PERKASIE REGIONAL AUTHORITY

Financial Statements

December 31, 2016 and 2015

PERKASIE REGIONAL AUTHORITY

December 31, 2016 and 2015

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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 as of and for the years ended December 31, 2016 and 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 audits. 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 financial statements referred to above present fairly, in all material respects, the financial position of the Perkasie Regional Authority, as of December 31, 2016 and 2015, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 through 12 and the schedule of changes in the net position liability and related ratios and schedule of contributions on pages 32 and 33 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 schedule of operating expenses and schedule of revenues and expenses – budget and actual on pages 34 and 35 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of operating expenses and schedule of revenues and expenses – budget and actual is the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 schedule of operating expenses and schedule of revenues and expenses – budget and actual are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Marcum LLP

Philadelphia, Pennsylvania
June 19, 2017

Management's Discussion and Analysis

This section of Perkasie 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, 2016. The Management Discussion and Analysis (MD&A) should be read in conjunction with the Authority's basic financial statements beginning on page 13.

HIGHLIGHTS

Financial Highlights

- The Authority's net position increased slightly from $19.2 million in 2015 to $20.0 million in 2016, or an increase of roughly $.90 million (4.7%).
- Current assets decreased substantially from $1.75 million 2015 to $1.50 million in 2016, or a decrease of nearly $250,000 or 14.5%.
- Restricted assets increased by 9.3%, or more than $360,000 from $3.9 million in 2015 to $4.27 million in 2016.
- Total non-current assets remained relatively constant at $36.95 million for 2016 compared to $37.2 million for 2015.
- Total liabilities decreased by 6.3% from $20.3 million in 2015 to $18.99 million in 2016.

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. Although the Authority saw minimal growth, it wasn't enough to cover increasing costs, so the Authority chose to increase both water and sewer rates minimally, by an average of less than 1.0%.

- The Authority finally began to see some construction activity from 2015 pay off as new customers were added. The Authority realized roughly 45 new customers in 2016 and anticipates roughly 85 new connections by the end of 2017 and a total of 200 connections from the developments by mid-2019.
- 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. In late 2016, the Authority decided to re-look at this project to determine the feasibility by potentially changing the scope of work. The Authority anticipates making a decision sometime in 2017 to move forward or not. If the project moves forward, the Authority could add 25 new customers immediately and potentially triple that depending upon the scope.

- The Pennridge Airport is a privately owned airport in the PRA service area, bordering Perkasie Borough and East Rockhill Township, and the owner is looking into the feasibility of some economic development. The owner of the airport is looking to add multiple industrial/commercial buildings which would mean additional tapping fees and customers to the PRA system. It is anticipated that this project could break ground in 2018, which new customers coming on-board as early as late 2018 or early 2019.

- 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 the next several years.

USING THIS ANNUAL REPORT

This annual report consists of three parts: Management's Discussion and Analysis; the Financial Statements; and 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 Position 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 Position, 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 (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 Position" provides a snapshot view of the Authority's financial condition at December 31, 2016 and 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 as of December 31, 2016 of 4.29:1 is an indicator of outstanding liquidity. The ratio of restricted assets to current liabilities payable from restricted assets represents the proportion of restricted assets to current liabilities from restricted assets. The ratio of 3.37:1 as of December 31, 2016 is also an indicator of strong 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, 2016 was 0.95:1.

Statements of Net Position

	2016	2015	2014		2016	2015	2014
Current Assets	$1,495,801	$1,749,976	$1,061,536	Current Liabilities	$348,701	$348,968	$378,689
Property, Plant & Equipment – Net	32,559,058	33,159,593	34,669,141	Current Liabilities From Restr. Assets	1,264,971	1,295,398	1,247,762
Restricted Assets	4,265,216	3,901,676	3,062,917	Long-Term Liabilities	17,380,827	18,636,526	20,722,404
Other Assets	121,899	134,999	143,055	Net Position	20,056,686	19,176,255	17,274,082
Deferred Outflows	733,454	669,800	686,288	Deferred Inflows	124,243	158,897	-
Total	$39,175,428	$39,616,044	$39,622,937	Total	$39,175,428	$39,616,044	$39,22,937

Analysis of Net Assets

PRA's total assets exceeded its liabilities by $20M, $19M, and $17M at the end of 2016, 2015 and 2014, respectively. 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 $14.4M, $13.7M and $13.2M at the end of 2016, 2015 and 2014, respectively. 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 ($4.1M, $3.7M and $3M at the end of 2016, 2015 and 2014, respectively) are subject to provisions under our bond indenture for future debt service requirements and on-going capital projects. The unrestricted balance totaled $1.6M, $1.8M and $1.1M at the end of 2016, 2015 and 2014, respectively. Other than the increase in tapping fees from 2014 to 2015, there wasn't any significant changes.

Analysis of Changes in Net Assets

The Authority's financial position remained stable for 2016. Our net position increased from $19.2 million in 2015 to $20.0 million in 2016, for an increase of roughly $875,000. Operating income decreased by roughly $800,000 due to lower tapping fees in 2016 compared to 2015. Tapping fees decreased substantially in 2016, by roughly $1.1 million, to $130,000 million compared to $1.2 million in 2015. 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 latter stages of construction, with one of them owing roughly $500,000 of tapping fees. There are 2 additional developments that the Authority is anticipating to commence in the next year or so, which would add an additional $300,000 in tapping fees. Other than tapping fees mentioned above, there was minimal change between 2014 and 2015.

