

PERKASIE REGIONAL AUTHORITY

Annual Financial Report

Years Ended December 31, 2015 and 2014

(with Independent Auditors' Report thereon)

PERKASIE REGIONAL AUTHORITY

December 31, 2015 and 2014

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PERKASIE REGIONAL AUTHORITY

Organization

MEMBERS OF THE BOARD	Lawrence Gular	Chairperson
	Benjamin Rinear	Vice Chairperson
	Robert Wasson	Secretary
	Thomas Horn	Treasurer
	David Watt	Assistant Secretary/Treasurer

CONSULTING ENGINEER	Peter C. Andersen, P.E. Andersen Engineering Associates, Inc. Perkasie, Pennsylvania
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SOLICITOR	John N. Schaeffer, III, Esq. Eastburn and Gray, P.C. Doylestown, Pennsylvania
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TRUSTEE	Univest National Bank Souderton, Pennsylvania
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Independent Auditors' Report

To the Members of the Board
Perkasie Regional Authority
Perkasie, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the Perkasie Regional Authority, Perkasie, Pennsylvania, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the 2015 financial statements referred to above present fairly, in all material respects, the financial position of the Perkasie Regional Authority, as of December 31, 2015, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Change in Method of Accounting for Pensions

As described in Note 2 to the financial statements, the Authority changed its method for accounting and financial reporting for its pension plan as a result of the adoption of Governmental Accounting Standards Board (“GASB”) GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*, all of which are effective January 1, 2015, which resulted in the Authority restating its net position for recognition of the Authority’s pension activity incurred prior to January 1, 2015. Our opinion is not modified with respect to this matter.

Emphasis of Matter - Prior Period Financial Statements

The financial statements of Perkasio Regional Authority as of and for the year ended December 31, 2014, were audited by Smart Devine whose practice was merged with Marcum LLP as of December 1, 2015, and whose report dated April 24, 2015, expressed an unmodified opinion on those statements.

As described in Note 2 to the financial statements, the Authority has restated its December 31, 2014 to retrospectively apply the change in accounting method for recording pension liabilities in accordance with GASB 68. The other auditors reported on the financial statements before the retrospective adjustment. As part of our audit of the 2015 financial statements, we also audited the adjustments to the 2014 financial statements to retrospectively apply the change in accounting as described in Note 2. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the Authority’s 2014 financial statements other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2014 financial statements as a whole.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management’s Discussion and Analysis on pages 5 through 15 and the pension schedules on pages 36 and 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Perkasie Regional Authority's basic financial statements. The 2015 supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 2015 information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2015 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole. The 2014 supplementary information on page 38 was subjected to auditing procedures applied in the 2014 audit of the basic financial statements by Smart Devine, whose report on the 2014 information stated that it was fairly stated in all material aspects to the 2014 basic financial statements as a whole.

Marcum LLP

Philadelphia, Pennsylvania
May 17, 2016

Management's Discussion and Analysis

This section of Perkasio Regional Authority's (PRA or Authority) annual financial report presents management's analysis of the Authority's financial performance during the fiscal year ending December 31, 2015. The Management Discussion and Analysis (MD&A) should be read in conjunction with the Authority's basic financial statements beginning on page 16.

HIGHLIGHTS

Financial Highlights

- The Authority's net position increased substantially from \$17.3 million in 2014 to \$19.2 million in 2015, or an increase of \$1.9 million (11.0%).
- Current assets increased substantially from \$1.06 million 2014 to \$1.75 million in 2015, or an increase of nearly \$590,000 or 64.9%.
- Restricted assets increased from \$3.1 million in 2014 to \$3.9 million in 2015, more than \$830,000 or 27.4%.
- Total non-current assets remained relatively constant at \$37.2 million for 2015 compared to \$37.9 million for 2014.
- Total liabilities decreased by 9.3% from \$22.3 million in 2014 to \$20.3 million in 2015.

AUTHORITY HIGHLIGHTS

Like most areas of the country, the Northeast has continued to be affected by a housing slow down and an overall lackluster economy. Due to a lack of growth and increased costs, the Authority chose to increase both water and sewer rates by an average of 3.2%.

- The Authority went through the final phase of the employee transition/succession plan in 2015 as Executive Director, Gary Winton, took on his final role as "consultant". As part of that role, he was available for questions, but was no longer part of any discussions or decisions being made. On December 31, 2015 Mr. Winton officially retired.
- The Authority's previous facility on 5th St., which had been listed for sale for the previous 3+ years, had finally sold in May of 2015 for about \$680,000. As part of the Authority's loan approval for their new building, those funds were pledged against the loan, so those funds were paid towards the principal.
- The Authority finally began to see some construction activity in 2015. Two of the three developments within the Borough of Perkasio broke ground in 2015 with the third anticipated to break ground in mid-2016. The Authority anticipates roughly 85 new connections by the end of 2016 and a total of 200 connections from the developments by mid-2017.

Other Highlights Include:

- Old 309 Corridor (Bethlehem Pike) – A section of West Rockhill Township known as the Old 309 Corridor (or Bethlehem Pike) is stark with old run down commercial buildings and is ripe for redevelopment. West Rockhill Township has noted this area to be redeveloped and the Authority has undertaken the study of providing water and sewer to the area in an effort to “jump start” the redevelopment process. Most of the properties have failing sewer systems and some use rainwater for non-potable water uses, i.e. cleaning and flushing toilets as potable water is not available. The Authority had applied for grants to help defray some of the costs for the property owners, but unfortunately was unsuccessful in landing any grant monies. In 2015, the Authority decided to put this project on hold because of the increasing costs and low expected return on investment.
- Almont Area – This is an area of West Rockhill Township that is located at the intersection of Ridge Road and Lawn Avenue that is in need of both water and sewer facilities. This area is close to Grandview Hospital and has a lot of open land with the potential to be built upon. The Authority has developed plans to service this area with both water and sewer with the intent on commencing in 2017.

USING THIS ANNUAL REPORT

This annual report consists of three parts: Management’s Discussion and Analysis; the Financial Statements; Required Supplementary Information and Other Supplementary Information. The Financial Statements also include notes that explain in more detail some of the information in the Financial Statements.

Required Financial Statements

The Financial Statements of the Authority report information about the Authority using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities. The Statement of Net Positions is the first required statement; it includes all of the Authority’s assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and nature and extent of obligations (liabilities). It also provides the basis for computing the rates of return, evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority. All of the current year’s revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Positions, which is the second required financial statement. This statement measures the profitability of the Authority’s operations over the past year and can be used to determine whether the Authority has successfully recovered all its costs through its user fees and other charges.

The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Authority’s cash receipts, cash payments, and net changes in cash resulting from operations, investing, and capital and non-capital financing activities. It also provides information regarding sources of cash, uses of cash, and the changes in the cash balance during the reporting period.

Financial Analysis of the Authority

The Authority’s net position (primarily the difference between assets and liabilities) is a measure of its financial position. Over time, increases or decreases in net position is an indicator of whether the Authority’s financial position has improved or declined. While this financial analysis is a strong indicator of the Authority’s financial position, other non-financial factors need to also be considered, such as new legislation affecting operations, economic conditions and growth.

The chart below titled “Statements of Net Positions” provides a snapshot view of the Authority’s financial condition at December 31, 2015 and 2014. The current ratio, which represents the proportion of current assets to current liabilities, is a measure of financial liquidity. The Authority’s current ratio at December 31, 2015 of 5:1 is an indicator of outstanding liquidity. The ratio of liabilities to equity represents the proportion of total liabilities to net positions and is a financial leverage ratio which provides an indication of long-term solvency and measures the extent to which an entity’s assets have been acquired using long-term debt. A liability to equity ratio 1:1 or less is a strong indicator of long-term solvency. The Authority’s liability to equity ratio at December 31, 2015 was 1:1.

Statements of Net Positions

	2015	2014		2015	2014
Current Assets	\$ 1,749,976	\$ 1,061,536	Current Liabilities	\$ 348,968	\$ 378,689
Property, Plant & Equipment - Net	33,159,593	34,669,141	Current Liabilities From Restr. Assets	1,295,398	1,247,762
Restricted Assets	3,901,676	3,062,917	Long Term Liabilities	18,636,526	20,722,404
Other Assets	134,999	143,055	Net Positions	19,176,255	17,274,082
Deferred Outflows	669,800	686,288	Deferred Inflows	158,897	-
Total	\$ 39,616,044	\$ 39,622,937	Total	\$ 39,616,044	\$ 39,622,937

Analysis of Net Assets

PRA’s total assets exceeded its liabilities by \$19.2 million at the end of 2015. Our net position includes an investment in the water and sewer infrastructure, buildings, trucks, property, etc. less the debt incurred to acquire these assets of \$13.7 million. These are the assets used by the Authority to provide service to our customers. While we report this number less the related debt, it must be realized that the resources to repay this debt must be obtained through other sources (i.e. rates) since these assets cannot be liquidated to retire the liability. The restricted portions of our net position (\$3.7 million) are subject to provisions under our bond indenture for future debt service requirements and on-going capital projects. The balance of \$1.8 million is unrestricted.

Analysis of Changes in Net Assets

The Authority’s financial position remained stable for 2015. Our net position increased from \$17.3 million in 2014 to \$19.2 million in 2015, for an increase of \$1.9 million. Operating income increased by more than \$500,000. Tapping fees increased in 2015, by roughly \$1.0 million, to \$1.2 million compared to \$225,000 in 2014. The Authority expects to see a slight decrease in tapping fees in the next two years as the economic recovery continues, but at a slower rate. There are 2 major developments that are currently in early stages of construction and/or are expected to start construction within the next year or two. The Perkasio Industries Tract is expected to generate an additional \$400,000 in tapping fees and the Kratz Tract is expected to provide \$250,000.

Total Revenues

Total Authority revenues increased for 2015, for a total of \$4.42 million as compared to \$4.28 million in 2014. The main reason for this increase was due to the increase in both water and sewer rates.

Detailed Analysis of Operating and Non-Operating Revenue Variances:

- Water Service Charges increased 3.6% and Sewer Service Charges increased by about 2.2%.
- Water and Sewer Assessments were \$1,225,000 for 2015. Assessments are received from the ratepayers as repayment of monies expended by the Authority for installation of water or sewer facilities serving a customer’s property, thereby creating property improvement. This income varies from year to year, depending on the retirement of outstanding assessments or the levying of new ones.
- Other Revenues are derived from fees and charges not directly related to metered water and sewer sales. These include payments for services provided to tenants of Authority rental properties, sale of excess equipment or property, fees for account certifications and delinquent notification fees as well as the sewer truck services.
- Interest Income is non-operating revenue, generated by returns on the Authority’s investments. The interest income for 2015 decreased by about \$2,000 from \$3,000 in 2014 to \$1,150 in 2015.
- Rental Income is non-operating revenue, which is generated from excess commercial, industrial and rental properties leased by the Authority. During 2015, the Authority sold its interest in real estate on N. 5th St. in Perkasio which included some commercial, industrial and rental properties. In addition, the Authority leases space on its water tank to cell phone companies. Rental income decreased from \$78,745 in 2014 to \$60,887 in 2015 primarily due to the sale of some real estate.

