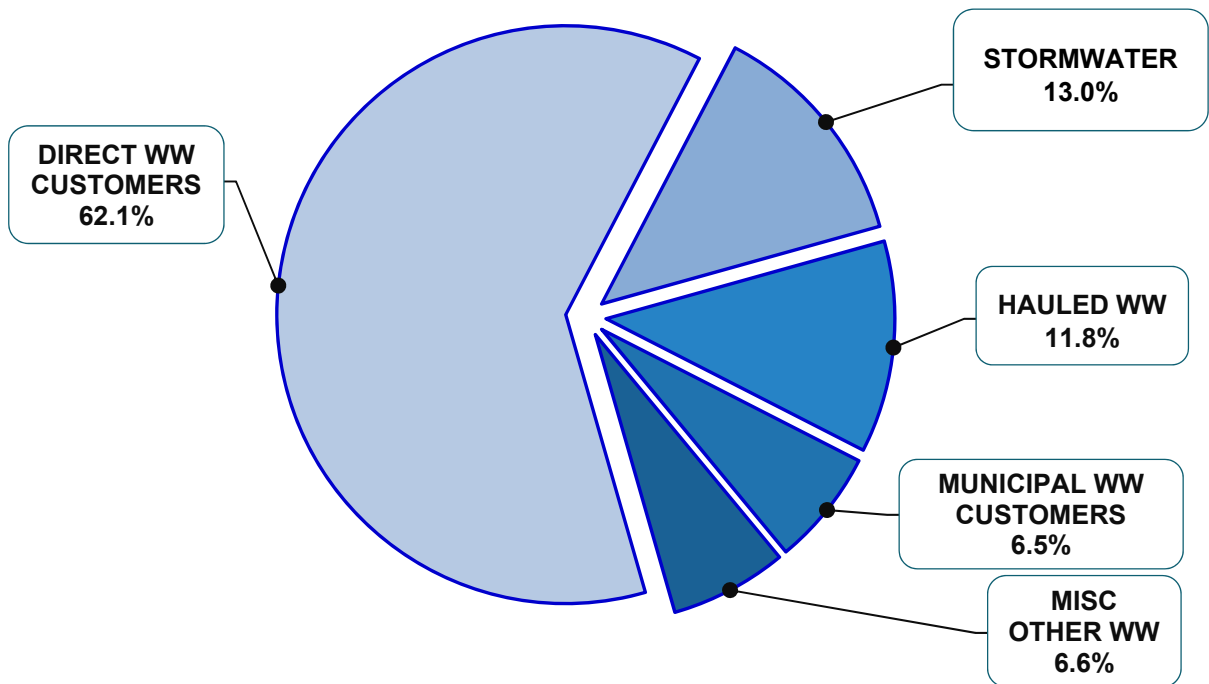
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)
YEAR ENDED DECEMBER 31, 2019

REVENUE

Combined – The overall combined 2019 Authority operating revenues, which increased by more than 3.8%, was attributable to two primary factors; a modest 2% wastewater (WW) user rate increase implemented in early 2019 and an increase (>35%) in hauled wastewater processing.

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

**FIGURE 1
2019 COMBINED OPERATING REVENUE DETAIL**

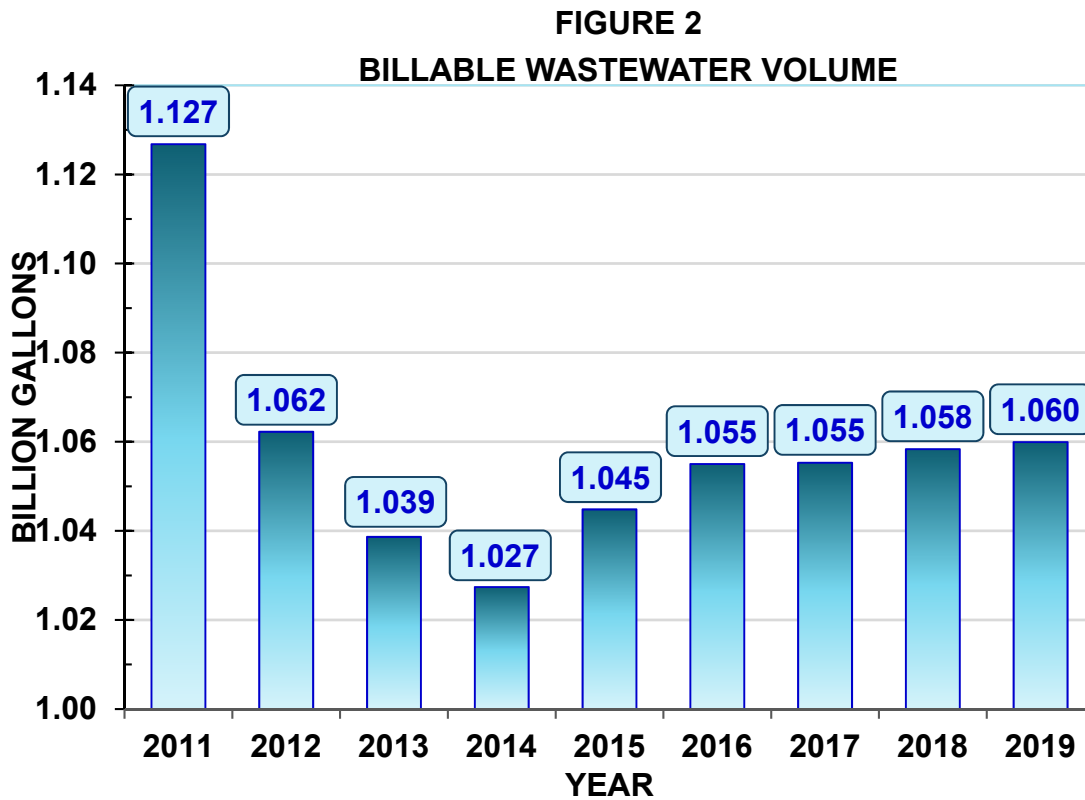


DERRY TOWNSHIP MUNICIPAL AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)
YEAR ENDED DECEMBER 31, 2019

REVENUE

WW Revenue – The volume of billable wastewater increased slightly in 2019 over the 2018 volume continuing the modestly positive trend of increasing billable WW and reversing the downward trend that had occurred through 2014. Figure 2 presents the most recent nine-year trend of billable wastewater volumes. The Authority will continue to monitor this trend for future changes.



During 2019, WW revenue increased by \$464,200 (4.3%) from all the Authority's WW customers. A significant portion of this revenue increase was attributable to increased hauled wastewater processing revenue collected. An approved 2% user rate increase resulted in a revenue increase of approximately \$190,300 (2.4%) from the direct billed customers. The 2019 revenue from the Authority's two separately-billed municipal customers experienced a decrease from summer wet weather that impacted the 2018 level. With a more typical weather and precipitation volume, lower volumes of infiltration and inflow entered the contributory sanitary sewer systems.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

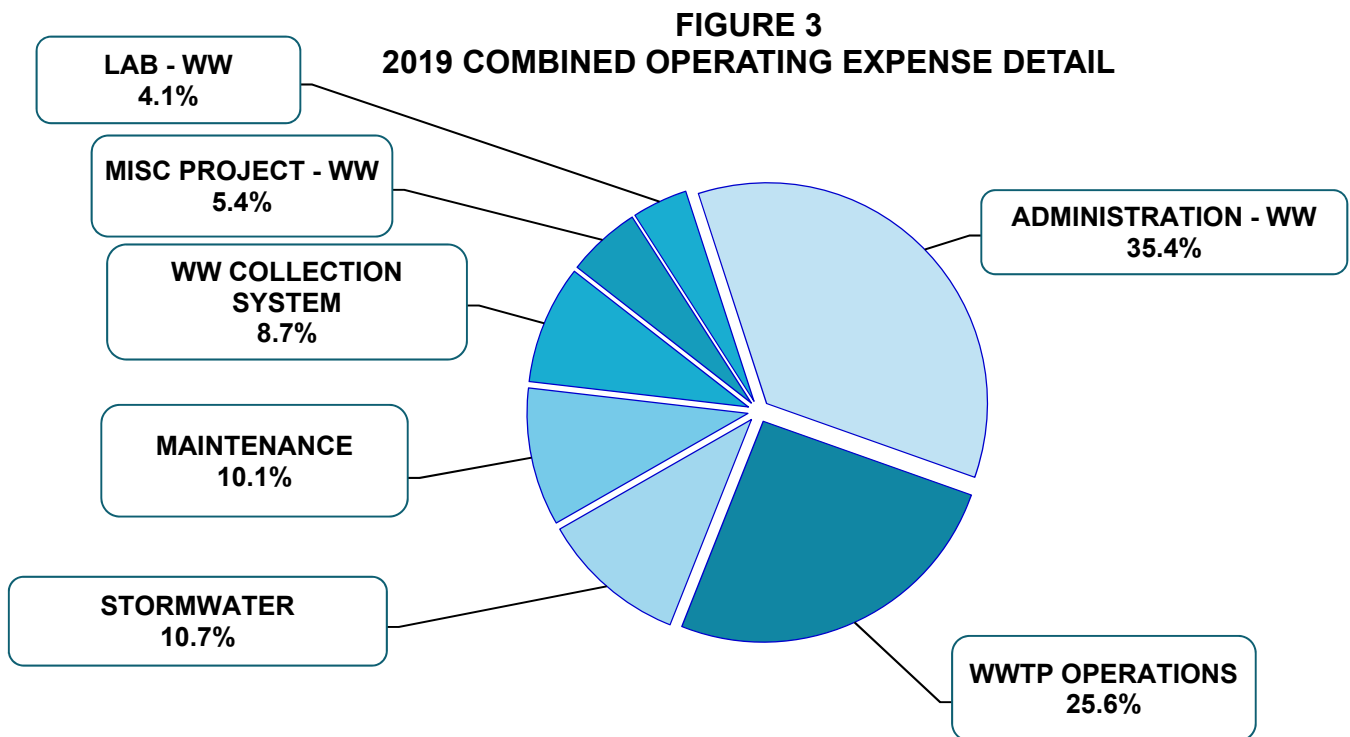
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) YEAR ENDED DECEMBER 31, 2019