Total Revenues

Total Authority revenues for 2016, 2015 and 2014 amounted to $4.6M, $5.6M, and $4.3M, respectively. The main reason for this change was due to an increase in tapping fees for 2015. The Authority has increased its water and sewer rates marginally for the past three years. Revenues have been consistent over the past three years.

Detailed Analysis of Operating and Non-Operating Revenue Variances:

- Water and Sewer Service Charges have remained steady, increasing only about 1-3% the past three years.

- Water and Sewer Assessments were $130,000, $1,225,000, and $225,000 for 2016, 2015 and 2014, respectively. 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. Interest income has significantly increased for 2016 to $19,160.

- 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 Perkasie 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 $60,887 in 2015 to $49,626 in 2016 primarily due to the sale of some real estate.

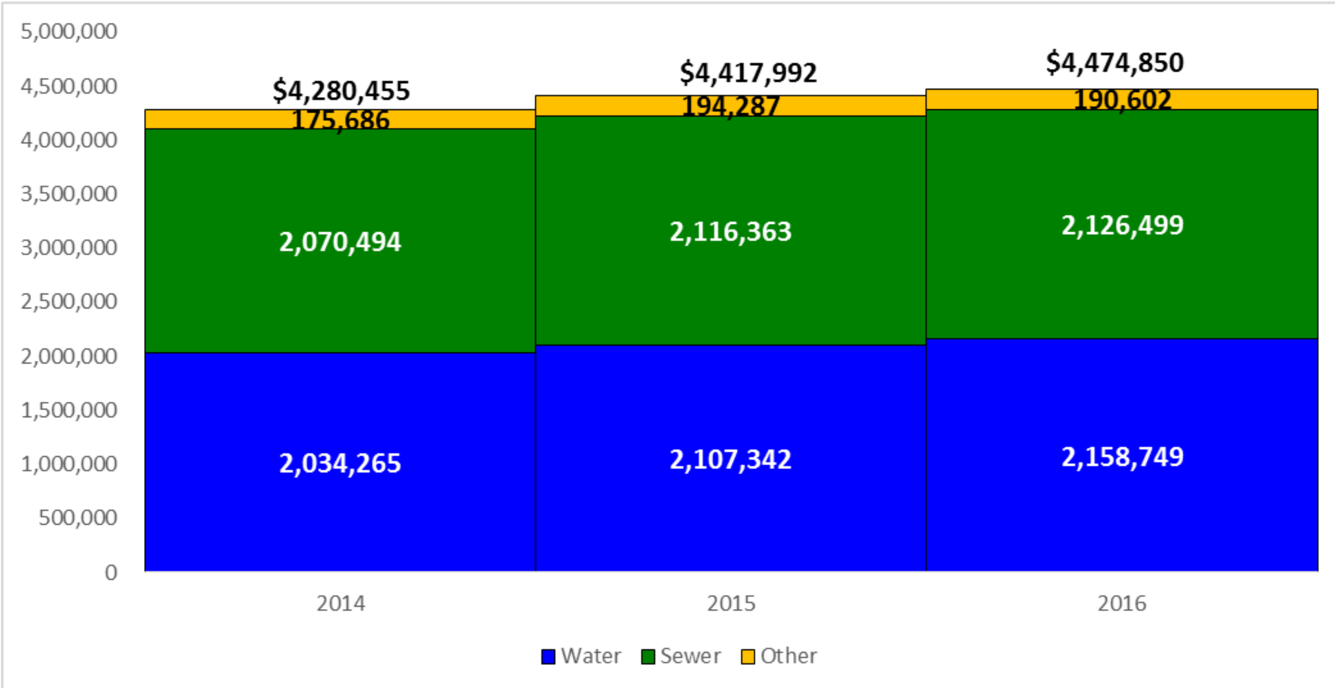
Stability of Operating Revenues

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.