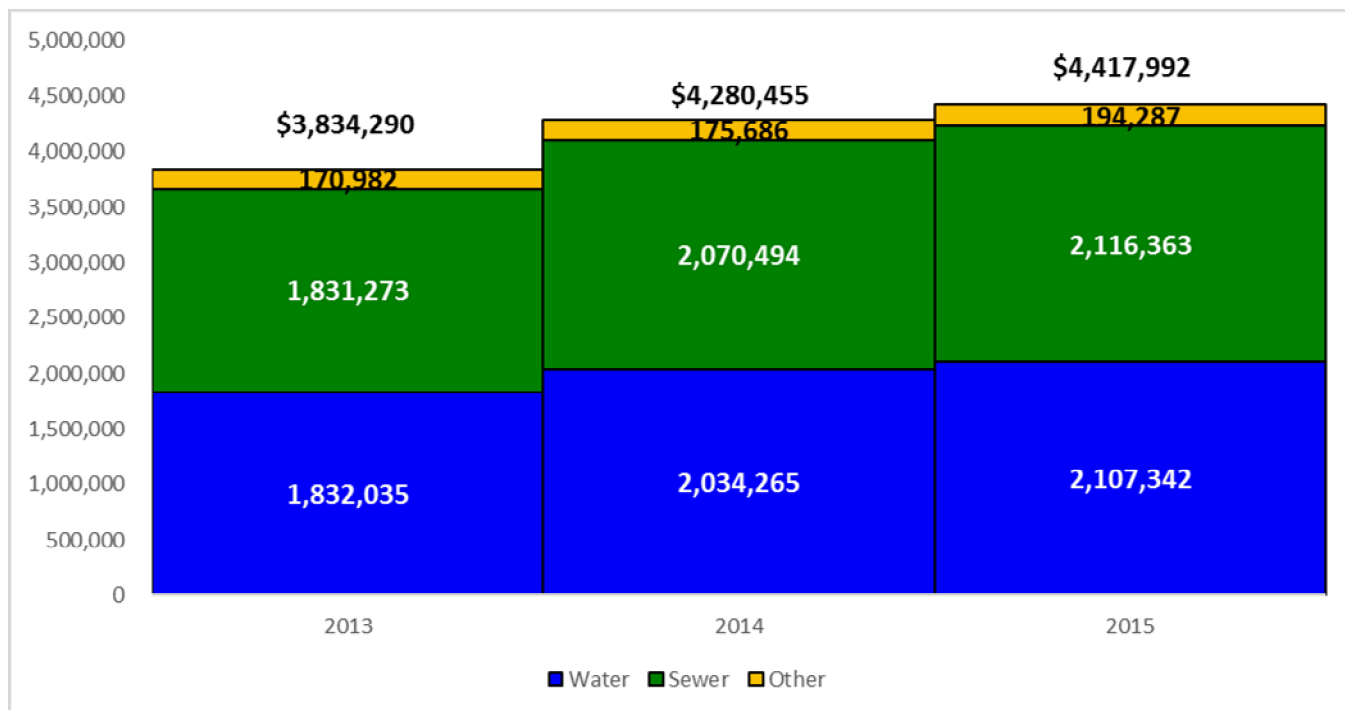
Stability of Operating Revenues

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

Residential, including multi-family	87.5%
Commercial, including mixed uses	6.6%
Industrial	1.5%
Institutional (schools & churches)	3.2%
Public	1.2%

Accordingly, the user base is extremely stable, which comprises 93% of the Authority’s residential, institutional and public users. The primary growth in the Authority’s service area is expected to be residential; however, both the agreements with East and West Rockhill contain both new areas and areas that can be redeveloped in commercially zoned areas. Therefore, we will also see significant growth in both commercial and institutional uses, as the new service area in West Rockhill would include a significant area around Grandview Hospital, and the area in East Rockhill is along the 313 Corridor leading from Doylestown to Quakertown. The Borough of Perkasie is also currently marketing a redevelopment area in the middle of the downtown area.

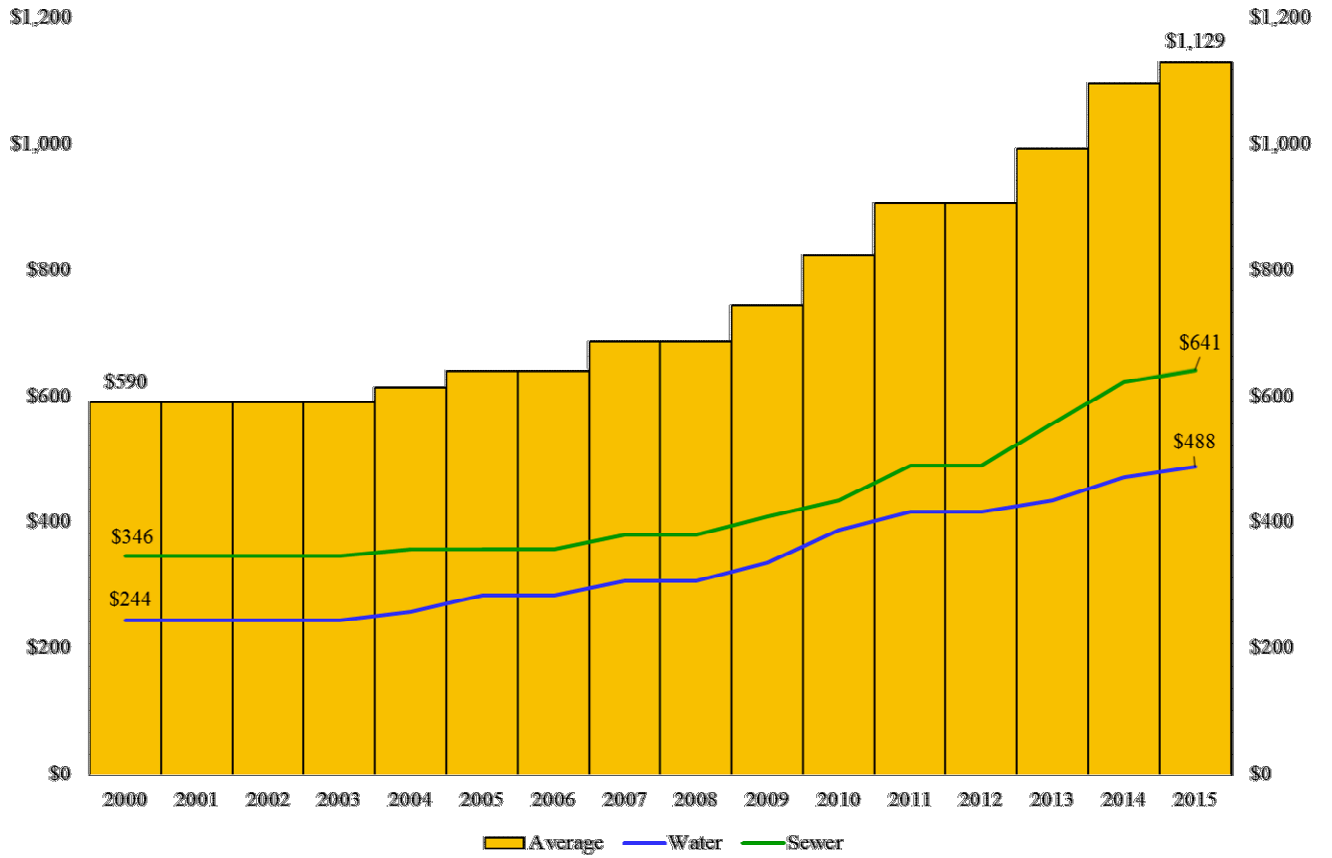
See the chart below for a review of the last three (3) years of operating revenue.



Rates

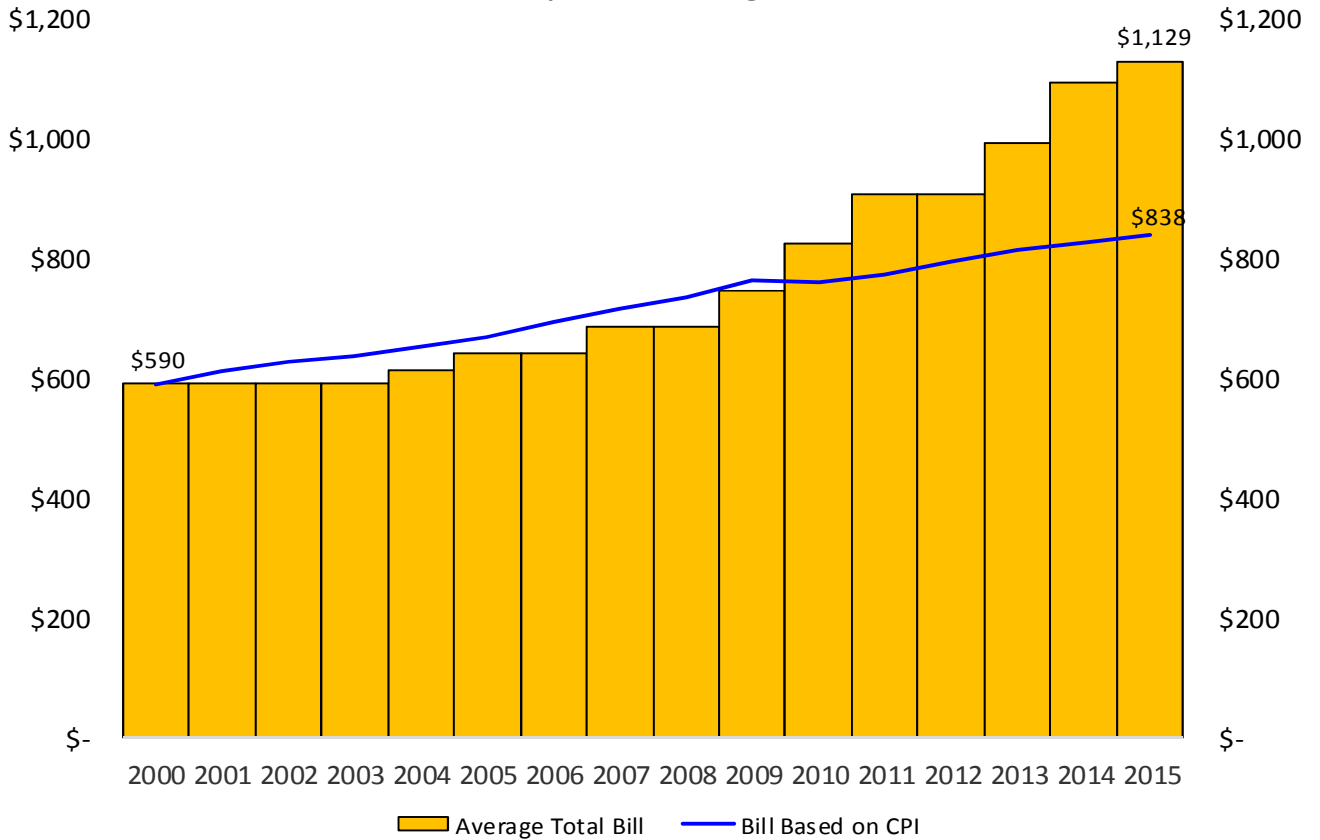
The Authority Board decided to restructure the water and sewer rates in 2013 to ensure compliance with the Bond Indenture is continually achieved. The Authority Board made the conscious decision to divide all long-term debt over the entire customer base in the form of base charges. The combination of that decision and increased costs caused the base charge for water to increase slightly, from \$65.95 to \$69.50 per quarter. In turn the base charge for sewer increased slightly from \$51.60 to \$54.50 per quarter. Like most of the United States, the housing market in the Northeast has been affected by the recession. While the Authority has approximately \$500,000 of tapping fees outstanding for approved developments, those monies will help fund some of the projects that have been put on hold due to low capital fund balances. The Authority is still obligated to continue their infrastructure replacement program for both water and sewer facilities and maintain a capital improvement fund that will one day help fund the construction of additional treatment facilities. Listed below are two charts, the first indicating the rate increases since 2000 and the average water and sewer bills for residential customers using 15,000 gallons per quarter, and the second, compares the actual average total annual bill to the average annual bill adjusted for inflation using the Consumer Price Index.