REVENUE

Stormwater (SW) Revenue – During 2019, approximately \$1.68 million in revenues were collected and represents approximately the same level of revenue as collected for 2018. Based on this and previous recent revenue numbers, it appears that the SW revenue stream has stabilized and will remain near this level for the foreseeable future.

EXPENSES

Combined Operating Expenses – The 2019 combined operating expenses before depreciation decreased by \$811,738 (-9.8%) over the 2018 expenses. Figure 3 presents the breakdown of overall combined 2019 Authority operating expenses.



DERRY TOWNSHIP MUNICIPAL AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) YEAR ENDED DECEMBER 31, 2019

EXPENSES

WW Operating Expenses – The 2019 WW operating expenses decreased by approximately \$811,700 (-9.8%) from 2018. The following describes changes in specific operating expenses:

- Administrative expenses decreased by \$1.278 million (29.2%). This decrease is due in large part to the GASB 75 reporting requirement for recording the initial OPEB liability in 2018, which was booked as OPEB expense. This liability resulted from the Authority's 2018 implementation of a limited retiree medical coverage program. Additionally a small decrease in administrative salaries was noted in 2019 attributable to a staff retirement.
- Collection system expenses increased by \$25,800 (4%) due in large part to the salary increase from filling a vacant position.
- Operations expenses for the plant operations decreased slightly by \$22,600 (1.2%). The small decrease was driven by lower than expected materials, supplies and chemical costs, as well as slightly lower salary costs realized by replacing staff retirements with new trainees.
- Maintenance expenses increased by approximately \$110,400 (17.1%). The increase in expenses was due to filling a staff vacancy, as well as an increase in equipment repairs and contract services for electrician, SCADA and building HVAC control systems.

SW Operating Expenses – During 2019, the SW fund operating expenses were nearly the same as the 2018 SW expenses. Previous increases in operating expense levels were driven by the ongoing program ramp-up including additional engineering services, staffing the field crew with a total of four full-time staff salaries, which have now been completed. More than \$225,700 was spent on reactive repairs to the failing stormwater infrastructure assets. This represents a decrease of approximately \$50,000 (18%) from 2018. This decrease is viewed as a positive sign as the stormwater management program has begun to shift from reactive repairs to proactively planned asset rehabilitation and utilizing design, bid, construct projects for asset renewal and replacement.

COMBINED NONOPERATING REVENUE

The 2019 nonoperating revenues, including interest income, grants and capacity fees increased by \$307,369 (43%) over 2018. Capacity fees and interest income both showed significant increases over 2018. 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 2019 development activity resulted in a capacity fee increase of \$247,428 (63%). An improved interest rate environment resulted in an interest revenue increase of \$113,300 (51%) on investments.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) YEAR ENDED DECEMBER 31, 2019

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 2019, no developer contributions for sanitary sewer or storm sewer extensions occurred.

COMBINED NONOPERATING EXPENSE

In 2019, the overall bonds and notes payable and amortization of bond premiums increased by \$196,800 (18.7%). Additionally, the Authority experienced a significant flood loss write off of \$1.27 million due to the write off of equipment losses related to the July 2018 flood event. In total, the combined total nonoperating expenses increased by \$1,125,300 (67%).

However, with the amortization of bond premiums, the net income before contributions was \$250,500 and represented a significant increase over 2018.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)
YEAR ENDED DECEMBER 31, 2019

TOTAL NET POSITION

As detailed on Table 2, as of December 31, 2019 and 2018, the Authority had total net positions of \$60.04 million and \$59.74 million, respectively.

TABLE 2
CONDENSED STATEMENTS OF NET POSITION
DECEMBER 31, 2019 AND 2018

	(in thousands of dollars)			
	2019	2018	VARIANCE	
			\$	%
Assets and deferred outflows of resources:				
Current assets	\$ 11,925.5	\$ 10,450.6	\$ 1,474.9	14.1 %
Capital assets	75,522.2	77,503.7	(1,981.5)	(2.6) %
Other assets	16,348.7	8,213.6	8,135.1	99.0 %
Total assets	103,796.4	96,167.9	7,628.5	7.9 %
Deferred outflows of resources	1,286.6	1,464.1	(177.5)	(12.1) %
Total assets and deferred outflows of resources	<u>\$ 105,083.0</u>	<u>\$ 97,632.0</u>	<u>\$ 7,451.0</u>	<u>7.6 %</u>
Liabilities and net position:				
Current liabilities	\$ 3,451.5	\$ 3,765.2	\$ (313.7)	(8.3) %
Long-term liabilities	41,592.1	34,128.0	7,464.1	21.9 %
Total liabilities	<u>45,043.6</u>	<u>37,893.2</u>	<u>7,150.4</u>	<u>18.9 %</u>
Net position:				
Net investment in capital assets	46,987.9	48,026.7	(1,038.8)	(2.2) %
Restricted for debt service	2,048.8	2,016.3	32.5	1.6 %
Unrestricted	11,002.7	9,695.8	1,306.9	13.5 %
Total net position	<u>60,039.4</u>	<u>59,738.8</u>	<u>300.6</u>	<u>0.5 %</u>
Total liabilities and net position	<u>\$ 105,083.0</u>	<u>\$ 97,632.0</u>	<u>\$ 7,451.0</u>	<u>7.6 %</u>

DERRY TOWNSHIP MUNICIPAL AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) YEAR ENDED DECEMBER 31, 2019

ASSETS

The 2019 year-end value of total assets increased by \$7.63 million (8%) when compared to 2018 year end. A breakdown of the total assets by category is presented in Table 2. The 2019 value of capital assets decreased \$1.98 million over 2018 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.

In early 2019, the Authority closed on a \$10 million guaranteed sewer revenue bond issue for a number of significant wastewater and stormwater projects, which resulted in a net increase of \$8.135 million in other assets.

During 2019, funds from the 2018 Construction Fund, the 2019 Capital Projects Fund and remaining funds from the 2015 Capital Projects Fund were expended on numerous capital projects. The major projects included; installation of building flood gates, a new centrifuge rotating assembly, sanitary and stormwater infrastructure replacements, site improvements and stormwater management at the Clearwater WWTP, relocation of power center #2, design work for the influent pump replacement and for the energy enhancements (cogeneration) project.

Continued funding of the Wastewater Resource Allocation Fund through capacity fees will continue with a projected transfer of more than \$450,000 in early 2020. The intended use of this fund is 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 2019, the operating reserve fund increased by \$426,100. The flood fund, which was designated to cover flood insurance deductibles, is capped at \$200,000 and that balance was maintained during 2019.

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 decreased by \$313,700 (8.3%). Accounts payable decreased by \$201,200 (33.3%), and was a result of the normal year-to-year variation in trade accounts payable and is consistent with the normal fluctuations of purchases and payments. With the conversion to the PTO policy and recent new hires without significant accrued PTO, the PTO liabilities decreased by approximately 8%. With the Authority's staff at full complement, the accrued payroll and payroll deduction liabilities increased by approximately 9%.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) YEAR ENDED DECEMBER 31, 2019

In 2019, long-term liabilities (net of current) increased by \$7.464 million (21.9%). The major contributor to this increase was the issuance of the Series 2019 Guaranteed Sewer Revenue Bonds. Capital lease liabilities with Conewago Township and Conewago Municipal Authority decreased by \$334,600 due to normally scheduled principal payments. Additionally, the long-term debt associated with the issuance of general obligation bonds by the Township of Derry on behalf of the Authority and covered by the Subsidy Agreement (as amended) decreased by \$499,500 (-2.7%), in accordance with debt repayment schedules. Further information about long-term liabilities can be found in Notes 5 to 8 to the financial statements.