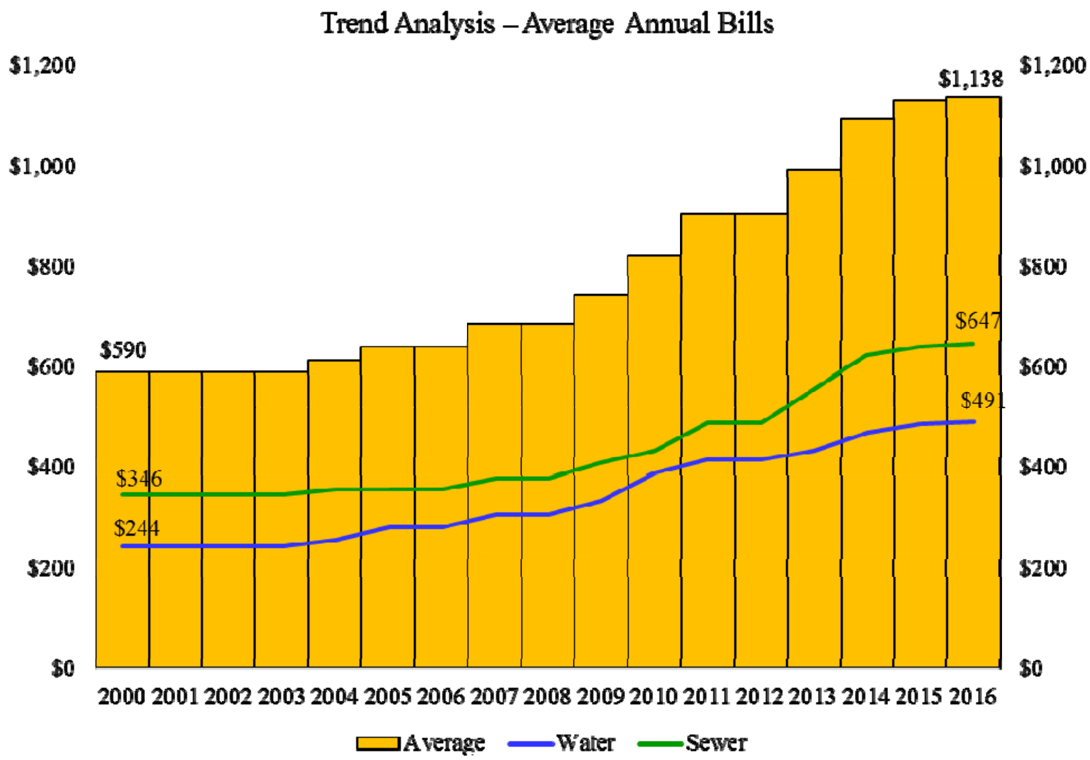
See the chart below for a review of the last three (3) years of operating revenue.



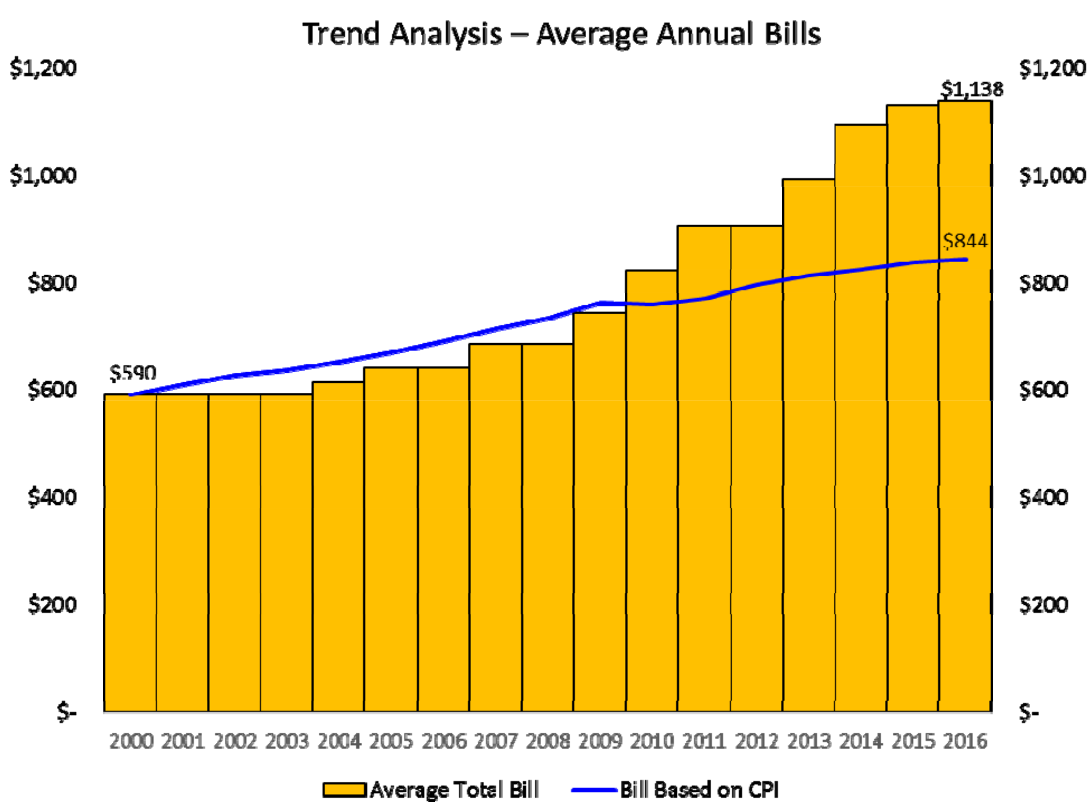
Rates

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. Since there was no new long-term debt, the base charges for water remained constant at $69.50 per quarter, however increased operational costs caused the usage charges to increase slightly, roughly 0.5%. In turn the base charge for sewer remained constant at $54.50 per quarter with the usage charges increasing roughly 1%. 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.



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.



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.

- The Authority entered into a five year lease for a state of the art computer server to handle all of the additional on-line services the Authority wanted to provide its customers. The lease allows for a $1.00 buy out at the end, as well as different upgrading provisions during the lease period.