Trend Analysis – Average Annual Bills



The chart, which compares the actual average annual bill to the Consumer Price Index, illustrates that the Authority's rate increases since 2000 have mirrored US inflation.

Trend Analysis – Average Annual Bills



Long-Term Authority Debt:

- In December of 2014, the Authority issued \$9,150,000 of Water and Sewer Revenue Bonds for the purposed of refunding the 2011 Bonds, as well as to pay the costs of issuance.
- In August of 2012, the Authority issued a bank note in the amount of \$5,250,000 at the rate of 3% for the construction of its new Operations Center. The note was issued via Univest National Bank & Trust and is payable over 20 years with interest adjustments allowed every 7 years. The Authority was only paying interest on the loan until May 2014, at the Authority began making monthly principal and interest payments.
- In December of 2011, the Authority issued the 2011A Bonds - \$7,965,000 of Water and Sewer Revenue Bonds for the purpose of refunding the 2005 Bonds and the 2007 Bonds, as well as to pay the costs of issuance.

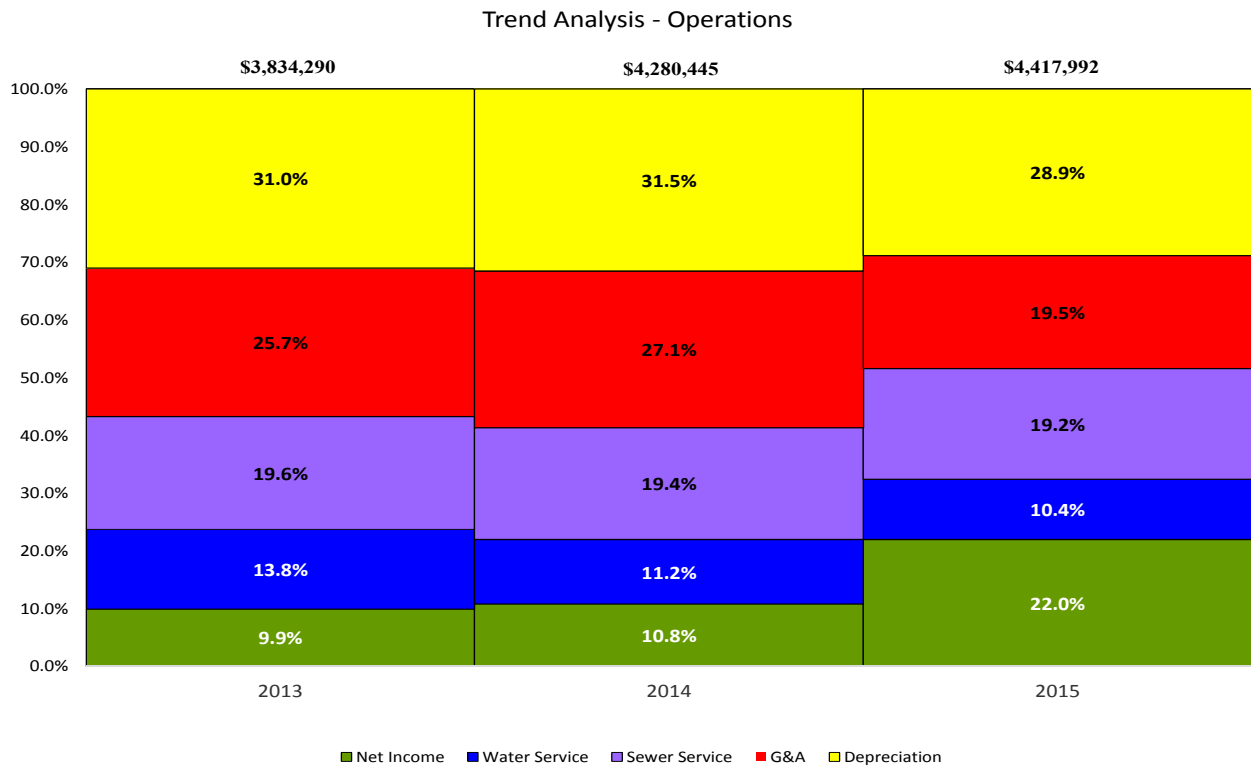
- In February of 2011, the Authority issued the 2011 Bonds - \$8,515,000 of Water and Sewer Revenue Bonds, in anticipation of the expansion into West Rockhill and the construction of a new Authority office building and distribution center. A portion of the bond money also went to retire the Uninvest loan and a letter of credit that was issued to pay the costs of the arsenic removal project at Well #10. These bonds were advanced refunded with the issuance of the 2014 bonds.
- In 2003, the Authority issued \$4.065 million of Water and Sewer Revenue Bonds. The purpose of the 2003 bonds was to refinance the 1998 Series of Water and Sewer Revenue Bonds, repay the Authority's \$700,000 line of credit and fund various water and sewer capital improvements. This issue was retired during 2014.

Security – The 2003 issue is insured through Financial Security Holdings, Inc. (now a component of Assured Guaranty Municipal Corp.) and is AAA rated. In addition, Standard and Poor's has assigned the Authority an underlying rating of "A+" with a stable outlook. The A+ rating was reaffirmed in January of 2011. The cost analysis of issuing the 2011 bonds with or without insurance indicated there was no cost benefit with the addition of insurance. Therefore, the 2011 bonds are not insured. However, the cost of insuring the 2011A series was considered virtually revenue neutral and those bonds are insured by Assured Guaranty Municipal Corp.

- The Authority also maintains a Bond Reserve Fund in the amount of the combined maximum annual debt service of the 2014 and 2011A bonds.
- None of the Authority's bond issues pledge the taxing power of the Commonwealth of Pennsylvania, nor any political subdivision. Therefore, the Authority is not a component unit of any entity (see Note 1, page 20 of the Financial Statements).

EXPENSES

Overall Operating Expenses for 2015 decreased by \$300,000, or 12.12%, from 2014. The “operations” chart below shows a graphic history of the Authority’s operations over the last three (3) years.



Detailed Analysis of Operating Expenses

- **Water Service**

Costs of providing water service in 2015 decreased by 4.3% or \$20,400 primarily due to lower energy costs at the well sites.

- **Sewer Service**

The Authority contracts with the Pennridge Wastewater Treatment Authority for treatment of all its sewage wastes. Our costs for sewage treatment are broken down into two categories. The first is actual treatment costs, which increased 2.7% from \$655,800 in 2014 to \$673,200 in 2015 mostly due to a need for a new electrical substation. The second portion is the Authority’s pro-rated share of capital improvements to the plant. Total sewage treatment costs increased by \$17,500 in 2015.

The Authority is responsible for the repairs and maintenance of its own sewage collection system. Sewage collection costs increased 1.4% or \$2,400 in 2015.

- **Professional Fees**

Total professional fees amounted to \$172,100, an increase of 8.3% over 2014. This was mostly attributed to higher Engineering costs for the design of water and sewer extensions.

- **General and Administrative**

These costs represent administration employee compensation and benefits including medical benefits, billing supplies, communication, education, trustee's fees and insurance. Overall, administrative costs decreased \$311,700, or 31.2%, from last year, resulting from decreases in employee insurance, workers compensation and reallocation of employees. The Authority's Executive Director moved to a "consultant" role in 2015, which lowered the Authority's total payroll obligations.