With the changes in both current and long-term liabilities, the resulting total liabilities increased by \$7.15 million (18.9%) from 2018 levels.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – The Authority's capital assets, nets of accumulated depreciation, as of December 31, 2019 were \$75.5 million. The Authority's investment in capital assets includes land, infrastructure, buildings and equipment. Additional information on the Authority's capital assets can be found in Note 4 of the financial statements. A condensed summary of the Authority's capital assets at December 31, 2019 and 2018 is summarized in Table 3 below.

TABLE 3
PROPERTY, PLANT AND EQUIPMENT

	2019	2018
Land and right-of-ways	\$ 2,370,024	\$ 2,370,024
Collection lines	43,049,165	42,885,870
Sewage treatment plant	71,093,235	71,832,914
Plant equipment	4,368,587	3,930,834
Vehicles	1,717,064	1,541,876
Office equipment	1,245,835	1,043,457
Miscellaneous equipment	76,448	76,448
Capitalized interest and financing costs prior to plant operation	3,267,456	3,267,456
Stormwater system	7,835,940	7,835,940
Construction in progress	1,255,065	707,477
Projects in progress	1,032,616	719,028
Total capital assets	137,311,435	136,211,324
Less accumulated depreciation	61,789,198	58,707,652
Total capital assets, net	\$ 75,522,237	\$ 77,503,672

DERRY TOWNSHIP MUNICIPAL AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) YEAR ENDED DECEMBER 31, 2019

Long-Term Debt – At the end of 2019, the Authority had outstanding long-term debt obligations of \$41,864,740. More information about the Authority's long-term debt can be found in Note 5 of the financial statements. A condensed summary of the Authority's long-term debt obligations for the past four years is summarized in Table 4 below.

TABLE 4
LONG-TERM DEBT

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Beginning balance	\$ 35,326,329	\$ 33,034,622	\$ 35,619,648	\$ 38,151,442
New debt issues	13,870,000	5,010,000		11,955,000
Principal retirement	<u>(7,331,589)</u>	<u>(2,718,293)</u>	<u>(2,585,026)</u>	<u>(14,486,794)</u>
Ending balance	<u>\$ 41,864,740</u>	<u>\$ 35,326,329</u>	<u>\$ 33,034,622</u>	<u>\$ 35,619,648</u>

Bond Ratings – The Authority received an affirmation of the AA rating from S&P Global Ratings at the time of the 2019 guaranteed sewer revenue bond issue.

Debt Coverage Ratio – The Authority's debt coverage ratio (available revenue to debt service expenses) for 2019 is 1.51, up from last year's ratio of 0.98. Table 5 presents the Authority's debt coverage ratio for the past 4 years.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)
YEAR ENDED DECEMBER 31, 2019

TABLE 5
DEBT COVERAGE RATIO

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Net operating income	\$ 2,024,410	\$ 742,912	\$ 1,950,899	\$ 526,020
Plus:				
Asset purchases	2,853,789	2,184,326	220,767	2,233,984
Tap and capacity fees	638,964	391,536	311,840	187,041
Proceeds from asset sales				13,670
Investment income	<u>335,447</u>	<u>222,081</u>	<u>93,329</u>	<u>55,894</u>
Total available revenue	<u>\$ 5,852,610</u>	<u>\$ 3,540,855</u>	<u>\$ 2,576,835</u>	<u>\$ 3,016,609</u>
Debt:				
Principal	\$ 2,796,589	\$ 2,718,293	\$ 2,585,025	\$ 2,576,794
Interest	<u>1,072,011</u>	<u>884,814</u>	<u>813,095</u>	<u>940,108</u>
Total debt service	<u>\$ 3,868,600</u>	<u>\$ 3,603,107</u>	<u>\$ 3,398,120</u>	<u>\$ 3,516,902</u>
Ratio	1.51	0.98	0.76	0.86

DERRY TOWNSHIP MUNICIPAL AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) YEAR ENDED DECEMBER 31, 2019

CONCLUDING COMMENTS

In view of modestly increasing 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 February 1, 2019. The Authority Board also approved subsequent annual wastewater [sewer] rate adjustments for 2020 and 2021 of 2% and 3%, respectively. As shown in Table 6, this adopted wastewater [sewer] user rate adjustment strategy, which has not only maintained positive revenue to expense ratios, but also insures that the future revenues will be sufficient to cover normal increases in expenses and the debt service thereby allowing the Authority to continue to undertake capital asset replacements and facility improvements.

TABLE 6
REVENUE TO EXPENSE RATIOS

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating revenue	\$ 12,929,879	\$ 12,459,128	\$ 11,817,604	\$ 9,830,127
Operating expenses*	<u>7,470,378</u>	<u>8,282,116</u>	<u>6,497,331</u>	<u>6,132,131</u>
Operating revenue/expense ratio	1.73	1.50	1.82	1.60
Total revenue	\$ 13,953,106	\$ 13,174,986	\$ 12,258,876	\$ 10,618,756
Total expenses	<u>10,267,494</u>	<u>9,953,939</u>	<u>7,444,305</u>	<u>7,204,288</u>
Total revenue/expense ratio	1.36	1.32	1.65	1.47

**(before depreciation and amortization)*

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 2019 with a nearly stable net position (0.5%). The modest past and future annual rate adjustments, increases in development activity, increases in billable wastewater, and modest expenses continue to maintain a positive impact on the Authority's net position.

2020 OUTLOOK

Several events occurred or were pending at the end of 2019 that will impact the Authority's operations for 2020 and beyond.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) YEAR ENDED DECEMBER 31, 2019

In early 2020, the Authority's finance team was authorized to refinance several existing bond issues into a single refunding (2020 bonds). This refunding resulted in a net savings to the Authority of approximately \$436,000. Additionally, recognizing the forthcoming projects, the Authority also authorized their finance team to engage in the issuance of bonds (2020A) for approximately \$10 million in new money. Both the 2020 and the 2020A bond issues were bank qualified and issued by the Township of Derry as general obligation (GO) bonds on behalf of the Authority, and will include a guarantee of payment by the Authority through an amendment to the Subsidy Agreement with the Township. Both the 2020 and the 2020A GO issue debt service will be paid by the Authority through user rates and projected significant energy savings. The bond issues were structured with wraparound features to mitigate the impact of the increased new debt service on the Authority's existing debt structure.

During 2019, 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 and approximately \$450,000 in 2020 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, with the significant potential development occurring in Londonderry Township in 2020, the Authority will establish a separate southwest wastewater resource allocation fund to earmark the capacity fees collected in that service area to help address the future needs of the Southwest WWTP.

In early 2020, the nation, Pennsylvania and the local region experienced a significant negative impact due to the COVID-19 pandemic. The magnitude and duration of the local impact on the Authority's financial picture will not be known for many months. The loss of revenue from the decrease in summer tourism and related activities will be significant. However, as shown in Table 7, through the implementation of modest annual user rate increases, the Authority has maintained the available operating reserve funds to withstand the financial impact of the COVID pandemic.

TABLE 7
OPERATING RESERVE

	<u>January 1, 2019</u>	<u>Additions/(deletions)</u>	<u>December 31, 2019</u>
Operating reserve fund investment	\$ 1,031,838	\$ 15,786	\$ 1,047,624
WW resource allocation fund investment	574,901	409,409	984,310
Operating reserve fund interest		917	917
Total operating reserve	<u>\$ 1,606,739</u>	<u>\$ 426,112</u>	<u>\$ 2,032,851</u>

DERRY TOWNSHIP MUNICIPAL AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)
YEAR ENDED DECEMBER 31, 2019

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

STATEMENTS OF NET POSITION – DECEMBER 31, 2019 AND 2018

ASSETS

	<u>2019</u>	<u>2018</u>
Current assets:		
Cash and cash equivalents	\$ 11,365,348	\$ 9,820,629
Sewer rents receivable	232,598	333,954
Accounts receivable, other	106,237	97,468
Interest receivable	2,496	4,171
Inventory	7,193	7,337
Prepaid insurance	211,629	187,025
	<hr/>	<hr/>
Total current assets	11,925,501	10,450,584
	<hr/>	<hr/>
Property, plant and equipment	135,023,754	134,784,819
Less accumulated depreciation and amortization	61,789,198	58,707,652
	<hr/>	<hr/>
	73,234,556	76,077,167
	<hr/>	<hr/>
Construction work in progress	1,255,065	707,477
Projects in progress	1,032,616	719,028
	<hr/>	<hr/>
	75,522,237	77,503,672
	<hr/>	<hr/>
Other assets:		
Cash and cash equivalents designated for improvements and contingency	2,777,950	2,339,971
Cash and cash equivalents restricted for capital projects and debt service	13,570,728	5,873,677
	<hr/>	<hr/>
Total other assets	16,348,678	8,213,648
	<hr/>	<hr/>
Total assets	103,796,416	96,167,904
	<hr/>	<hr/>
Deferred outflows of resources:		
Other postemployment benefits liability	14,506	
Deferred loss on refunded debt	1,272,079	1,464,152
	<hr/>	<hr/>
Total deferred outflows of resources	1,286,585	1,464,152
	<hr/>	<hr/>
Total assets and deferred outflows of resources	\$ 105,083,001	\$ 97,632,056
	<hr/>	<hr/>