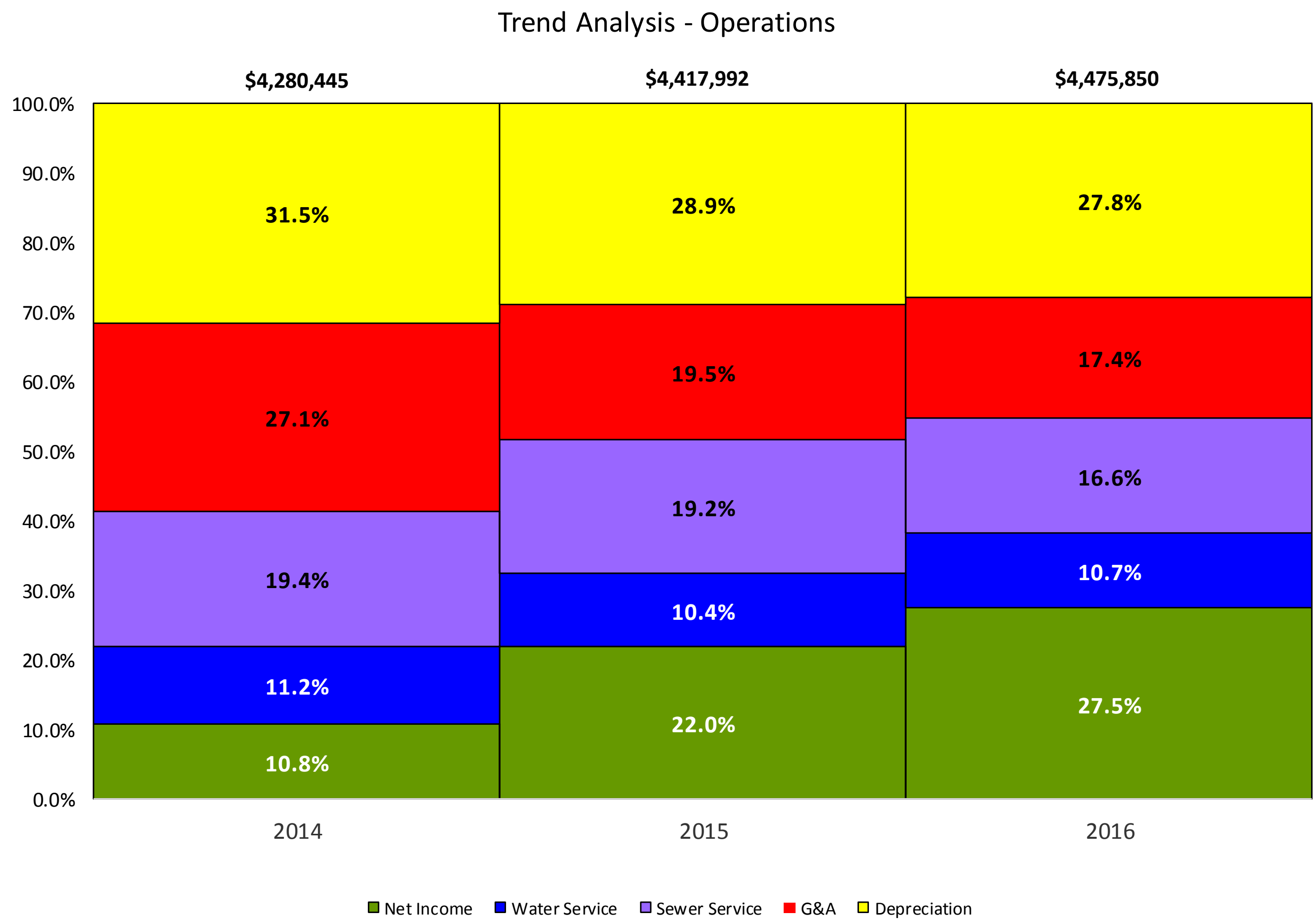
Security – The 2003 issue is insured through Financial Security Holdings, Inc. (now a component of Assured Guaranty Municipal Corp.) and is AAA rated. In addition, Standard and Poor's has assigned the Authority an underlying rating of "A+" with a stable outlook. The A+ rating was reaffirmed in January 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. The Authority is not a component unit of any entity (see Note 1, page 17 of the Financial Statements).

EXPENSES

Overall Operating Expenses for 2016 decreased by roughly $200,000, or 5.9%, from 2015. 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 2016 increased by 4.3% or $18,600 primarily due to higher 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 decreased 15.8% from $673,200 in 2015 to $567,200 in 2016 mostly due to a new electrical substation that was paid for in 2015. The second portion is the Authority's pro-rated share of capital improvements to the plant. Total sewage treatment costs decreased by $100,000 in 2016.

The Authority is responsible for the repairs and maintenance of its own sewage collection system. Sewage collection costs remained fairly constant, decreasing by 1.1% or $1,800 in 2016.

- **Professional Fees**

Total professional fees amounted to $76,700, a decrease of 55.4% over 2015. This was mostly attributed to lower Consulting 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 increased $15,500, or 2.2%, from last year, resulting from increases in office employee payroll, pension costs and office equipment.