- **Bond Interest**

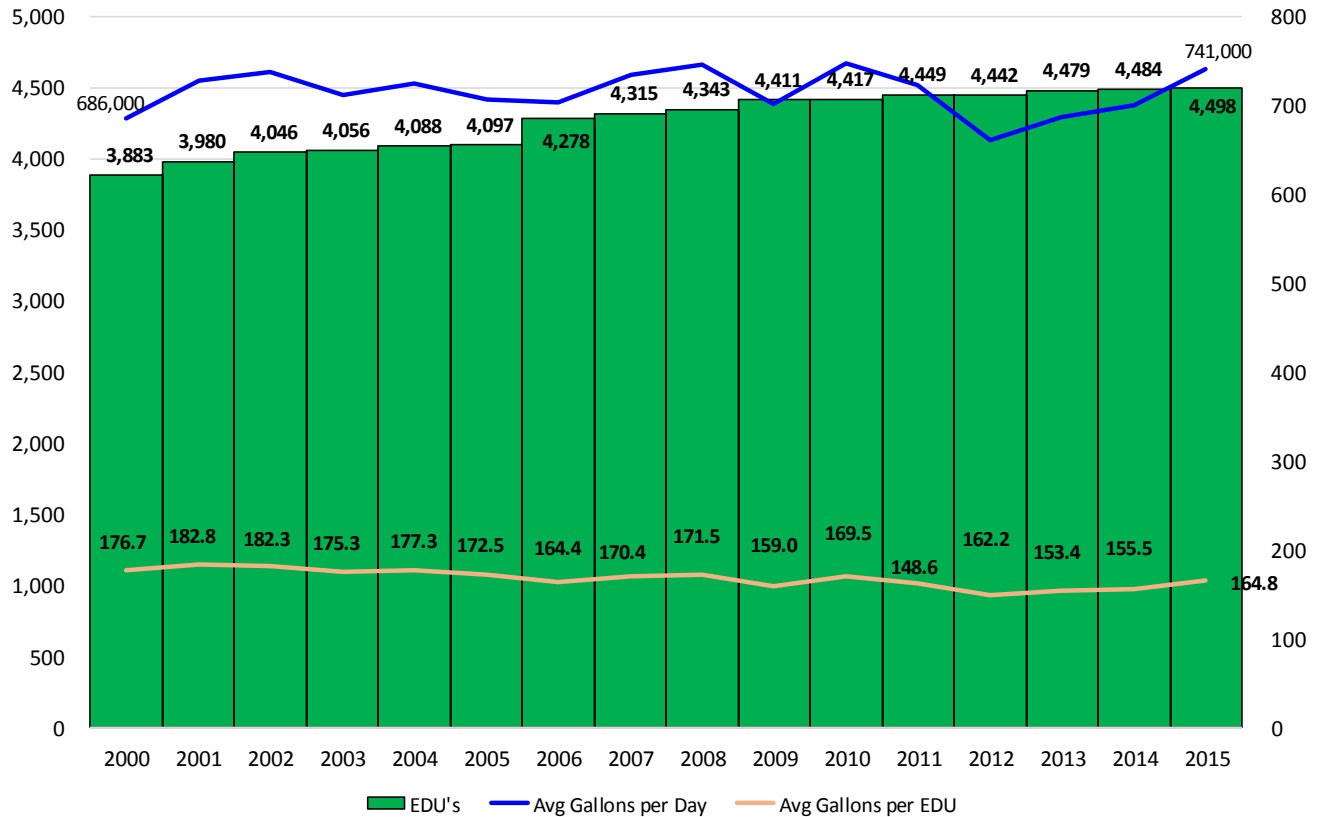
Interest expense on the Authority's bond issues was \$679,000 up roughly \$46,000 from the 2014 expense of \$633,000.

- **Water Production**

The Authority's water production has remained relatively stable although the number of units served has increased. During the last fifteen-plus years, while production has remained the same, the average per equivalent dwelling unit has decreased from 177 gallons per day to 154 gallons per day.

The following graph shows the results of the Authority's infrastructure replacement program, as well as its meter replacement and meter reading upgrades, which were completed in 2004. In 2014, usage slightly decreased to 153 gallons per day, down from 156 gallons per day in 2014. It is believed that newer water fixtures and low flow machines (washing machines, dishwashers, etc.) have led to less water being used by residential customers over the last few years and those changes seemed to have flattened out.

Trend Analysis – Average Daily Well Production by Year



Future Plans

The Authority realizes that in order to remain viable and keep rates stable it must grow and add to its customer base. To that end, the Board has entered into an agreement with East Rockhill Township to expand the Authority’s service area in that Township; thereby, guaranteeing the addition of a minimum, two hundred (200) additional connections/edu’s in the Township. In addition, the Authority’s service area in West Rockhill Township will ensure four hundred and fifty (450) connections/edu’s in that township. The Board will continue to investigate ways of adding to the Authority’s service area to insure sustainability as they move into the future.

The Authority is at a critical point in its history. They are too small to be big and too big to be small. The collapse of the economy in 2008 has caused the Authority to look at non-conventional ways of doing business. Due to lending restrictions on new developments, the Authority needs to be prepared to provide a “stimulus” by extending facilities into or in close proximity to areas scheduled for development.

Contacting the Authority

We have prepared the MD&A in a manner we hope you find useful. Keep in mind, this entire report is a financial overview designed to give our customers and creditors a general understanding of how the Authority conducts business and accounts for the money it receives. Should you have questions regarding these statements, please contact our office by phone at (215) 257-3654, by e-mailing us at info@perkasieauthority.org, by visiting our website at www.perkasieauthority.org or by writing Perkasio Regional Authority, 150 Ridge Rd. Sellersville, PA 18960.

PERKASIE REGIONAL AUTHORITY

Statements of Net Positions

December 31, 2015 and 2014

	2015	Restated 2014
	<u>2015</u>	<u>2014</u>
<u>ASSETS AND DEFERRED OUTFLOWS</u>		
Current assets:		
Cash and cash equivalents	\$ 175,824	\$ 132,581
Accounts receivable	122,606	106,290
Assessments receivable	470,261	12,474
Estimated unbilled revenue receivable	676,398	683,118
Supply inventory	65,685	65,685
Other Receivable	190,881	-
Due from Pennridge Wastewater Treatment Authority	48,321	61,388
	<u>1,749,976</u>	<u>1,061,536</u>
Noncurrent assets:		
Assessments receivable	134,999	143,055
Restricted assets:		
Cash and cash equivalents	3,901,676	1,562,939
Investments	-	1,499,978
	<u>3,901,676</u>	<u>3,062,917</u>
Property, plant & equipment		
Construction in progress	700,091	663,567
Property, plant & equipment	50,006,811	51,092,354
Purchased wastewater treatment capacity	2,829,662	2,813,346
Accumulated depreciation	<u>(20,376,971)</u>	<u>(19,900,126)</u>
	33,159,593	34,669,141
	<u>37,196,268</u>	<u>37,875,113</u>
Total noncurrent assets		
	<u>37,196,268</u>	<u>37,875,113</u>
Total assets	\$ <u>38,946,244</u>	\$ <u>38,936,649</u>
Deferred outflows of resources:		
Deferred amounts from refunding, net of amortization of \$90,128 and \$35,421, respectively	\$ 586,618	\$ 641,324
Deferred outflows - pension	83,182	44,964
	<u>669,800</u>	<u>686,288</u>
Total deferred outflows	\$ <u>669,800</u>	\$ <u>686,288</u>

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

(Continued)

PERKASIE REGIONAL AUTHORITY

Statements of Net Positions, Continued

December 31, 2015 and 2014

	2015	Restated 2014
	<u>2015</u>	<u>2014</u>
<u>LIABILITIES & NET POSITIONS</u>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 26,865	\$ 17,019
Accrued payroll & withholding	14,810	15,903
Accrued severance	47,727	112,322
Note payable	244,761	219,243
Capital lease obligations	14,805	14,202
	<u>348,968</u>	<u>378,689</u>
Current liabilities (payable from restricted assets):		
Water and sewer revenue bonds	1,070,000	1,125,000
Accounts payable and contract retainage	-	25,740
Accrued interest	225,398	97,022
	<u>1,295,398</u>	<u>1,247,762</u>
Long-term liabilities:		
Note payable	3,978,911	4,839,639
Accrued severance	115,111	155,278
Escrow liabilities	35,712	7,000
Capital lease obligations	34,097	51,367
Net pension liability	312,695	439,120
Water and sewer revenue bonds	14,160,000	15,230,000
	<u>18,636,526</u>	<u>20,722,404</u>
Total long-term liabilities	<u>18,636,526</u>	<u>20,722,404</u>
Total liabilities	<u>20,280,892</u>	<u>22,348,855</u>
Deferred inflows of resources:		
Deferred inflows - pension	158,897	-
	<u>158,897</u>	<u>-</u>
Net positions:		
Net investments in capital assets	13,657,019	13,189,690
Restricted for debt service	2,976,334	2,961,606
Restricted for capital projects	699,944	-
Unrestricted	1,842,958	1,122,786
	<u>1,842,958</u>	<u>1,122,786</u>
Total net positions	\$ <u>19,176,255</u>	\$ <u>17,274,082</u>

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

PERKASIE REGIONAL AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Positions

Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>Restated 2014</u>
Revenues:		
Sewer service charges	\$ 2,116,363	\$ 2,070,494
Water sales	2,107,342	2,034,265
Other revenue	<u>194,287</u>	<u>175,686</u>
Total revenues	<u>4,417,992</u>	<u>4,280,445</u>
Expenses:		
Sewer service	849,722	829,863
Water service	459,388	479,794
Professional fees	172,087	158,865
General and administrative	688,031	999,783
Depreciation	<u>1,276,644</u>	<u>1,348,832</u>
Total expenses	<u>3,445,872</u>	<u>3,817,137</u>
Operating income	972,120	463,308
Non-operating income (expense):		
Investment earnings	1,151	3,043
Rental income	60,887	78,745
Tapping fees and assessments	1,224,750	224,865
Gain on sale of building	322,287	-
Bond issue costs	-	(225,885)
Interest expense	<u>(679,022)</u>	<u>(632,760)</u>
Total non-operating income (expense) - net	<u>930,053</u>	<u>(551,992)</u>
Increase (decrease) in net positions	<u>1,902,173</u>	<u>(88,684)</u>
Net positions at beginning of year (as originally reported)	\$ 17,274,082	\$ 17,801,886
Adjustment for change in accounting for pension liability	<u>-</u>	<u>(439,120)</u>
Net positions at beginning of year (as restated)	17,274,082	17,362,766
Increase (decrease) in net positions	<u>1,902,173</u>	<u>(88,684)</u>
Net positions at end of year (as restated)	<u>\$ 19,176,255</u>	<u>\$ 17,274,082</u>

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

PERKASIE REGIONAL AUTHORITY

Statements of Cash Flows

Years Ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Cash receipts from customers	\$ 4,292,685	\$ 4,231,947
Other operating cash receipts	128,778	32,635
Cash payments to employees for services	(982,572)	(1,004,613)
Cash payments to vendors for goods and services	(1,288,411)	(1,338,637)
Net cash provided by operating activities	2,150,480	1,921,332
Cash flows from capital and related financing activities:		
Net proceeds from sale of building	692,922	-
Tapping fees and water and sewer assessments	716,739	249,187
Proceeds from construction note payable	-	212,524
Proceeds from 2014 bond issuance	-	9,150,000
Bond issuance costs	-	(213,385)
Additions to property, plant and equipment	(76,479)	(681,911)
Principal payments on long term debt	(1,976,877)	(9,504,479)
Interest paid	(686,821)	(1,319,365)
Net cash used in capital and related financing activities	(1,330,516)	(2,107,429)
Cash flows from investing activities:		
Investment purchases	-	(1,499,978)
Proceeds from investment sales/maturities	1,499,978	792,000
Investment earnings	1,151	3,043
Proceeds from rental income	60,887	78,745
Net cash provided by (used in) investing activities	1,562,016	(626,190)
Net increase (decrease) in cash and cash equivalents	2,381,980	(812,287)
Cash and cash equivalents - beginning	1,695,520	2,507,807
Cash and cash equivalents - ending	\$ 4,077,500	\$ 1,695,520
Reconciliation of cash and cash equivalents:		
Cash - unrestricted	175,824	132,581
Cash - restricted	3,901,676	1,562,939
	\$ 4,077,500	\$ 1,695,520
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 972,120	\$ 463,308
Adjustment for noncash charges to operations:		
Depreciation	1,276,644	1,348,832
Changes in assets and liabilities:		
Increase in billed & unbilled accounts receivable	(9,596)	(15,864)
Decrease in inventory	-	6,826
Decrease in due from PWTA	13,067	-
Decrease in net pension liability and deferred inflows and outflows	(5,746)	-
(Decrease) increase in accounts payable & accrued payroll and severance	(96,009)	163,194
Net cash provided by operating activities	\$ 2,150,480	\$ 1,966,296
Supplemental Disclosure of Noncash Capital and Related Financing Activities:		
Equipment purchased via capital leases	\$ -	\$ 75,060
Property, plant and equipment additions included in accounts payable	\$ -	\$ 13,240

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

PERKASIE REGIONAL AUTHORITY

Notes to Financial Statements

December 31, 2015 and 2014

1. Description of Operations

The Perkasio Regional Authority ("Authority") is a body, politic and corporate, created under the Pennsylvania Municipality Authorities Act 53 Pa.C.S. §§ 5601-5622, as amended ("Act") pursuant to an ordinance enacted by the Council of the Borough of Perkasio, Bucks County, Pennsylvania ("Borough"), for the purpose of owning, operating, and maintaining water and sewer systems within the Borough and surrounding areas for which it is authorized to serve. The certificate of incorporation of the Authority was issued by the Secretary of the Commonwealth of Pennsylvania on April 28, 1955.