See notes to financial statements.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

STATEMENTS OF NET POSITION – DECEMBER 31, 2019 AND 2018

LIABILITIES AND NET POSITION

	<u>2019</u>	<u>2018</u>
Current liabilities:		
Accrued interest on debt	\$ 45,633	\$ 34,240
Current maturities of:		
Sewer revenue bonds	1,685,000	1,630,000
Subsidy agreements with Derry Township	680,000	855,000
Capital lease obligations	334,643	331,590
Accounts payable	402,665	603,831
Accrued:		
Paid time off	185,834	202,531
Payroll and payroll deductions	117,731	108,044
	<u>3,451,506</u>	<u>3,765,236</u>
Total current liabilities		
Long-term liabilities:		
Other postemployment benefits liability	1,158,332	1,102,231
Long-term debt, net of current portion:		
Sewer revenue bonds	19,390,591	11,148,389
Subsidy agreements with Derry Township	18,138,116	18,637,623
Capital lease obligations	2,905,097	3,239,739
	<u>41,592,136</u>	<u>34,127,982</u>
Total long-term liabilities		
	<u>45,043,642</u>	<u>37,893,218</u>
Total liabilities		
Net position:		
Net investment in capital assets	46,987,914	48,026,694
Restricted for debt service	2,048,822	2,016,366
Unrestricted	11,002,623	9,695,778
	<u>60,039,359</u>	<u>59,738,838</u>
Total net position		
	<u>\$ 105,083,001</u>	<u>\$ 97,632,056</u>

See notes to financial statements.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Operating revenues:		
Service charges:		
Direct customers	\$ 8,029,290	\$ 7,839,008
Municipal customers	837,495	920,817
Hauled waste processing	1,531,931	1,129,349
Surcharges	641,704	685,524
Biosolids processing	23,615	81,686
Connection and related fees	57,469	39,467
Stormwater fees	1,674,423	1,670,705
Miscellaneous	133,952	92,572
	<u>12,929,879</u>	<u>12,459,128</u>
Operating expenses:		
Administrative, payroll taxes and employee benefits	3,096,849	4,375,157
Collection system	962,594	977,747
Plant operations	1,910,713	1,933,307
Maintenance	758,435	647,946
Technical services	303,498	317,328
Miscellaneous project expense	438,289	30,631
	<u>7,470,378</u>	<u>8,282,116</u>
Operating income before depreciation and amortization	5,459,501	4,177,012
Depreciation and amortization	3,335,091	3,334,100
Cost sharing expense	100,000	100,000
	<u>2,024,410</u>	<u>742,912</u>

(continued)

DERRY TOWNSHIP MUNICIPAL AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (CONTINUED)
YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Operating income (brought forward)	<u>\$ 2,024,410</u>	<u>\$ 742,912</u>
Nonoperating income:		
Capacity fees	638,964	391,536
Interest income	335,447	222,081
Miscellaneous	48,816	102,241
	<u>1,023,227</u>	<u>715,858</u>
Nonoperating expense:		
Interest on:		
Capital lease	34,196	37,494
Bonds and notes payable	1,249,575	1,052,733
Miscellaneous	12	
Bond issuance costs	342,354	59,554
Loss on disposal of fixed assets	1,267,735	590,192
Amortization of bond premiums	(96,756)	(68,150)
	<u>2,797,116</u>	<u>1,671,823</u>
Income (loss) before contributions	250,521	(213,053)
Stormwater cost-sharing agreement	50,000	50,000
Sewer extensions contributed by developers		<u>13,986</u>
Increase (decrease) in net position	300,521	(149,067)
Net position:		
Beginning of year	<u>59,738,838</u>	<u>59,887,905</u>
End of year	<u><u>\$ 60,039,359</u></u>	<u><u>\$ 59,738,838</u></u>

See notes to financial statements.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

STATEMENTS OF CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2019 AND 2018

	Net position			Net investment in capital assets
	Total	Unrestricted	Restricted	
Balance, January 1, 2018	\$ 59,887,905	\$ 8,939,370	\$ 1,982,114	\$ 48,966,421
Increase (decrease) in net position	(149,067)	756,408	34,252	(939,727)
Balance, December 31, 2018	59,738,838	9,695,778	2,016,366	48,026,694
Increase (decrease) in net position	300,521	1,306,845	32,456	(1,038,780)
Balance, December 31, 2019	\$ 60,039,359	\$ 11,002,623	\$ 2,048,822	\$ 46,987,914

See notes to financial statements.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Cash received from customers and users	\$ 12,931,578	\$ 13,068,782
Cash payments to:		
Suppliers	(5,010,403)	(4,917,760)
Employees	(2,398,265)	(2,715,108)
	<u>5,522,910</u>	<u>5,435,914</u>
Cash flows from capital and related financing activities:		
Nonoperating income	98,816	152,241
Capacity fees	638,964	391,536
Purchase of property, plant and equipment	(2,853,789)	(2,184,326)
Debt principal paid	(7,000,000)	(2,390,000)
Capital lease paid	(331,589)	(328,293)
Bond proceeds, net of issuance costs, premiums and discounts	14,376,806	4,999,998
Interest paid on debt, including amounts capitalized	(1,109,491)	(884,814)
	<u>3,819,717</u>	<u>(243,658)</u>
Cash flows from investing activities:		
Interest received	337,122	221,317
Change in investments		3,940,656
	<u>337,122</u>	<u>4,161,973</u>
Net cash provided by investing activities	<u>337,122</u>	<u>4,161,973</u>
Net increase in cash and cash equivalents	\$ 9,679,749	\$ 9,354,229
Cash and cash equivalents (Note 2):		
Beginning of year	<u>18,034,277</u>	<u>8,680,048</u>
End of year	<u>\$ 27,714,026</u>	<u>\$ 18,034,277</u>

(continued)

DERRY TOWNSHIP MUNICIPAL AUTHORITY

STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 2,024,410	\$ 742,912
Adjustments:		
Depreciation and amortization of property, plant and equipment	3,335,091	3,334,100
Noncash expenses	170,869	
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	92,587	1,874,550
Inventory	144	1,303
Prepaid insurance	(24,604)	9,776
Deferred outflow, OPEB liability	(14,506)	
Increase (decrease) in:		
Accounts payable, trade and other	(110,172)	(1,622,529)
OPEB liability	56,101	1,102,231
Accrued expenses	(7,010)	(6,429)
Net cash provided by operating activities	<u>\$ 5,522,910</u>	<u>\$ 5,435,914</u>
Noncash activities:		
Property contributed by developers		\$ 13,986
Accounts payable for property, plant and equipment at year end	\$ 130,229	151,742
Contributions to stormwater		
Amortization of bond premiums	96,756	68,150

See notes to financial statements.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2019 AND 2018

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.

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 (GASB) 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 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, 2019 AND 2018

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 (OPEB) 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 2019 or 2018.

Compensated absences:

The Authority records its obligation to compensate employees for paid time off (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, 2019 AND 2018

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 two items that qualify for reporting in this category. One item relates to 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. The other item relates to the other postretirement benefit liability and changes in actuarial assumptions.

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.

Reclassification of prior year presentation:

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the total reported changes in net position; however, certain reclassifications were made between changes in restricted net position and unrestricted net position. In addition, the 2018 beginning balances of restricted net position and unrestricted net position were restated as a result of net position classification changes.

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, 2020 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, 2020 financial statements.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2019 AND 2018

1. Operations and significant accounting policies (continued):

Pending GASB 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, 2022 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, 2020 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, 2021 financial statements.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. This Statement is to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice. The provisions of GASB Statement No. 91 are effective for the Authority's December 31, 2022 financial statements.

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. This Statement is to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The provisions of GASB Statement No. 92 are effective for the Authority's December 31, 2022 financial statements.