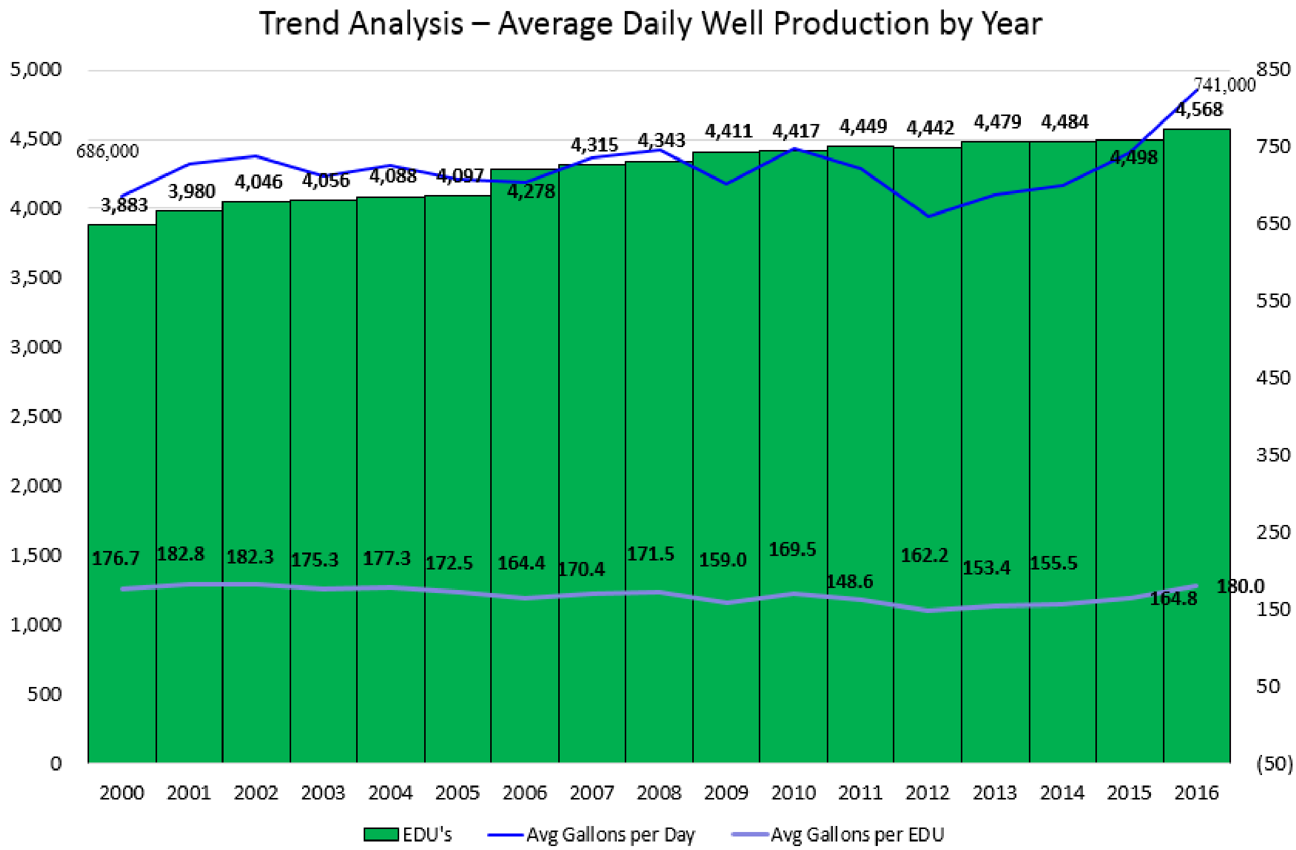
- **Bond Interest**

Interest expense on the Authority's bond issues was $552,100 down roughly $127,000 from the 2015 cost of $679,000.

- **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 a high of 177 gallons per day to a low of 153 gallons per day. In 2016, the Authority saw an increase to 180 gallons per day, but that can be attributed to a few leaks that were detected in the system.

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 2016, usage slightly increased to 180 gallons per day, up 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 and are starting to turn in the opposite direction at this point.



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. Do 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 Perkasie Regional Authority, 150 Ridge Rd. Sellersville, PA 18960.

PERKASIE REGIONAL AUTHORITY

Statements of Net Position

December 31, 2016 and 2015

		2016		2015
ASSETS				
Current assets:				
Cash and cash equivalents	$	141,506	$	175,824
Accounts receivable		86,257		122,606
Assessments receivable		467,556		470,261
Estimated unbilled revenue receivable		714,463		676,398
Supply inventory		65,685		65,685
Other receivable		-		190,881
Due from Pennridge Wastewater Treatment Authority		20,334		48,321
Total current assets		1,495,801		1,749,976
Noncurrent assets:				
Restricted cash and cash equivalents		4,265,216		3,901,676
Assessments receivable		121,899		134,999
Capital Assets:				
Non-Depreciable				
Construction in progress		734,462		700,091
Land		785,410		785,410
Depreciable				
Property, plant and equipment		49,759,178		49,221,401
Purchased wastewater treatment capacity		2,899,361		2,829,662
Accumulated depreciation		(21,619,353)		(20,376,971)
Net Capital Assets		32,559,058		33,159,593
Total noncurrent assets		36,946,173		37,196,268
Total assets	$	38,441,974	$	38,946,244
Deferred outflows of resources:				
Deferred amounts from refunding, net of amortization of $144,834 and $90,128, respectively	$	531,912	$	586,618
Deferred outflows - pension		201,542		83,182
Total deferred outflows	$	733,454	$	669,800