The governing body of the Authority is a Board consisting of five members appointed by Borough Council. The terms of the members of the Board have been staggered so that the term of one member expires annually. The Board is authorized to exercise any and all powers conferred by the aforementioned Act necessary for the acquisition, construction, improvement, extension, maintenance and operation of the system facilities.

2. Summary of Significant Accounting Policies

a) Reporting Entity

The financial reporting entity consists of the primary government and organizations for which it is financially accountable. In determining financial accountability, consideration is given to financial interdependency, selection of governing body, designation of management, ability to significantly influence operations, and accountability for fiscal matters. Based on the foregoing criteria, the Authority is not a component unit of any primary government. In addition, there are no component units to be included in the Authority's financial statements.

b) Measurement Focus, Basis of Accounting and Financial Statement Presentation

All activities of the Authority are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when they are earned. Expenses are recorded at the time liabilities are incurred.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

(Continued)

PERKASIE REGIONAL AUTHORITY

Notes to Financial Statements, Continued

December 31, 2015 and 2014

2. Summary of Significant Accounting Policies (Continued)

c) Cash and Cash Equivalents

The Authority considers money market funds and all highly liquid investments with an original maturity date of ninety days or less when purchased to be cash equivalents. Cash equivalents are stated at cost, which approximates fair value.

d) Trust Indenture and Restricted Assets

The Authority entered into a Trust Indenture, dated as of April 1, 1994 (the "Original Indenture"), as supplemented by eight Supplemental Trust Indentures, the most recent dated December 23, 2014, with Univest National Bank as Trustee in connection with the issuance of its Water and Sewer Revenue Bonds, Series of 2003, 2011, 2011A, and 2014. The 2003 Series was retired during 2014 and the 2011 Series was refinanced during 2014 (See Note 7). The aforementioned Trust Indenture provides for the creation of the following funds:

- a) Revenue Fund for deposit of all revenues and receipts arising from the operation of the water and sewer system and any income derived from investments in any other Fund under the Indenture with the exception of the Construction Fund;
- b) Bond Fund into which revenues are to be transferred from the Revenue Fund for payment of interest and principal on the bonds as they become due;
- c) Bond Reserve Fund in an amount equal to the maximum annual aggregate debt service of the 2011A Bonds and 2014 Bonds for the purpose of funding deficiencies which may occur in the Bond Fund;
- d) Construction Fund for the payment of costs of each project involving construction for which bonds are issued;
- e) Bond Redemption and Improvement Fund for funding (1) any deficiencies which may occur in the Bond or Bond Reserve Funds, (2) capital repairs, additions or contributions, and (3) bond redemptions.

The above-captioned funds are reported in the Statement of Net Positions under the caption Restricted Assets.

e) Accounts Receivable

The Authority believes all accounts receivable are fully collectible. Accordingly, no provision for bad debt has been established. The Authority's policy is to either file a lien against the property or shut-off the water to the property for any uncollectible account which results in the collection of all accounts receivable.

(Continued)

PERKASIE REGIONAL AUTHORITY

Notes to Financial Statements, Continued

December 31, 2015 and 2014

2. Summary of Significant Accounting Policies (Continued)

f) Estimated Unbilled Revenue Receivable

Customers are billed for water and sewer in arrears based on actual water consumption. The Authority includes all customers in one of three cycles in which each cycle is billed on a staggered quarterly basis. As a result, revenues earned for services provided, but not billed, encompassing the period from October 1 through December 31, are accrued on a pro rata basis at the end of the calendar year.

g) Supply Inventory

The Authority maintains an inventory of supplies in use for emergencies which are valued at the lower of cost (first-in, first-out) or market.

h) Capital Assets

Property, plant and equipment that have an estimated useful life in excess of one year are carried at historical cost if purchased or constructed. Donated assets are recorded at estimated fair market value at the date of donation. Interest incurred during the construction phase of capital assets is included as part of the capitalized cost of constructed assets. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets which range from 5 to 40 years. Normal maintenance and repairs are charged to expense as incurred, major renewals or betterments, which extend the life or increase the value of assets are capitalized. Construction in Progress represents costs incurred by the Authority for in-process activities designed to expand, replace or extend useful lives of existing property and equipment.

i) Deferred Inflows/Outflows of Resources

The Authority reports decreases in net assets that relate to future periods as deferred outflows in a separate section of the statement of net position. The deferred outflows of resources in the Authority's financial statements include a deferred amount arising from the refunding of the 2007 bonds in 2011 and the refinance of the 2011 bonds in 2014 (See Note 7). The deferred refunding amount is being amortized over the life of the refunding bonds as part of interest expense. For the years ended December 31, 2015 and 2014, the Authority recorded amortization of \$54,706 and \$36,366, respectively, which was reported as interest expense in the statement of revenues, expenses and changes in net position. Additionally, the Authority also reports its 2015 contributions to the Pennsylvania Municipal Retirement System ("PMRS") as deferred outflows. The net pension liability associated with the Authority's financial statements was measured as of December 31, 2015, but the net pension liability for Authority employees participating in the PMRS plan was measured as of December 31, 2014. The amounts paid by the Authority in 2015 to the PMRS plan will be reflected within the Authority's pension expense and related liability when the net pension liability is measured for the next fiscal year.

(Continued)

PERKASIE REGIONAL AUTHORITY

Notes to Financial Statements, Continued

December 31, 2015 and 2014

2. Summary of Significant Accounting Policies (Continued)

i) Deferred Inflows/Outflows of Resources (Continued)

In addition to decreases in net assets, the Authority also reports a separate section of deferred inflows of resources. This separate financial statement element represents the net difference between differences between expected and actual results, changes in assumptions and projected and actual earnings of its PMRS plan. The amount will be amortized over a five year closed period beginning in the year in which the difference occurred.

j) Net Positions

Net positions represent the difference between the Authority's assets and deferred outflows and liabilities and deferred inflows. Net Investments in Capital Assets represent capital assets, reduced by accumulated depreciation and by any outstanding debt related to the acquisition, construction or improvement of those assets. Restricted for Debt Service is comprised of certain funds restricted under the Trust Indenture for payment of debt service on bonds. Restricted for Capital Projects represents funds restricted for future capital projects in accordance with the Trust Indenture. Unrestricted Net Positions consist of net assets that do not meet the definition of "restricted" or "net investments in capital assets".

k) Operating Revenues and Expenses

Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations which is the sale of water and treatment of wastewater for its customers. Operating expenses include the cost of services, professional and administrative expenses, and depreciation on capital assets. All other revenues and expenses not meeting the aforementioned criteria are reported as non-operating revenues and expenses and are included under capital and related financing and investing activities in the Statement of Cash Flows.

l) Budget

As required by the terms of the Trust Indenture, the Authority prepares an annual budget which details anticipated revenues and the Authority's plans to expend funds for charges incurred for operation, maintenance, certain interest and general functions, and other charges for the year. A comparison of actual and budgeted revenues and expenses is presented in the Supplementary Information section of the financial statements.

m) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(Continued)

PERKASIE REGIONAL AUTHORITY

Notes to Financial Statements, Continued

December 31, 2015 and 2014

2. Summary of Significant Accounting Policies (Continued)

n) Change in Method for Accounting for Pensions

On January 1, 2015, the Authority adopted Governmental Accounting Standards (“GASB”) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

GASB No. 68 requires cost-sharing employers to recognize liabilities, deferred outflows of resources, deferred inflows of resources, and expense for their proportionate share of the totals for the plan in which its employees participated (PMRS). See Note 9 for specific disclosures regarding PMRS. The Authority did not have all of the information needed to fully re-state the 2014 financial statements. The Authority has elected to apply the “cumulative effect” method, as discussed in GASB No. 68, for the PMRS plan by restating the net position as of December 31, 2014. As of December 31, 2014, the Authority recorded adjustments totaling \$394,156 to decrease its net pension liability in accordance with GASB No. 68.

GASB No.71 requires that, at transition, a government recognize a deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the net pension liability at the end of the government’s reporting period. The provisions of this Statement are required to be applied simultaneously with the provisions of GASB No. 68. As of December 31, 2014, the Authority recorded an adjustment of \$44,964, included above, to increase beginning net position for contributions made to PMRS during 2014.

3. Deposits and Investments

a) Deposits

The Authority maintains its cash balances at one financial institution. The cash balances are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to \$250,000. State law requires that all public deposits in financial institutions in excess of federal insurance limits be fully collateralized by obligations of the United States, the Commonwealth of Pennsylvania or any political subdivision of the Commonwealth. Pennsylvania Act 72 of 1971, as amended, permits banking institutions to satisfy this collateralization requirement by pooling securities pledged as collateral for public funds on deposit. At December 31, 2015, the cash balance maintained at the financial institution was \$214,428 which was covered by FDIC.

Restricted cash is held by the trustee in money market accounts which are not covered by FDIC or Pennsylvania Act 72. Amounts maintained in money market accounts totaled \$3,901,676 at December 31, 2015 and was not insured. The Authority has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash or cash equivalent.

(Continued)

PERKASIE REGIONAL AUTHORITY

Notes to Financial Statements, Continued

December 31, 2015 and 2014

3. Deposits and Investments (Continued)

b) Investments

State statutes and the Trust Indenture authorize the Authority to invest in (1) obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; (2) obligations of the Commonwealth of Pennsylvania or its political subdivisions; (3) accounts insured by the Federal Deposit Insurance Corporation, the Federal Savings and Loan Insurance Corporation or the National Credit Union Share Insurance Fund; (4) shares of an investment company whose shares are registered under the Securities Act of 1933 which invests only in obligations described in (1) through (3) above; and (5) obligations of certain nonguaranteed federal agencies.