In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. This Statement is to address accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR). The removal of London Interbank Offered Rate (LIBOR) as an appropriate benchmark interest rate is effective for the Authority's December 31, 2022 financial statements. All other requirements of the Statement are effective for the Authority's December 31, 2023 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, 2019 AND 2018

2. Cash and cash equivalents:

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 money market investments at three financial institutions. As of December 31, 2019, the cash balances reported by the financial institutions and included in investment accounts totaled approximately \$27,841,000. Cash held at each financial institution was covered by Federal Deposit Insurance Corporation (FDIC) insurance up to \$250,000 per financial institution. Approximately \$27,091,000 was covered by collateral held in accordance with Act 72 not in the Authority's name.

Investments

As of December 31, 2019 and 2018, the Authority had the following deposits and money market investments:

<u>Investments</u>	<u>Maturities</u>	<u>Ratings</u>	<u>2019</u>	<u>2018</u>
Cash and money market investments			\$ 20,652,752	\$ 11,314,495
Accrued interest on government securities			4,990	6,189
Total deposits, including petty cash			<u>7,056,284</u>	<u>6,713,593</u>
Total deposits and investments			<u>\$ 27,714,026</u>	<u>\$ 18,034,277</u>

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, 2019 AND 2018

2. Cash and cash equivalents (continued):

Custodial credit risk, deposits and investments:

Reconciliation to the statements of net position

	<u>2019</u>	<u>2018</u>
Current assets:		
Cash	\$ 7,056,284	\$ 6,713,593
Money market investments	4,309,064	3,107,036
	<u>11,365,348</u>	<u>9,820,629</u>
Other assets, cash and investments	<u>16,348,678</u>	<u>8,213,648</u>
	<u>\$ 27,714,026</u>	<u>\$ 18,034,277</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>2019</u>	<u>2018</u>
Connection fees	\$ 28,738	\$ 30,637
Stormwater charges	34,529	46,236
Miscellaneous	42,970	20,595
	<u>\$ 106,237</u>	<u>\$ 97,468</u>

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

4. Property, plant and equipment:

Property, plant and equipment consisted of the following for 2019 and 2018:

	January 1, 2018	Additions	Deletions	Reclassifications	December 31, 2018	Additions	Deletions	Reclassifications	December 31, 2019
Land and right-of-ways	\$ 2,370,024				\$ 2,370,024				\$ 2,370,024
Collection lines	42,465,023	\$ 13,986		\$ 406,861	42,885,870			\$ 163,295	43,049,165
Sewage treatment plant	72,529,534		\$ (696,620)		71,832,914		\$ (1,521,281)	781,602	71,093,235
Plant equipment	3,846,146	84,688			3,930,834			437,753	4,368,587
Vehicles	1,317,376	224,500			1,541,876	\$ 49,688		125,500	1,717,064
Office equipment	1,023,271	20,186			1,043,457	15,304		187,074	1,245,835
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	7,666,123	47,740		122,077	7,835,940				7,835,940
Construction in progress	39,386	1,083,596	(8,644)	(406,861)	707,477	2,355,920	(141,405)	(1,666,927)	1,255,065
Projects in progress	67,824	785,445	(12,164)	(122,077)	719,028	341,885		(28,297)	1,032,616
	134,668,611	2,260,141	(717,428)	-	136,211,324	2,762,797	(1,662,686)	-	137,311,435
Less accumulated depreciation	55,479,979	3,334,100	(106,427)		58,707,652	3,335,091	(253,545)		61,789,198
	\$ 79,188,632	\$ (1,073,959)	\$ (611,001)	\$ -	\$ 77,503,672	\$ (572,294)	\$ (1,409,141)	\$ -	\$ 75,522,237

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2019 AND 2018

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, 2019 are as follows:

	Original borrowing	Date of issue/ maturity	Interest rates to maturity	Annual principal payments to maturity	Outstanding December 31, 2019
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	5,215,000
Series of 2016	8,850,000	2016/2025	2.00% to 4.00%	\$525,000 to \$1,120,000	5,565,000
Series of 2019	9,535,000	2019/2037	1.70% to 4.00%	\$5,000 to \$1,275,000	9,535,000
Township of Derry, General Obligation Bonds - subsidy agreements:					
Series of 2015	8,610,000	2015/2028	1.00% to 3.25%	\$395,000 to \$990,000	7,160,000
Series of 2016	3,105,000	2016/2025	2.07% to 3.75%	\$10,000 to \$1,660,000	1,980,000
Series of 2018	5,010,000	2018/2030	1.70% to 4.00%	\$5,000 to \$2,445,000	5,005,000
Series of 2019	4,335,000	2019/2027	1.16% to 3.00%	\$5,000 to \$2,295,000	4,160,000
Capital Lease Obligations:					
Phase I	2,740,609	2007/2025	1.00%	\$119,230 to \$157,590	879,105
Phase II	4,591,356	2010/2032	1.00%	\$51,453 to \$204,524	2,360,635
	<u>\$ 65,796,965</u>				<u>\$ 41,864,740</u>

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2019 AND 2018

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%).

On April 30, 2019, Guaranteed Sewer Revenue Bonds, Series of 2019 were issued in the amount of \$9,535,000. Proceeds from the bonds were 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%).

On September 30, 2019, General Obligation Bonds, Series A of 2019 were issued in the amount of \$4,335,000. Proceeds from the bonds were used to pay the costs of issuing the bonds and to refund the General Obligation Bonds, Series of 2014. The annual principal payments range from \$5,000 to \$2,295,000 with final payment due December 15, 2027 (with interest rates ranging from 1.16% to 3.00%). The present value savings of the issue of this bond was approximately \$249,000.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

5. Long-term debt (continued):

Changes in long-term liabilities for the year ended December 31, 2019 and 2018 are as follows:

	Balance as of January 1, 2018	Additions	Retirements	Balance as of December 31, 2018	Additions	Retirements	Balance as of December 31, 2019
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Sewer revenue bonds:							
Series of 2005	\$ 5,000			\$ 5,000			\$ 5,000
Series of 2015	7,045,000		\$ (900,000)	6,145,000		\$ (930,000)	5,215,000
Series of 2016	6,925,000		(660,000)	6,265,000		(700,000)	5,565,000
Series of 2019					\$ 9,535,000		9,535,000
Subsidy agreements:							
Series of 2014	4,720,000		(185,000)	4,535,000		(4,535,000)	
Series of 2015	7,960,000		(395,000)	7,565,000		(405,000)	7,160,000
Series of 2016	2,480,000		(250,000)	2,230,000		(250,000)	1,980,000
Series of 2018		\$ 5,010,000		5,010,000		(5,000)	5,005,000
Series of 2019					4,335,000	(175,000)	4,160,000
	<u>29,135,000</u>	<u>5,010,000</u>	<u>(2,390,000)</u>	<u>31,755,000</u>	<u>13,870,000</u>	<u>(7,000,000)</u>	<u>38,625,000</u>
Total bonds payable							
Capital lease obligations	3,899,622		(328,293)	3,571,329		(331,589)	3,239,740
	<u>\$ 33,034,622</u>	<u>\$ 5,010,000</u>	<u>\$ (2,718,293)</u>	35,326,329	<u>\$ 13,870,000</u>	<u>\$ (7,331,589)</u>	41,864,740
Current maturities				(2,816,590)			(2,699,643)
Unamortized original issue premium, net				516,012			1,268,707
Long-term debt, net of current maturities				<u>\$ 33,025,751</u>			<u>\$ 40,433,804</u>

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

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 \$879,105 at December 31, 2019. The cost of the related capital asset is \$4,229,548, with accumulated depreciation of \$789,444. The capital lease obligation to Conewago Municipal Authority had a balance of \$2,360,635 at December 31, 2019. The cost of the related capital asset is \$4,099,169, with accumulated depreciation of \$512,396.

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>
2020	\$ 2,699,643	\$ 1,125,826	\$ 3,825,469
2021	3,293,004	1,060,378	4,353,382
2022	3,376,399	977,577	4,353,976
2023	3,424,829	929,871	4,354,700
2024	3,478,293	874,098	4,352,391
2025-2029	15,686,867	3,082,425	18,769,292
2030-2034	6,475,705	1,359,016	7,834,721
2035-2037	3,430,000	262,600	3,692,600
	<u>\$ 41,864,740</u>	<u>\$ 9,671,791</u>	<u>\$ 51,536,531</u>

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2019 AND 2018

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 \$119,455 and \$132,385 for the years ended December 31, 2019 and 2018, respectively.

7. Other postemployment benefits:

The Authority applies GASB standards for the measurement, recognition and reporting of expenditures for 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, 2019 AND 2018

7. Other postemployment benefits (continued):

Plan membership:

As of December 31, 2019, the OPEB plan membership consisted of the following (actual number of plan members):

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.

Changes in net OPEB liability:

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.