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

PERKASIE REGIONAL AUTHORITY

Statements of Net Position, Continued

December 31, 2016 and 2015

	2016	2015
LIABILITIES & NET POSITION		
Current liabilities:		
Accounts payable and accrued liabilities	$ 37,586	$ 26,865
Accrued payroll and withholding	14,810	14,810
Accrued severance	28,668	47,727
Note payable - current portion	252,205	244,761
Capital lease obligations - current portion	15,432	14,805
Total current liabilities	348,701	348,968
Current liabilities (payable from restricted cash):		
Water and sewer revenue bonds - current portion	1,100,000	1,070,000
Accrued interest	164,971	225,398
Total current liabilities (payable from restricted cash)	1,264,971	1,295,398
Long-term liabilities:		
Note payable, net of current portion	3,729,045	3,978,911
Accrued severance	85,639	115,111
Escrow liabilities	14,780	35,712
Capital lease obligations, net of current portion	21,131	34,097
Net pension liability	470,232	312,695
Water and sewer revenue bonds, net of current portion	13,060,000	14,160,000
Total long-term liabilities	17,380,827	18,636,526
Total liabilities	18,994,499	20,280,892
Deferred inflows of resources:		
Deferred inflows - pension	124,243	158,897
Net position:		
Net investments in capital assets	14,381,245	13,657,019
Restricted for debt service	3,835,603	2,976,334
Restricted for capital projects	264,642	699,944
Unrestricted	1,575,196	1,842,958
Total net position	$ 20,056,686	$ 19,176,255

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

PERKASIE REGIONAL AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Position

Years Ended December 31, 2016 and 2015

	2016	2015
Revenues:		
Sewer service charges	$ 2,126,499	$ 2,116,363
Water sales	2,158,749	2,107,342
Tapping fees and assessments	130,285	1,224,750
Other revenue	190,602	194,287
Total revenues	4,606,135	5,642,742
Expenses:		
Sewer service	741,805	849,722
Water service	478,007	459,388
Professional fees	76,702	172,087
General and administrative	703,486	688,031
Depreciation	1,242,382	1,276,644
Total expenses	3,242,382	3,445,872
Operating income	1,363,753	2,196,870
Non-operating income (expense):		
Investment earnings	19,161	1,151
Rental income	49,626	60,887
Gain on sale of building	-	322,287
Interest expense	(552,109)	(679,022)
Total non-operating income (expense) - net	(483,322)	(294,697)
Increase in net position	880,431	1,902,173
Net position at beginning of year	19,176,255	17,274,082
Net positions at end of year	$ 20,056,686	$ 19,176,255

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

PERKASIE REGIONAL AUTHORITY

Statements of Cash Flows

Years Ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Cash receipts from customers	$ 4,361,969	$ 4,292,685
Other operating cash receipts	286,242	845,517
Cash payments to employees for services	(936,907)	(982,572)
Cash payments to vendors for goods and services	(1,096,380)	(1,288,411)
Net cash provided by operating activities	2,614,924	2,867,219
Cash flows from capital and related financing activities:		
Net proceeds from sale of building	-	692,922
Reimbursement from trustee	190,881	-
Additions to capital assets	(662,779)	(76,479)
Principal payments on long term debt	(1,324,761)	(1,976,877)
Interest paid	(557,830)	(686,821)
Net cash used in capital and related financing activities	(2,354,489)	(2,047,255)
Cash flows from investing activities:		
Proceeds from investment maturities	-	1,499,978
Investment earnings	19,161	1,151
Proceeds from rental income	49,626	60,887
Net cash provided by investing activities	68,787	1,562,016
Net increase in cash and cash equivalents	329,222	2,381,980
Cash and cash equivalents - beginning	4,077,500	1,695,520
Cash and cash equivalents - ending	$ 4,406,722	$ 4,077,500
Reconciliation of cash and cash equivalents:		
Cash - unrestricted	$ 141,506	$ 175,824
Cash - restricted	4,265,216	3,901,676
	$ 4,406,722	$ 4,077,500
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 1,363,753	$ 2,196,870
Adjustment for noncash charges to operations:		
Depreciation	1,242,382	1,276,644
Changes in assets and liabilities:		
Increase in billed and unbilled accounts receivable	(1,716)	(9,596)
Change in assessments receivable	15,805	(508,011)
Decrease in due from Pennridge Wastewater Treatment Authority	27,987	13,067
Decrease in net pension liability and deferred inflows and outflows	4,523	(5,746)
Decrease in accounts payable and accrued payroll and severance	(37,810)	(96,009)
Net cash provided by operating activities	$ 2,614,924	$ 2,867,219

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

1. Description of Operations

The Perkasie 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 Perkasie, 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.

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.

2. Summary of Significant Accounting Policies (Continued)

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 2011A, and 2014. 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 Statements of Net Position under the caption restricted cash and cash equivalents.

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.

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.

2. Summary of Significant Accounting Policies (Continued)

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.