The cost and fair value of investments at December 31, 2014, follows:

	Cost	Fair Value
Certificates of Deposit	\$750,000	\$750,000
Treasury Bill	749,283	749,978
Total	\$1,499,283	\$1,499,978

As of December 31, 2015 all amounts held in the Trust funds were considered cash and cash equivalents.

c) Credit Risk

The Treasury bill and certificates of deposit in which the Authority invested were unrated.

d) Custodial Credit Risk

Deposit custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. Investment custodial credit is the risk that the counterparty to an investment transaction will fail and the Authority will not recover the value of the investment or collateral securities that are in the possession of an outside party. The Authority does not have a formal investment policy that addresses interest rate, credit, and custodial credit risk. All investment accounts are maintained by one institution.

4. Assessments Receivable

Amounts due from property owners for water and sewer assessments totaled, \$605,260 and \$155,529 as of December 31, 2015 and 2014, respectively. The Authority currently pays one-third of the project cost of extending water and sewer systems to furnish service to customers and assesses the remaining balance to the property owners. The assessments are payable over five years, with a 20% down payment in year one, and 20% due in each of the next four years plus an interest rate of 5% per annum on the outstanding balance. Some of the residents who owe the Authority for water and sewer assessments have financial hardships and cannot pay in accordance with the Authority's terms. In those instances, the Authority secures its interest by filing a lien on the property.

(Continued)

PERKASIE REGIONAL AUTHORITY

Notes to Financial Statements, Continued

December 31, 2015 and 2014

4. Assessments Receivable (Continued)

At December 31, 2015, the principal portion of the assessment receivable is as follows:

Year	Amount
2016	\$ 470,261
2017	6,604
2018	2,904
2019	1,452
2020	124,039
Thereafter	-
Total	\$ 605,260

5. Capital Assets

Property, plant, and equipment at December 31, 2015 and 2014 and related depreciation expense for the years then ended follow:

2015

	Beginning	Increases	Decreases	Ending	Depreciation
Land	\$ 914,410	\$ -	\$ (129,000)	\$ 785,410	\$ -
Building	6,232,352	278	0	6,232,630	155,816
Water System	27,008,263	16,812	(558,150)	26,466,925	687,128
Sewer System	16,312,531	6,563	(392,325)	15,926,769	335,129
Furniture and Equipment	383,685	-	(29,721)	353,964	22,212
Vehicles	241,113	-	-	241,113	5,850
Purchased Wastewater Treatment Capacity	2,813,346	16,316	-	2,829,662	70,509
Construction in Progress	663,567	107,402	(70,878)	700,091	-
Total	\$ 54,569,267	\$ 147,371	\$ (1,180,074)	\$ 53,536,564	\$ 1,276,644

(Continued)

PERKASIE REGIONAL AUTHORITY

Notes to Financial Statements, Continued

December 31, 2015 and 2014

5. Capital Assets (Continued)

2014

	Beginning	Increases	Decreases	Ending	Depreciation
Land	\$ 910,850	\$ 3,560	\$ -	\$ 914,410	\$ -
Building	6,043,310	189,042	-	6,232,352	155,809
Water System	26,965,055	43,208	-	27,008,263	712,449
Sewer System	16,310,967	1,564	-	16,312,531	368,901
Furniture and Equipment	308,625	75,060	-	383,685	29,825
Vehicles	241,113	-	-	241,113	11,700
Purchased Wastewater Treatment Capacity	2,800,741	12,605	-	2,813,346	70,148
Construction in Progress	416,936	272,191	(25,560)	663,567	-
Total	\$ 53,997,597	\$ 597,230	\$ (25,560)	\$ 54,569,267	\$ 1,348,832

6. Sewage Treatment Services

The Authority joined with several other municipalities in 1973 to form the Pennridge Wastewater Treatment Authority (“PWTA”). PWTA provides sewage treatment services to all or portions of the member municipalities and the area served by the Authority. PWTA’s normal operating costs are assessed among the participants based upon their proportionate share of equivalent dwelling units. PWTA’s charges to the Authority for treatment operating costs are expensed as incurred and totaled \$673,223 and \$655,767 for the years ended December 31, 2015 and 2014, respectively. Amounts due from PWTA for advances in excess of actual expenses totaled \$48,321 and \$61,388 at December 31, 2015 and 2014, respectively.

Capital construction and plant upgrade costs are assessed based upon the percentages of plant capacity attributed to each member. The Authority’s payments to PWTA for capital construction and plant upgrades, as summarized in Note 5, are capitalized as purchased wastewater treatment capacity and depreciated over a period of 40 years.

7. Long-Term Debt

On December 11, 2003, the Authority issued \$4,065,000 of Water and Sewer Revenue Bonds, Series 2003, to provide for (1) current refunding of the outstanding Series of 1998 Bonds, (2) repayment of the Authority’s 2003 Bond Anticipation Note, (3) Funding of certain water and sewer capital improvements, and (4) payment of costs of insuring and issuing the Bonds. The Series 2003 bond issue was retired during 2014.

On February 17, 2011, the Authority issued \$8,515,000 of Water and Sewer Revenue Bonds, Series 2011, for the purpose of (1) various capital improvement projects, (2) current refunding of the Authority’s outstanding General Obligation Note issued to Univest National Bank, (3) funding a deposit to the Bond Reserve Fund, and (4) payment of costs of issuance and bond insurance. On December 23, 2014, the Series 2011 bond issue was advanced refunded with the issuance of the 2014 bond issue.

(Continued)

PERKASIE REGIONAL AUTHORITY

Notes to Financial Statements, Continued

December 31, 2015 and 2014

7. Long-Term Debt (Continued)

On December 29, 2011, the Authority issued \$7,965,000 of Water and Sewer Revenue Bonds, Series 2011A, for the purpose of (1) current refunding of the Authority's outstanding 2005 and 2007 bond issues, (2) funding a deposit to the Bond Reserve Fund, and (3) Payment of costs of issuance and bond insurance.

On December 23, 2014, the Authority issued Water and Sewer Revenue Bonds, Series 2014, in the amount of \$9,150,000 with an average interest rate of 2.7% to advance refund \$8,425,000 of outstanding Water and Sewer Revenue Bonds, Series February 2011, with an average interest rate of 4.8%. Final maturity of the 2014 Series is due February 1, 2027. The Authority deposited the proceeds from the 2014 bond issue into an escrow account to provide for future debt service payments on the old debt which is scheduled to be retired in February 2016. As a result, the February 2011 bonds are considered defeased and the Authority has removed the liability from its financial statements. As of December 31, 2015, the escrow balance amounted to \$8,769,912 and the balance of the refunded bonds was \$8,395,000.

Principal payments on all bond issues are made annually on February 1st. Interest is paid semiannually on February 1st and August 1st of each year.

In September 2012, Univest Bank and Trust Company extended the Authority a construction note for up to \$5,200,000 for the purpose of constructing the Authority's new headquarters building. Repayment terms call for two hundred forty (240) monthly payments. The first eighteen (18) monthly payments will consist of interest only at 3% followed by sixty-six (66) monthly payments of principal and interest, amortized over two hundred twenty-two (222) months. The interest rate resets every seven years thereafter to 67% of the then current Univest Prime Rate plus 1.25% with a floor of 3% and a ceiling of 5.5%. Additionally, proceeds from the sale of the property located at 306 N. 5th Street must be used to pay down the loan. In May 2015, the Authority sold the property at 306 N. 5th Street and subsequently made an additional principal payment on the loan of \$608,882 with the net proceeds from sale. As of December 31, 2015, the balance of the construction note amounted to \$4,223,672.

A summary of long term debt activity for the year ended December 31, 2015 and amounts due at December 31, 2015 and 2014 follow:

	December 31, 2014	Additions	Reductions	December 31, 2015	Amounts Due Within One Year
Bond Series 2011A	7,205,000	0	(920,000)	6,285,000	950,000
Bond Series 2014	9,150,000	0	(205,000)	8,945,000	120,000
Note Payable	5,058,882	0	(835,210)	4,223,672	244,761
	\$ 21,413,882	\$ 0	\$ (1,960,210)	\$ 19,453,672	\$ 1,314,761

Interest expense on long term debt amounted to \$624,316 and \$593,497 for the years ended December 31, 2015 and 2014, respectively.

(Continued)

PERKASIE REGIONAL AUTHORITY

Notes to Financial Statements, Continued

December 31, 2015 and 2014

7. Long-Term Debt (Continued)

Scheduled future principal and interest maturities with respect to long term debt at December 31, 2015, follow:

Year	Bond Principal	Note Payable	Total Long- Term Debt	Interest	Total Debt Service Requirement
2016	\$ 1,070,000	\$ 244,761	\$ 1,314,761	\$ 540,201	\$ 1,854,962
2017	1,100,000	252,205	1,352,205	492,417	1,844,622
2018	1,135,000	259,876	1,394,876	445,500	1,840,376
2019	1,170,000	267,781	1,437,781	404,820	1,842,601
2020	1,205,000	275,925	1,480,925	367,158	1,848,084
2021 - 2025	6,655,000	1,510,739	8,165,739	1,204,623	9,370,361
2026 - 2030	2,895,000	1,412,385	4,307,385	174,856	4,482,241
Total	\$ 15,230,000	\$ 4,223,672	\$ 19,453,672	\$ 3,629,575	\$ 23,083,247

8. Capital Lease Obligations

As of December 31, 2015 and 2014, equipment owned by way of a capital lease and included within property, plant and equipment as follows:

	2015	2014
Capitalized cost	\$75,060	\$90,263
Less: accumulated amortization	10,436	23,612
Capitalized cost, net	64,624	66,651
Lease amortization included depreciation expense	\$10,436	\$13,476

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

Years Ending December 31	Total
2016	16,668
2017	16,668
2018	16,668
2019	2,615
Total Minimum Lease Payments	\$ 52,619
Less: Amount Representing Interest	3,717
Present Value of Future Minimum Rental	48,902
Less: Current Portion	14,805
Total Noncurrent	\$ 34,097

(Continued)

PERKASIE REGIONAL AUTHORITY

Notes to Financial Statements, Continued

December 31, 2015 and 2014

9. Retirement Plan

The Authority offers a defined benefit pension plan to its employees by participating in the Pennsylvania Municipal Retirement System ("PMRS"), an agent multiple-employer public employees' retirement system administered by the Pennsylvania Municipal Retirement Board. PMRS acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate publicly available Comprehensive Annual Financial Report which can be obtained by contacting the PMRS accounting office at 1010 N 7th Street, Suite 301, Harrisburg, PA 17102-1400. The plan's coverage and benefit provisions are summarized below:

Coverage and Benefit Provisions	
Covered employees	All active full-time employees are required to participate.
Benefit vesting	100% after 5 years of service.
Normal retirement date	Employee is eligible upon attaining age 60.
Early retirement provision	Involuntary termination and 8 years of credited service, or voluntary termination and 20 years of credited service.
Retirement benefit	Upon normal retirement, employees shall receive a benefit equal to 2% of Final Average Salary ("FAS"), i.e., average of the highest consecutive five years' salary, multiplied by all years of credited service, not to exceed 75% of the participant's FAS. For employees eligible for early retirement, the benefits are actuarially reduced for each year prior to age 60 that early retirement takes place. There is no Social Security offset.
Death benefit	Other than a refund of member contributions plus interest, death benefits are not provided if an active member dies prior to having met the eligibility for voluntary early retirement or normal retirement. Once a member has reached the required service for a voluntary early retirement or normal retirement age, and dies prior to retiring, the beneficiary will be entitled to benefits stipulated by law.
Disability benefit	Any member who has 10 or more years of service and becomes physically or mentally incapacitated to such a degree that he is not able to engage in any gainful employment, or sustains a service-related disability, regardless of the number of years of service, is eligible to receive a benefit of 50% of the highest five years' average salary. The benefit is reduced by any payments that an employee can receive from the Pennsylvania Workers' Compensation Act or the Pennsylvania Occupational Disease Act. A member who sustains a non-service related disability and has ten years of service shall receive a benefit of 30% of the highest five years' average salary.