The net OPEB liability was measured as of December 31, 2019, and the net OPEB liability was determined by rolling forward the liability from an actuarial valuation as of December 31, 2018. No other significant events or changes in assumptions occurred between the valuation date and year end, except for the discount rate changing from 3.64% to 3.26%.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

7. Other postemployment benefits (continued):

Changes in net OPEB liability:

The Authority's annual change in net OPEB liability to the plan for the years ended December 31, 2019 and 2018 was as follows:

	<u>2019</u>	<u>2018</u>
Service cost	\$ 88,850	
Interest	41,578	
Changes of benefit terms		\$ 1,102,231
Changes of assumptions	15,825	
Benefit payments	<u>(90,152)</u>	
Change in net OPEB liability	56,101	1,102,231
Net OPEB liability:		
Beginning of year	<u>1,102,231</u>	
End of year	<u>\$ 1,158,332</u>	<u>\$ 1,102,231</u>
Covered employee payroll	\$ 2,338,104	\$ 2,338,104
Net OPEB liability as a percentage of covered employee payroll	49.54%	47.14%

Actuarial methods and assumptions:

The Authority's net OPEB liability was determined as part of an actuarial valuation at December 31, 2018, applied to all periods included in the measurement.

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, 2019 AND 2018

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%																				
Discount rate	3.26%, based on S&P Municipal Bond 20-Year High Grade Rate Index at December 31, 2019.																				
Health Care Cost Trend Rate	5.50% in 2020 through 2021. Rates gradually decrease from 5.40 % in 2022 to 3.8% in 2075 and later based on the Society of Actuaries Lon-Run Medical Cost Trend Model.																				
Retiree contributions	Retiree contributions, if any, are assumed to increase at the same rate as the Health Care Cost Trend Rate.																				
Withdrawal rates	<table border="0" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: left; border-bottom: 1px solid black;">Age</th> <th style="text-align: left; border-bottom: 1px solid black;">Rate</th> </tr> </thead> <tbody> <tr><td>20</td><td>5.50%</td></tr> <tr><td>25</td><td>5.00%</td></tr> <tr><td>30</td><td>4.00%</td></tr> <tr><td>35</td><td>2.50%</td></tr> <tr><td>40</td><td>1.00%</td></tr> <tr><td>45</td><td>0.50%</td></tr> <tr><td>50</td><td>0.00%</td></tr> <tr><td>55</td><td>0.00%</td></tr> <tr><td>60</td><td>0.00%</td></tr> </tbody> </table>	Age	Rate	20	5.50%	25	5.00%	30	4.00%	35	2.50%	40	1.00%	45	0.50%	50	0.00%	55	0.00%	60	0.00%
Age	Rate																				
20	5.50%																				
25	5.00%																				
30	4.00%																				
35	2.50%																				
40	1.00%																				
45	0.50%																				
50	0.00%																				
55	0.00%																				
60	0.00%																				

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

7. Other postemployment benefits (continued):

Actuarial methods and assumptions

Per capita claims cost	Medical and Prescription Drug Combined			
	Age	Males	Females	
	45-49	\$ 6,917	\$ 9,990	
	50-54	9,161	11,290	
	55-59	11,158	11,814	
	60-64	14,560	13,571	
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			

Currently, the Authority does not have an investment policy statement for the OPEB plan, since the Authority does not maintain investments for the OPEB plan. Therefore, the Authority's OPEB plan does not have a target allocation or a long-term expected real rate of return for investments.

Discount rate:

The discount rate used to measure the total OPEB liability was 3.26%. This is based on the S&P Bond 20-Year High Grade Rate Index at December 31, 2019.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

7. Other postemployment benefits (continued):

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> 2.26%	<u>Current</u> discount rate 3.26%	<u>1% Increase</u> 4.26%
Total net OPEB liability	<u>\$ 1,199,519</u>	<u>\$ 1,158,332</u>	<u>\$ 1,116,564</u>

Sensitivity of the net OPEB liability to changes in the Healthcare Cost 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</u> valuation rates	<u>1% Increase</u>
Total net OPEB liability	<u>\$ 1,062,777</u>	<u>\$ 1,158,332</u>	<u>\$ 1,269,614</u>

OPEB expense:

The OPEB expense for the Authority for the years ended December 31, 2019 and 2018 was as follows:

	<u>2019</u>	<u>2018</u>
Changes of benefit terms		\$ 1,102,231
Service cost	\$ 88,850	
Interest	41,578	
Amortization of deferred outflows	<u>1,319</u>	
Total OPEB expense	<u>\$ 131,747</u>	<u>\$ 1,102,231</u>

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

7. Other postemployment benefits (continued):

Deferred outflows of resources related to OPEB:

At December 31, 2019, the Authority reported deferred outflows of resources related to OPEB from the following sources:

	<u>Deferred outflows of resources</u>
Changes in assumptions	<u>\$ 14,506</u>

The effect of the changes of assumptions are recognized over the average expected remaining service lives of active and inactive members. Amounts reported as deferred outflows of resources related to the OPEB plan will be recognized in OPEB expense as follows for the years ended December 31:

<u>Year ended</u>	
2020	\$ 1,319
2021	1,319
2022	1,319
2023	1,319
2024	1,319
Thereafter	<u>7,911</u>
	<u>\$ 14,506</u>

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, 2019 and 2018.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

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>
2020	\$ 24,000
2021	24,000
2022	24,000
2023	24,000
2024	24,000
2025-2029	120,000
2030-2034	120,000
2035-2039	120,000
2040-2044	120,000
2045	24,000

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
YEARS ENDED DECEMBER 31, 2019 AND 2018

10. Commitments:

The Authority has active construction projects as of December 31, 2019. At year end, the financial commitments with contractors related to these projects are as follows:

Project	Remaining commitment as of December 31, 2019
Relocation of Power Center #2 and Power Improvements	\$ 1,485,615
Floodproofing	162,902
Hersheypark Drive Sanitary Sewer Extension	183,851
Site Grading and Improvements	226,316
Totals	<u>\$ 2,058,684</u>

11. 2018 Flood:

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

Also, as a result of the flood, the Authority 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 was idle as of December 31, 2018 as it was not operable without the equipment that was damaged. During 2019, the Authority determined a newer system should be purchased instead of replacing the damaged equipment. As a result, the Authority disposed of the \$1.5 million of idle equipment.

12. Subsequent events:

In December 2019, a novel strain of coronavirus (COVID-19) was reported to have surfaced in China. The World Health Organization has declared COVID-19 to constitute a "Public Health Emergency of International Concern" and characterized COVID-19 as a pandemic. The U.S. government has also implemented enhanced screenings, quarantine requirements and travel restrictions in connection with the COVID-19 outbreak. The spread of this virus has the potential to cause business disruption to the Authority beginning in March 2020, due to state government-imposed shutdowns of businesses and other results of the illness. While the Authority expects this matter may negatively impact its results, the extent of the impact of the COVID-19 on the Authority's operational and financial performance will depend on future developments, including the duration and spread of the outbreak and related travel advisories and restrictions and the impact of the COVID-19 on overall demand for the Authority's services, all of which are highly uncertain and cannot be predicted.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2019 AND 2018

12. Subsequent events (continued):

In January 2020, the Authority committed to construction projects with construction contractors for the replacement and relining of sanitary sewer and storm sewer systems. The total costs of the committed projects totaled approximately \$757,000.

In April 2020, General Obligation Bonds, Series of 2020 were issued by Derry Township in the amount of \$8,915,000. Proceeds from the bonds were used to pay the costs of issuing the bonds and to refund the General Obligation Bonds, Series of 2015 and General Obligation Note, Series of 2016. The annual principal payments range from \$5,000 to \$2,660,000 with final payment due December 15, 2028. The present value savings of the issue of these bonds were approximately \$436,000. The Authority and Township have entered into a subsidy agreement which makes the Authority fully responsible to the Township for the repayment of this debt.

In July 2020, General Obligation Bonds, Series A of 2020 were issued by Derry Township in the amount of \$8,880,000. Proceeds from the bonds were 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 \$1,065,000 with final payment due December 15, 2040. The Authority and Township have entered into a subsidy agreement which makes the Authority fully responsible to the Township for the repayment of this debt.