The Authority continually evaluates whether events and circumstances have occurred that may warrant revision of the estimated useful life of its long-lived assets or whether the remaining balance of its long-lived assets should be evaluated for possible impairment. If and when such factors, events or circumstances indicate that long-lived assets should be evaluated for possible impairment, the Authority will determine the fair value of the asset by making an estimate of expected future cash flows over the remaining lives of the respective assets and compare that fair value with the carrying value of the assets in measuring their recoverability. There were no impairment losses recognized during the years ended December 31, 2016 and 2015.

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 and 2011 bond issues. 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, 2016 and 2015, the Authority recorded amortization of $54,706, which was reported as interest expense in the statement of revenues, expenses and changes in net position. Additionally, the Authority also reports its 2016 and 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. The amounts paid by the Authority in 2016 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.

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.

2. Summary of Significant Accounting Policies (Continued)

j) 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.

k) 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".

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.

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, 2016, the cash balance maintained at the financial institution was $145,480 which was covered by the FDIC.

3. Deposits and Investments (Continued)

a) Deposits

Restricted cash is held by the trustee in money market accounts which are not covered by the FDIC or Pennsylvania Act 72. Amounts maintained in money market accounts totaled $4,265,216 at December 31, 2016 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.

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.

As of December 31, 2016 and 2015, all amounts held in the Trust funds were considered cash and cash equivalents.

c) 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 $589,455 and $605,260 as of December 31, 2016 and 2015, 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. At December 31, 2016, the principal portion of the assessment receivable is as follows:

Year	Amount
2017	$467,556
2018	2,904
2019	1,452
2020	1,452
2021	117,649
Total	$589,455

5. Capital Assets

Property, plant, and equipment at December 31, 2016 and 2015 and related accumulated depreciation and depreciation expense for the years then ended follow:

2016

	Beginning	Increases	Decreases	Ending
Depreciable				
Building	$6,232,630	$ -	$ -	$6,232,630
Water System	26,466,926	524,515	-	26,991,441
Sewer System	15,926,769	13,262	-	15,940,031
Furniture and Equipment	353,964	-	-	353,964
Vehicles	241,113	-	-	241,113
Purchased Wastewater Treatment Capacity	2,829,662	69,699	-	2,899,361
Non-Depreciable				
Land	785,410	-	-	785,410
Construction in Progress	700,091	48,775	(14,404)	734,462
Total	**$53,536,564**	**$656,251**	**$(14,404)**	**$54,178,412**

Accumulated Depreciation

	Beginning	Increases	Decreases	Ending
Building	$325,611	$155,816	$ -	$481,427
Water System	10,148,307	673,506	-	10,821,813
Sewer System	8,408,882	325,771	-	8,734,653
Furniture and Equipment	290,558	15,705	-	306,263
Vehicles	240,850	-	-	240,850
Purchased Wastewater Treatment Capacity	962,764	71,584	-	1,034,348
Total	**$20,376,972**	**$1,242,382**	**$ -**	**$21,619,354**
Net	**$33,159,593**			**$32,559,058**

2015

	Beginning	Increases	Decreases	Ending
Depreciable				
Building	$6,232,352	$278	$ -	$6,232,630
Water System	27,008,264	16,812	(558,150)	26,466,926
Sewer System	16,312,531	6,563	(392,325)	15,926,769
Furniture and Equipment	383,685	-	(29,721)	353,964
Vehicles	241,113	-	-	241,113
Purchased Wastewater Treatment Capacity	2,813,346	16,316	-	2,829,662
Non-Depreciable				
Land	914,410	-	(129,000)	785,410
Construction in Progress	663,567	107,402	(70,878)	700,091
Total	**$54,569,268**	**$147,371**	**$(1,180,074)**	**$53,536,565**

5. Capital Assets (Continued)

Accumulated Depreciation

	Beginning	Increases	Decreases	Ending
Building	$169,795	$155,816	$ -	$325,611
Water System	8,077,843	687,128	-	10,154,110
Sewer System	9,466,981	335,129	-	8,412,972
Furniture and Equipment	268,346	22,212	-	290,558
Vehicles	235,000	5,850	-	240,850
Purchases Wastewater Treatment Capacity	892,255	70,509	-	962,764
Total	**$19,110,220**	**$1,276,644**	**$ -**	**$20,376,972**
Net	**$35,459,048**			**$33,159,593**

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 $567,115 and $673,223 for the years ended December 31, 2016 and 2015, respectively. Amounts due from PWTA for advances in excess of actual expenses totaled $20,334 and $48,321 at December 31, 2016 and 2015, 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 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. During the year ended December 31, 2015, the defeased debt of $8,395,000 was retired.

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.

7. Long-Term Debt

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%. During 2015, proceeds from the sale of the property located at 306 N. 5th Street were used to pay down the loan. As of December 31, 2016, the balance of the construction note amounted to $3,981,250.

A summary of long term debt activity for the year ended December 31, 2016 and amounts due at December 31, 2016 and 2015 follow:

	December 31, 2015	Additions	Reductions	December 31, 2016	Amounts Due Within One Year
Bond Series 2011A	6,285,000	0	$(950,000)	5,335,000	980,000
Bond Series 2014	8,945,000	0	(120,000)	8,825,000	120,000
Note Payable	4,223,672	0	(242,422)	3,981,250	252,205
Total	$ 19,453,672	$ 0	$ (1,312,422)	$ 18,141,250	$ 1,352,205

Interest expense on long term debt amounted to $552,109 and $624,316 for the years ended December 31, 2016 and 2015, respectively.