The agent maintains each municipality's accounts separately with that municipality's contributions and related employees' contributions. The assets may only be used for payment of benefits to members of the plan.

As of January 1, 2015 (the last actuarial valuation date), the number of active participants, deferred vested participants, and participants currently receiving a benefit from the plan is summarized below:

Inactive employees or beneficiaries currently receiving benefits	7
Inactive employees entitled to but not yet receiving benefits	4
Active employees	13
Total participant count	<u>24</u>

(Continued)

PERKASIE REGIONAL AUTHORITY

Notes to Financial Statements, Continued

December 31, 2015 and 2014

9. Retirement Plan (Continued)

a) Change in Method of Accounting

At December 31, 2014, the Authority did not report a liability for its proportionate share of the net pension liability. Due to the implementation of GASB No. 68, the Authority must now report its proportionate share of the net pension liability, effective for 2015, which is as of the December 31, 2014 measurement date. Additionally, the Authority's proportionate share of the net pension liability as of December 31, 2014 of \$439,120 has also been recorded as a liability and an adjustment to net position in accordance with the new standard. GASB No. 68 requires the Authority to recognize a net pension liability for the difference between the present value of projected benefits for past services, known as the Total Pension Liability (TPL), and the restricted resources held in trust for the payment of pension benefits, known as the Fiduciary Net Position (FNP). For purposes of measuring the net position liability, deferred outflows or resources, deferred inflows of resources, and pension expense, information about the FNP of PMRS and additions to and deductions from PMRS FNP have been determined on the same basis as reported by PMRS. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit term. Investments are recorded at fair value.

The net pension liability at December 31, 2015 was measured as of December 31, 2014, and the TPL used to calculate the net pension liability was determined by actuarial valuations as of that date. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating component units, actuarially determined.

b) Funding

Authority employees are required to contribute 3% of compensation. Any member who terminates service prior to eligibility for vesting or retirement benefits shall receive all amounts contributed in a lump-sum amount, plus interest which is credited at an annual rate of 6.0%.

An Actuarially Determined Contribution is a contribution amount determined in accordance with Actuarial Standards of Practice. The Actuarially Determined Contribution provided is based upon the plan's minimum municipal obligation (MMO) as defined in Pennsylvania Act 205 of 1984 ("Act 205"). The MMO is based upon the plan's biennial actuarial valuation. Any funding requirements established by the MMO in excess of required employee contributions must be paid by the municipality in accordance with Act 205. The MMO for the years ended December 31, 2015 and 2014 amounted to \$77,436 and \$44,964, respectively.

c) Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2015, the Authority's pension expense amounted to \$77,436. At December 31, 2015, the Authority reported \$83,182 of deferred outflows of resources for its contributions subsequent to the December 31, 2014 measurement date and through December 31, 2015.

(Continued)

PERKASIE REGIONAL AUTHORITY

Notes to Financial Statements, Continued

December 31, 2015 and 2014

9. Retirement Plan (Continued)

c) Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

The Authority also recorded deferred inflows of resources of \$158,897 for the difference between expected and actual experience (\$144,051) and the difference between projected and actual earnings on investments (\$14,846). Deferred outflows will be recognized as a reduction of the net position liability in the next fiscal year. Deferred inflows are amortizable over a seven year period for differences between expected and actual experience and over five years for differences between projected and actual earnings, beginning in the year in which the differences occurred and will be recognized annually in pension expense as follows:

Year ending December 31	
2016	\$27,721
2017	27,721
2018	27,721
2019	27,719
2020	24,009
Thereafter	24,006
Total	\$158,897

d) Actuarial Assumptions

Actuarial Cost Method:	Entry Age
Amortization Period:	Level dollar based upon the amortization periods in Act 205
Asset Valuation Method:	Based upon municipal reserves
Discount Rate:	5.5%
Inflation Rate:	3.0%
Salary Increases:	Age related scale with merit and inflation component
COLA Increases:	3.0% for those eligible for a COLA
Pre-Retirement Mortality:	Males – RP2000 with 1 year set back, Females – RP2000 with 5 year setback
Post-Retirement Mortality:	Sex distinct RP-2000 Combined Healthy Mortality

e) Discount Rate

The discount rate used to measure the total pension liability was 5.5%. The projection of cash flows used to determine the discount rate assumes that the employees will continue to contribute at the current rates and the employers will continue the historical and legally required practice of contributing to the Plan based on an Actuarially Determined Contribution, reflecting a payment equal to annual normal cost, the expected administrative expenses, and an amount necessary to amortize the remaining Unfunded Actuarial Liability as a level dollar amount over a closed period.

The information for the long-term investment rate of return is not available at this time.

(Continued)

PERKASIE REGIONAL AUTHORITY

Notes to Financial Statements, Continued

December 31, 2015 and 2014

9. Retirement Plan (Continued)

f) Sensitivity to Changes in Discount Rate

The following presents the net pension liability of the Authority, calculated using the discount rate of 5.5%, as well as what the Authority's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.5%) or 1-percentage-point higher (6.5%) than the current rate:

	1% Decrease (4.5%)	Discount Rate (5.5%)	1% Increase (6.5%)
Total pension liability	\$3,325,019	\$2,960,682	\$2,651,275
Plan fiduciary net position	2,647,987	2,647,987	2,647,987
Net pension liability	\$677,032	\$312,695	\$3,288

10. Rate Covenant Compliance

Section 6.02 of the Trust Indenture requires the Authority to establish water and sewer rates and other charges which, together with any investment income earned on Funds under the Trust Indenture will be sufficient to pay (1) the administrative expenses of the Authority, (2) the expenses of operating, maintaining and repairing the Water and Sewer System, and (3) 110% of the average annual debt service requirements on Water and Sewer Revenue Bonds (but in no event less than the actual debt service requirements of the current fiscal year). A calculation of the Authority's compliance with the requirement for the year ended December 31, 2015 follows:

<u>Description</u>	<u>Amount</u>
Total pledged revenues	\$6,027,067
Total operating expense (net of depreciation)	2,169,228
Amount available for debt service	3,857,838
Average annual debt service @110%	1,643,958
Excess over required funding	\$2,213,880

11. Risk Management and Commitments

a) Litigation

In the normal course of its activities, the Authority is a party to various legal actions and subject to certain asserted and unasserted claims and assessments. The Authority is of the opinion that the outcome of any pending actions will not have a material effect on the Authority's financial position or results of operations.

b) Risk Management

The Authority is subject to various risks of losses arising from torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters for which the Authority purchases commercial insurance. No settlements have exceeded coverage during the years ended December 31, 2015, 2014 and 2013.

(Continued)

PERKASIE REGIONAL AUTHORITY

Notes to Financial Statements, Continued

December 31, 2015 and 2014

11. Risk Management and Commitments (Continued)

c) Commitments

The Authority owned several properties that were leased to individuals and businesses. Most of these properties were sold with the sale of the building (See Note 7). As of December 31, 2015, the Authority only leases one property for a monthly amount of \$3,651. The lease automatically renewed in 2015 for 5 years. The Authority expects rental income of \$43,812 for the next five years.

During 2009, the Authority entered into a five year copier lease arrangement requiring annual payments of \$2,317. During 2014, the Authority bought out the lease and purchased the copier. Total rental expense amounted to \$1,158 and \$18,317 for the years ended December 31, 2015 and 2014.

d) Severance Agreement

On December 21, 2009, the Authority entered into a severance agreement with a long time employee. The agreement called for continuation of health and dental insurance payments until the former employee and his spouse reach age 65. The Authority's liability for health and dental insurance payments for this agreement ended during 2014.

On February 25, 2013, the Authority entered into a severance agreement with a long time employee. The agreement calls a continuation of health and dental insurance payments until the former employee and his spouse reach age 65 which is expected to occur in 2017.

On March 3, 2014, the Authority entered into a severance agreement with a long time employee that became effective December 31, 2014. The agreement called for a payout of unused vacation time, two weeks of unused sick time, and a payment for prior service paid over twenty bi-weekly installments, costs and expenses for the employee to maintain his water and sewer certification through 2015, and a continuation of health and dental insurance payments until the former employee and his spouse reach age 65 which is expected to occur in 2021. The undiscounted and discounted liability recorded in 2014 for this severance agreement totaled \$217,537 and \$205,391, respectively.

The health and dental insurance payments for all severance agreements are indexed for inflation at 6% per year and all future severance amounts are discounted to present value at the rate of 4%. The present value liability for all severance payments remaining as of December 31, 2015 and 2014, totaled \$162,838 and \$267,600, respectively.

(Continued)

PERKASIE REGIONAL AUTHORITY

Notes to Financial Statements

December 31, 2015 and 2014

11. Risk Management and Commitments (Continued)

d) Severance Agreement (Continued)

A summary of projected future severance payments for health insurance as of December 31, 2015 follows:

Year	Amount
2016	\$ 47,727
2017	41,721
2018	26,310
2019	27,888
2020	20,278
2021	9,231
	173,156
Less: PVDiscount	10,318
Total	\$ 162,838

12. Subsequent Events

Subsequent events have been evaluated through May 17, 2016, which is the date the financial statements were available to be issued. There were no subsequent events requiring adjustment to, or disclosure in, these financial statements as a result of this evaluation.