The Authority has evaluated subsequent events through August 14, 2020, which is the date the financial statements were available to be issued.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

COMBINING STATEMENTS OF NET POSITION
YEAR ENDED DECEMBER 31, 2019
(See independent auditor's report)

	ASSETS			
	Wastewater fund	Stormwater fund	Eliminations	Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Current assets:				
Cash and cash equivalents	\$ 9,556,591	\$ 1,808,757		\$ 11,365,348
Sewer rents receivable	232,598			232,598
Accounts receivable	639,712	991,556	\$(1,525,031)	106,237
Interest receivable	2,496			2,496
Inventory	7,193			7,193
Prepaid insurance	211,629			211,629
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total current assets	10,650,219	2,800,313	(1,525,031)	11,925,501
Property, plant and equipment	126,894,641	8,129,113		135,023,754
Less accumulated depreciation and amortization	61,196,444	592,754		61,789,198
	<u> </u>	<u> </u>		<u> </u>
	65,698,197	7,536,359		73,234,556
Construction work in progress	1,255,065			1,255,065
Projects in progress	63,758	968,858		1,032,616
	<u> </u>	<u> </u>		<u> </u>
	67,017,020	8,505,217		75,522,237
Other assets:				
Cash and cash equivalents designated for improvements and contingency	2,777,950			2,777,950
Cash and cash equivalents restricted for capital projects and debt service	12,933,566	637,162		13,570,728
	<u> </u>	<u> </u>		<u> </u>
Total other assets	15,711,516	637,162		16,348,678
Total assets	93,378,755	11,942,692	(1,525,031)	103,796,416
Deferred outflows of resources:				
Other postemployment benefits	14,506			14,506
Deferred loss on refunded debt	1,272,079			1,272,079
	<u> </u>	<u> </u>		<u> </u>
Total deferred outflows of resources	1,286,585			1,286,585
Total assets and deferred outflows of resources	\$ 94,665,340	\$ 11,942,692	\$(1,525,031)	\$ 105,083,001

See notes to financial statements.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

COMBINING STATEMENTS OF NET POSITION
YEAR ENDED DECEMBER 31, 2019
(See independent auditor's report)

LIABILITIES AND NET POSITION

	Wastewater fund	Stormwater fund	Eliminations	Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Current liabilities:				
Accrued interest on debt	\$ 43,400	\$ 2,233		\$ 45,633
Current maturities of:				
Sewer revenue bonds	1,685,000			1,685,000
Subsidy agreements with Derry Township	678,250	1,750		680,000
Capital lease obligations	334,643			334,643
Accounts payable	1,359,692	568,004	\$ (1,525,031)	402,665
Accrued:				
Paid time off	172,318	13,516		185,834
Payroll and payroll deductions	117,731			117,731
	<u>4,391,034</u>	<u>585,503</u>	<u>(1,525,031)</u>	<u>3,451,506</u>
Total current liabilities				
Long-term liabilities:				
Other postemployment benefits liability	1,030,916	127,416		1,158,332
Long-term debt, net of current portion:				
Sewer revenue bonds	19,390,591			19,390,591
Subsidy agreements with Derry Township	16,371,726	1,766,390		18,138,116
Capital lease obligations	2,905,097			2,905,097
	<u>39,698,330</u>	<u>1,893,806</u>		<u>41,592,136</u>
Total long-term liabilities				
Total liabilities	<u>44,089,364</u>	<u>2,479,309</u>	<u>(1,525,031)</u>	<u>45,043,642</u>
Net position (deficit):				
Net investment in capital assets	39,597,285	7,390,629		46,987,914
Restricted for debt service	2,048,822			2,048,822
Unrestricted	8,929,869	2,072,754		11,002,623
	<u>50,575,976</u>	<u>9,463,383</u>		<u>60,039,359</u>
Total net position				
Total liabilities and net position	<u>\$ 94,665,340</u>	<u>\$ 11,942,692</u>	<u>\$ (1,525,031)</u>	<u>\$ 105,083,001</u>

See notes to financial statements.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

COMBINING STATEMENTS OF NET POSITION
 YEAR ENDED DECEMBER 31, 2018
 (See independent auditor's report)

	ASSETS			
	Wastewater fund	Stormwater fund	Eliminations	Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Current assets:				
Cash and cash equivalents	\$ 9,009,251	\$ 811,378		\$ 9,820,629
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	10,000,380	1,803,297	(1,353,093)	10,450,584
Property, plant and equipment	126,721,744	8,063,075		134,784,819
Less accumulated depreciation and amortization	58,325,028	382,624		58,707,652
	<u> </u>	<u> </u>		<u> </u>
	68,396,716	7,680,451		76,077,167
Construction work in progress	707,477			707,477
Projects in progress	80,751	638,277		719,028
	<u> </u>	<u> </u>		<u> </u>
	69,184,944	8,318,728		77,503,672
Other assets:				
Cash and cash equivalents designated for improvements and contingency	2,339,971			2,339,971
Cash and cash equivalents restricted for capital projects and debt service	4,863,104	1,010,573		5,873,677
	<u> </u>	<u> </u>		<u> </u>
Total other assets	7,203,075	1,010,573		8,213,648
Total assets	86,388,399	11,132,598	(1,353,093)	96,167,904
Deferred outflows of resources, deferred loss on refunded debt	1,464,152			1,464,152
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets and deferred outflows of resources	\$ 87,852,551	\$ 11,132,598	\$ (1,353,093)	\$ 97,632,056

See notes to financial statements.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

COMBINING STATEMENTS OF NET POSITION
YEAR ENDED DECEMBER 31, 2018
(See independent auditor's report)

LIABILITIES AND NET POSITION

	Wastewater fund	Stormwater fund	Eliminations	Total
	<u> </u>	<u> </u>	<u> </u>	<u> </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:				
Paid time off	191,732	10,799		202,531
Payroll and payroll deductions	108,044			108,044
	<u>4,696,136</u>	<u>422,193</u>	<u>(1,353,093)</u>	<u>3,765,236</u>
Total current liabilities				
Long-term liabilities, net of current portion:				
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	3,239,739			3,239,739
	<u>32,237,084</u>	<u>1,890,898</u>		<u>34,127,982</u>
Total long-term liabilities				
	<u>36,933,220</u>	<u>2,313,091</u>	<u>(1,353,093)</u>	<u>37,893,218</u>
Total liabilities				
 Net position:				
Net investment in capital assets	40,450,893	7,575,801		48,026,694
Restricted for debt service	2,016,366			2,016,366
Unrestricted	8,452,072	1,243,706		9,695,778
	<u>50,919,331</u>	<u>8,819,507</u>		<u>59,738,838</u>
Total net position				
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 STATEMENTS OF REVENUES AND EXPENSES

YEAR ENDED DECEMBER 31, 2019

(See independent auditor's report)

	Wastewater fund	Stormwater fund	Total
	<u> </u>	<u> </u>	<u> </u>
Operating revenues:			
Sewer service charges:			
Direct customers	\$ 8,029,290		\$ 8,029,290
Municipal customers	837,495		837,495
Hauled waste processing	1,531,931		1,531,931
Surcharges	641,704		641,704
Biosolids processing	23,615		23,615
Connection and related fees	57,469		57,469
Stormwater fees		\$ 1,674,423	1,674,423
Miscellaneous	125,532	8,420	133,952
	<u>11,247,036</u>	<u>1,682,843</u>	<u>12,929,879</u>
 Operating expenses:			
Administrative, payroll taxes and employee benefits	2,644,894	451,955	3,096,849
Collection system	649,267	313,327	962,594
Plant operations	1,910,713		1,910,713
Maintenance	758,435		758,435
Technical services	303,498		303,498
Miscellaneous project expense	403,208	35,081	438,289
	<u>6,670,015</u>	<u>800,363</u>	<u>7,470,378</u>
 Operating income before depreciation and amortization	4,577,021	882,480	5,459,501
Depreciation and amortization	3,124,962	210,129	3,335,091
Cost sharing expense		100,000	100,000
	<u>1,452,059</u>	<u>572,351</u>	<u>2,024,410</u>

(continued)

DERRY TOWNSHIP MUNICIPAL AUTHORITY

COMBINING STATEMENTS OF REVENUES AND EXPENSES (CONTINUED)

YEAR ENDED DECEMBER 31, 2019

(See independent auditor's report)

	Wastewater fund	Stormwater fund	Total
	<u> </u>	<u> </u>	<u> </u>
Operating income (brought forward)	\$ 1,452,059	\$ 572,351	\$ 2,024,410
Nonoperating income:			
Capacity fees	638,964		638,964
Interest income	276,820	58,627	335,447
Miscellaneous	33,816	15,000	48,816
	<u>949,600</u>	<u>73,627</u>	<u>1,023,227</u>
Nonoperating expense:			
Interest on:			
Capital lease	34,196		34,196
Bonds and notes payable	1,195,960	53,615	1,249,575
Miscellaneous	12		12
Bond issuance costs	342,354		342,354
Loss on disposal of fixed assets	1,267,735		1,267,735
Amortization of bond premiums	(95,243)	(1,513)	(96,756)
	<u>2,745,014</u>	<u>52,102</u>	<u>2,797,116</u>
Income (loss) before contributions	(343,355)	593,876	250,521
Stormwater cost-sharing agreement		50,000	50,000
Increase (decrease) in net position	(343,355)	643,876	300,521
Net position:			
Beginning of year	50,919,331	8,819,507	59,738,838
End of year	<u>\$ 50,575,976</u>	<u>\$ 9,463,383</u>	<u>\$ 60,039,359</u>

See notes to financial statements.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

COMBINING STATEMENTS OF REVENUES AND EXPENSES
YEAR ENDED DECEMBER 31, 2018
(See independent auditor's report)

	Wastewater fund	Stormwater fund	Total
Operating revenues:			
Sewer service charges:			
Direct customers	\$ 7,839,008		\$ 7,839,008
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
Stormwater fees		\$ 1,670,705	1,670,705
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
	<u>172,002</u>	<u>570,910</u>	<u>742,912</u>

(continued)

DERRY TOWNSHIP MUNICIPAL AUTHORITY

COMBINING STATEMENTS OF REVENUES AND EXPENSES (CONTINUED)
 YEAR ENDED DECEMBER 31, 2018
 (See independent auditor's report)

	Wastewater fund	Stormwater fund	Total
Operating income (brought forward)	\$ 172,002	\$ 570,910	\$ 742,912
Nonoperating income:			
Capacity fees	391,536		391,536
Interest income	188,161	33,920	222,081
Miscellaneous	102,241		102,241
	<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	(66,763)	(1,387)	(68,150)
	<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	13,986		13,986
Increase (decrease) in net position	(737,526)	588,459	(149,067)
Net position:			
Beginning of year	51,656,857	8,231,048	59,887,905
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 STATEMENTS OF CASH FLOWS
 YEAR ENDED DECEMBER 31, 2019
 (See independent auditor's report)

	Wastewater fund	Stormwater fund	Eliminations	Total
Cash flows from operating activities:				
Cash received from customers and users	\$ 11,076,434	\$ 1,683,206	\$ 171,938	\$ 12,931,578
Cash payments to:				
Suppliers	(4,442,211)	(449,555)	(118,637)	(5,010,403)
Employees	(2,133,119)	(211,845)	(53,301)	(2,398,265)
Net cash provided by operating activities	4,501,104	1,021,806	-	5,522,910
Cash flows from capital and related financing activities:				
Nonoperating income	33,816	65,000		98,816
Capacity fees	638,964			638,964
Purchase of property, plant and equipment	(2,387,690)	(466,099)		(2,853,789)
Debt principal paid	(6,998,250)	(1,750)		(7,000,000)
Capital lease paid	(331,589)			(331,589)
Bond proceeds, net of issuance costs, premiums and discounts	14,376,806			14,376,806
Interest paid on debt	(1,055,875)	(53,616)		(1,109,491)
Net cash provided by (used in) capital and related financing activities	4,276,182	(456,465)		3,819,717
Cash flows from investing activities, interest received	278,495	58,627		337,122
Net increase in cash and cash equivalents	\$ 9,055,781	\$ 623,968	-	\$ 9,679,749
Cash and cash equivalents (Note 2):				
Beginning of year	16,212,326	1,821,951		18,034,277
End of year	\$ 25,268,107	\$ 2,445,919	\$ -	\$ 27,714,026

(continued)

DERRY TOWNSHIP MUNICIPAL AUTHORITY

COMBINING STATEMENTS OF CASH FLOWS (CONTINUED)
 YEAR ENDED DECEMBER 31, 2019
 (See independent auditor's report)

	Wastewater fund	Stormwater fund	Eliminations	Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 1,452,059	\$ 572,351		\$ 2,024,410
Adjustments:				
Depreciation and amortization of property, plant and equipment	3,124,962	210,129		3,335,091
Noncash expenses	170,869			170,869
Changes in assets and liabilities:				
(Increase) decrease in:				
Receivables	(79,714)	363	\$ 171,938	92,587
Inventory	144			144
Prepaid insurance	(24,604)			(24,604)
Deferred outflow, OPEB liability	(14,506)			(14,506)
Increase (decrease) in:				
Accounts payable, trade and other	(168,309)	230,075	(171,938)	(110,172)
OPEB liability	49,930	6,171		56,101
Accrued expenses	(9,727)	2,717		(7,010)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net cash provided by operating activities	<u>\$ 4,501,104</u>	<u>\$ 1,021,806</u>	<u>\$ -</u>	<u>\$ 5,522,910</u>
Noncash activities:				
Accounts payable for property, plant and equipment at year end	\$ 130,229			\$ 130,229
Amortization of bond premiums	95,243	\$ 1,513		96,756
Deferred loss on refunded debt	8,008			8,008

See notes to financial statements.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

COMBINING STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2018
(See independent auditor's report)

	Wastewater fund	Stormwater fund	Eliminations	Total
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	(2,214,464)		(500,644)	(2,715,108)
Net cash provided by operating activities	5,080,208	355,706	-	5,435,914
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	(841,521)	(43,293)		(884,814)
Net cash provided by (used in) capital and related financing activities	(981,662)	738,004		(243,658)
Cash flows from investing activities:				
Interest received	187,397	33,920		221,317
Change in investments	3,940,656			3,940,656
Net cash provided by investing activities	4,128,053	33,920		4,161,973
Net change in cash and cash equivalents	\$ 8,226,599	\$ 1,127,630	-	\$ 9,354,229
Cash and cash equivalents (Note 2):				
Beginning of year	7,985,727	694,321		8,680,048
End of year	\$ 16,212,326	\$ 1,821,951	\$ -	\$ 18,034,277

(continued)

DERRY TOWNSHIP MUNICIPAL AUTHORITY

COMBINING STATEMENTS OF CASH FLOWS (CONTINUED)
 YEAR ENDED DECEMBER 31, 2018
 (See independent auditor's report)

	<u>Wastewater fund</u>	<u>Stormwater fund</u>	<u>Eliminations</u>	<u>Total</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	(6,621)	192		(6,429)
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

SCHEDULES OF OPERATING EXPENSES
YEARS ENDED DECEMBER 31, 2019
(See independent auditor's report)

	Wastewater fund	Stormwater fund	Total
Administrative, payroll taxes and employee benefits:			
Salaries	\$ 601,085	\$ 135,283	\$ 736,368
Materials and supplies	19,638	122	19,760
General expense	475,524	6,650	482,174
Payroll taxes and employee benefits	1,129,616	127,384	1,257,000
Maintenance and repairs	7,211		7,211
Professional services	411,820	182,516	594,336
	<u>2,644,894</u>	<u>451,955</u>	<u>3,096,849</u>
Collection system:			
Salaries	356,194	79,279	435,473
Materials and supplies	10,149	30	10,179
General expense	5,582	8,288	13,870
Maintenance and repairs	181,819	225,730	407,549
Utilities	95,523		95,523
	<u>649,267</u>	<u>313,327</u>	<u>962,594</u>
Plant operations:			
Salaries	705,714		705,714
Materials and supplies	40,340		40,340
General expense	37,222		37,222
Utilities	575,436		575,436
Chemicals	260,533		260,533
Special services	291,468		291,468
	<u>1,910,713</u>		<u>1,910,713</u>

(continued)

DERRY TOWNSHIP MUNICIPAL AUTHORITY

SCHEDULES OF OPERATING EXPENSES (CONTINUED)
YEARS ENDED DECEMBER 31, 2019
(See independent auditor's report)

	<u>Wastewater fund</u>	<u>Stormwater fund</u>	<u>Total</u>
Maintenance:			
Salaries	\$ 224,165		\$ 224,165
Materials and supplies	5,486		5,486
General expense	7,737		7,737
Equipment repairs	481,602		481,602
Vehicle repairs	24,888		24,888
Automation control services	14,557		14,557
	<u>758,435</u>		<u>758,435</u>
Technical services:			
Salaries	236,234		236,234
Materials and supplies	17,628		17,628
General expense	2,469		2,469
Special services	47,167		47,167
	<u>303,498</u>		<u>303,498</u>
Miscellaneous project expense	<u>403,208</u>	\$ 35,081	<u>438,289</u>
Total operating expenses	<u><u>\$ 6,670,015</u></u>	<u><u>\$ 800,363</u></u>	<u><u>\$ 7,470,378</u></u>

DERRY TOWNSHIP MUNICIPAL AUTHORITY

SCHEDULES OF OPERATING EXPENSES
YEARS ENDED DECEMBER 31, 2018
(See independent auditor's report)

	Wastewater fund	Stormwater fund	Total
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	366,160	77,465	443,625
	<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	93,343		93,343
	<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	293,631		293,631
	<u>1,933,307</u>		<u>1,933,307</u>

(continued)

DERRY TOWNSHIP MUNICIPAL AUTHORITY

SCHEDULES OF OPERATING EXPENSES (CONTINUED)
YEARS ENDED DECEMBER 31, 2018
(See independent auditor's 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><u>\$ 7,475,717</u></u>	<u><u>\$ 806,399</u></u>	<u><u>\$ 8,282,116</u></u>