13. Prior Period Adjustment

As discussed in Note 2, the implementation of GASB Nos. 68 and 71 require the net pension liability be recorded retrospectively, therefore net position has been restated as of December 31, 2014 to reflect the net pension liability and deferred outflow of resources for contributions made after the measurement date. Adjustments to the financial statements for the year ended December 31, 2014 follow:

	Deferred Outflow	Pension Liability	Net Position	Decrease in Net Position
Balance as originally reported in 2014 financial statements	\$641,324	\$0	\$17,668,238	(\$133,648)
Prior period adjustment	44,964	439,120	(394,156)	44,964
Balance, as Restated	\$686,288	\$439,120	\$17,274,082	(\$88,684)

REQUIRED SUPPLEMENTARY INFORMATION

PERKASIE REGIONAL AUTHORITY

Schedule of Changes in Net Pension Liability

Year Ended December 31, 2014

	<u>2014</u>
Total Pension Liability - Authority's Portion	
Service cost	\$ 106,864
Interest	165,220
experience	(168,060)
Benefit payments	<u>(91,780)</u>
Net change in total pension liability - Authority's portion	12,244
Total pension liability - beginning	<u>2,948,438</u>
Total pension liability - ending - Authority's Portion	<u><u>\$ 2,960,682</u></u>
Plan Fiduciary Net Position - Authority's Portion	
Contributions - employer	\$ 44,964
Contributions - member	32,854
PMRS investment income	139,919
Market value investment income	18,558
Transfers	
contributions	(91,780)
PMRS administrative expense	(480)
Additional administrative expense	<u>(5,366)</u>
Net change in plan fiduciary net position	138,669
Plan fiduciary net position - beginning	<u>2,509,318</u>
Plan fiduciary net position - ending - Authority's Portion	<u><u>\$ 2,647,987</u></u>
Net position liability - ending - Authority's Portion	<u><u>\$ 312,695</u></u>

The requirement for this schedule is to present 10 years of information. However, until a full 10 year trend is complete, only available information is presented.

PERKASIE REGIONAL AUTHORITY

Schedule of Contributions

Year Ended December 31, 2014

	<u>2014</u>
Actuarially determined contribution	\$ 44,197
Contributions in relation to the Actuarially determine contribution	<u>44,964</u>
Contribution excess	<u>(767)</u>
Covered payroll	\$ 757,952
Contributions as a percentage of covered payroll	5.93%

The requirement for this schedule is to present 10 years of information. However, until a full 10 year trend is complete, only available information is presented.

SUPPLEMENTARY INFORMATION

PERKASIE REGIONAL AUTHORITY

Schedule of Operating Expenses

Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>	<u>Variance</u> <u>Increase (Decrease)</u>
SEWER SERVICE			
Salaries	\$ 127,666	\$ 133,620	\$ (5,954)
Payroll Taxes	10,373	10,770	(397)
Materials and Supplies	5,193	4,394	799
Electric	201	180	21
Maintenance and Repairs	17,790	8,287	9,503
Vehicle	14,232	16,266	(2,034)
Uniforms	1,044	579	465
Treatment Fees - Operating	<u>673,223</u>	<u>655,767</u>	<u>17,456</u>
Total Sewer Service	849,722	829,863	19,859
WATER SERVICE			
Salaries	219,831	222,541	(2,710)
Payroll Taxes	17,861	17,938	(77)
Materials and Supplies	25,428	30,292	(4,864)
Electric	78,483	94,567	(16,084)
Maintenance and Repairs	92,064	62,676	29,388
Vehicle	10,374	15,363	(4,989)
Uniforms	2,987	2,606	381
Buildings	648	12,900	(12,252)
Testing	9,412	12,332	(2,920)
Meters	<u>2,300</u>	<u>8,579</u>	<u>(6,279)</u>
Total Water Service	459,388	479,794	(20,406)
PROFESSIONAL FEES			
Consulting Engineer	97,667	21,041	76,626
Accounting & Audit	28,534	26,800	1,734
Legal	20,951	24,363	(3,412)
Hydrogeologist	<u>24,935</u>	<u>86,661</u>	<u>(61,726)</u>
Total Professional Fees	172,087	158,865	13,222
GENERAL AND ADMINISTRATIVE			
Office Payroll	225,167	390,857	(165,690)
Employee Insurance	166,682	348,071	(181,389)
Payroll Taxes	25,955	28,368	(2,413)
Pension	77,436	(767)	78,203
Office Equipment	19,702	28,149	(8,447)
General Business Insurance	58,041	59,333	(1,292)
Communications	13,369	13,722	(353)
Real Estate Taxes	(220)	10,667	0
Postage	8,089	9,281	(1,192)
Education	7,493	7,162	331
Utilities	17,732	20,388	(2,656)
Maintenance and Repairs - Office	10,197	20,621	(10,424)
Office Supplies	5,686	6,372	(686)
Trustee Fees	5,100	5,100	0
Dues and Subscriptions	29,591	28,554	1,037
Miscellaneous	198	6,465	(6,267)
Legal Advertising	637	2,803	(2,166)
Vehicles	2,331	1,565	766
Billing	11,163	9,472	1,691
Website	<u>3,682</u>	<u>3,600</u>	<u>82</u>
Total General and Administrative Expenses	688,031	999,783	(311,752)
 Total operating expenses	 <u>\$ 2,169,228</u>	 <u>\$ 2,468,305</u>	 <u>\$ (299,077)</u>

PERKASIE REGIONAL AUTHORITY

Schedule of Revenues and Expenses - Budget and Actual

Year Ended December 31, 2015

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
OPERATING REVENUES			
Sewer Service Charges:			
Single Family	\$ 1,499,557	\$ 1,621,600	\$ (122,043)
Multi-Family	316,556	326,800	(10,244)
Commercial	106,328	146,200	(39,872)
Industrial	37,280	34,300	2,980
School	52,666	71,900	(19,234)
Church	7,474	7,400	74
Public	33,111	29,600	3,511
Mixed	25,531	27,600	(2,069)
Miscellaneous	37,860	74,070	(36,210)
	<hr/>	<hr/>	<hr/>
Total Sewer Service Charges	2,116,363	2,339,470	(223,107)
Water Sales:			
Single Family	1,532,614	1,598,200	(65,586)
Multi-Family	270,904	284,000	(13,096)
Commercial	113,915	128,600	(14,685)
Industrial	30,213	24,700	5,513
School	60,997	63,900	(2,903)
Church	12,943	11,200	1,743
Public	20,949	27,400	(6,451)
Mixed	24,173	24,600	(427)
Miscellaneous	40,634	47,200	(6,566)
	<hr/>	<hr/>	<hr/>
Total Water Sales	2,107,342	2,209,800	(102,458)
Other Revenue:			
Fire Charges	78,576	73,800	4,776
Other	115,711	18,500	97,211
	<hr/>	<hr/>	<hr/>
Total Other Revenue	194,287	92,300	101,987
	<hr/>	<hr/>	<hr/>
Total Operating Revenues	\$ <u>4,417,992</u>	\$ <u>4,641,570</u>	\$ <u>(223,578)</u>
 OPERATING EXPENSES			
Sewer Service:			
Salaries	\$ 127,666	\$ 143,300	\$ (15,634)
Materials and Supplies	5,193	6,200	(1,007)
Electric	201	300	(99)
Maintenance and Repairs	17,790	16,300	1,490
Vehicle	14,232	23,370	(9,138)
Uniforms	1,044	2,180	(1,136)
Treatment Fees	673,223	701,000	(27,777)
	<hr/>	<hr/>	<hr/>
Total Sewer Service	839,349	892,650	(53,301)

(Continued)

PERKASIE REGIONAL AUTHORITY

Schedule of Revenues and Expenses - Budget and Actual, Continued

Year Ended December 31, 2015

	Actual	Budget	Variance
Water Service:			
Salaries	219,831	230,300	(10,469)
Materials and Supplies	25,428	33,500	(8,072)
Electric	78,483	98,050	(19,567)
Maintenance and Repairs	92,064	100,200	(8,136)
Vehicle	10,374	17,270	(6,896)
Uniforms	2,987	5,430	(2,443)
Testing	9,412	18,100	(8,688)
Meters	2,300	6,800	(4,500)
Buildings	648	2,950	(2,302)
Total Water Service	441,527	512,600	(71,073)
Professional Fees:			
Legal	20,951	17,000	3,951
Hydrogeologist	24,935	30,100	(5,165)
Auditor	28,534	30,100	(1,566)
Consulting Engineer	97,667	22,500	75,167
Total Professional Fees	172,087	99,700	72,387
General and Administrative:			
Salaries	225,167	305,300	(80,133)
Employee Benefits	298,307	389,900	(91,593)
Materials and Supplies	62,021	89,800	(27,779)
Utilities	17,732	20,000	(2,268)
Communications	17,051	18,500	(1,449)
Maintenance and Repairs - Office	19,702	25,890	(6,188)
Vehicles	2,331	1,570	761
Maintenance and Repairs - Building	9,978	17,000	(7,022)
Lease of Vehicles & Computer Equipment	0	17,000	(17,000)
Trustee Fees	5,100	5,600	(500)
Insurance	58,041	70,500	(12,459)
Legal Advertising	637	637	0
Miscellaneous	198	3,000	(2,802)
Total General and Administrative	716,265	964,697	(248,432)
Total Operating Expenses	2,169,228	2,469,647	(300,419)
Operating Income	\$ 2,248,764	\$ 2,171,923	\$ 76,841

(Continued)

PERKASIE REGIONAL AUTHORITY

Schedule of Revenues and Expenses - Budget and Actual, Continued

Year Ended December 31, 2015

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
Operating Income	\$ 2,248,764	\$ 2,171,923	\$ 76,841
Nonoperating Revenues (Expenses):			
Investment Income	1,151	4,500	(3,349)
Rental Income	60,887	76,950	(16,063)
Gain on Sale of Building	322,287	0	322,287
Interest Expense	(679,022)	(1,001,880)	322,858
Principal Payments on Bonds and Construction Loan	(1,351,329)	(980,000)	(371,329)
Transfer for Debt Coverage	0	(128,560)	128,560
	<u> </u>	<u> </u>	<u> </u>
Total Nonoperating Revenues (Expenses) - Net	(1,646,026)	(2,028,990)	382,964
	<u> </u>	<u> </u>	<u> </u>
Revenues Over Expenses	\$ <u>602,738</u>	\$ <u>142,933</u>	\$ <u>459,805</u>

Reconciliation of Budget Reporting to Financial Statements:

Revenues Over Expenses	\$ 602,738
Principal Payments on Bonds	1,351,329
Tapping Fees	1,224,750
Depreciation and Amortization	<u>(1,276,644)</u>
Increase in Net Position per Statement of Revenues, Expenses, and Changes in Net Positions	\$ <u>1,902,173</u>