Scheduled future principal and interest maturities with respect to long term debt at December 31, 2016, follow:

Year	Bond Principal	Note Payable	Total Long-Term Debt	Interest	Total Debt Service Requirement
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	1,848,083
2021	1,235,000	284,318	1,519,318	325,691	1,845,009
2022-2026	6,880,000	1,556,689	8,436,689	980,669	9,417,358
2027-2029	1,435,000	1,084,456	2,519,456	73,119	2,592,575
Total	$14,160,000	$3,981,250	$18,141,250	$3,089,374	$21,230,624

8. Capital Lease Obligations

As of December 31, 2016 and 2015, equipment owned by way of a capital lease and included within property, plant and equipment is as follows:

	2016	**2015**
Capitalized cost	$75,060	$75,060
Less: accumulated amortization	25,448	10,436
Capitalized cost, net	49,612	64,624
Lease amortization including depreciation expense	$15,012	$15,012

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**
2017	16,668
2018	16,668
2019	5,094
Total Minimum Lease Payments	$38,429
Less: Amount Representing Interest	1,866
Present Value of Future Minimum Rental	36,563
Less: Current Portion	15,432
Total Noncurrent	$21,131

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.

9. <u>Retirement Plan (Continued)</u>

Coverage and Benefit Provisions	
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	24

a) Method of Accounting

Due to the implementation of GASB No. 68, the Authority must report its proportionate share of the net pension liability, which is as of the December 31, 2015 measurement date. The Authority's proportionate share of the net pension liability as of December 31, 2016 and 2015 was $470,232 and $312,695, respectively.

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.

9. Retirement Plan (Continued)

a) Method of Accounting (Continued)

The net pension liability at December 31, 2016 was measured as of December 31, 2015, 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, 2016 and 2015 amounted to $85,796 and $83,182, respectively.

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

For the years ended December 31, 2016 and 2015, the Authority's pension expense amounted to $90,319 and $77,436, respectively. At December 31, 2016 and 2015, the Authority reported $85,796 and $83,182, respectively, of deferred outflows of resources for its contributions subsequent to the December 31, 2015 measurement date and through December 31, 2016 and 2015, respectively.

The Authority also recorded deferred outflows of resources of $115,746 for changes in assumptions ($3,333) and the net difference between projected and actual earnings on investments ($112,413). The Authority also recorded deferred inflows of resources of $124,243 for the difference between expected and actual experience. 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	
2017	$3,022
2018	3,022
2019	3,024
2020	6,733
2021	(24,150)
Thereafter	(148)
Total	$124,243

9. <u>Retirement Plan (Continued)</u>

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.

f) Long-term Expected Rate of Return

The PMRS System's long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates of expected future real rates of return are developed for each major asset class, for the portfolio as a whole and at different levels of probability or confidence. There are four steps to the method:

1) Expected future real rates of return are based primarily on the 20 year historic nominal rates of return as reflected by applicable return indexes and may be adjusted for specific asset classes if, in the Board's opinion, any such asset classes are expected in the future to significantly vary from its 20 year historical returns. These nominal rates of return further assume that investment expenses will be offset by the additional return performance derived from active investment management.
2) The nominal rates of return by asset class are adjusted by a constant rate of expected future annual inflation rate of 3% to produce real rates of return.
3) The real rates of return are further adjusted by weighting each asset class using the PMRS portfolio target asset allocations. The results from steps 1 through 3 are shown in the chart below labeled "System Nominal and Real Rates of Return by Asset Class."
4) These weighted real rates of return are then subjected to a probability simulation to understand the likelihood of success in achieving various portfolio return levels. Based on the most recent asset allocation study conducted by Dahab Associates, the minimum acceptable confidence level for the Board has been determined to be 70%. The chart below labeled "Confidence Levels for System Nominal and Real Rates of Return" identifies simulated portfolio returns at various confidence levels.

9. Retirement Plan (Continued)

f) Long-term Expected Rate of Return (Continued)

The target allocation and best estimates of real rates of return for each asset class are summarized in the following table:

Asset Class	Target Asset Allocation	Nominal Rate of Return	Long-Term Expected Rate of Return
Domestic Equities (large capitalized firms)	25%	9.9%	6.9%
Domestic Equities (small capitalized firms)	15%	9.8%	6.8%
International Equities (international developed markets)	15%	7.0%	4.0%
International Equities (emerging markets)	10%	10.6%	7.6%
Real Estate	20%	10.1%	7.1%
Fixed Income	15%	5.4%	2.4%
Total Portfolio	100%	8.9%	5.9%

Based on the four part analysis, the Board established the System's long-term expected rate of return at 7.5%.

g) 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%)
Net pension liability	$851,189	$470,232	$147,483

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, 2016 follows:

Description	Amount
Total pledged revenues	$4,674,922
Total operating expense (net of depreciation)	2,000,000
Amount available for debt service	2,674,922
Average annual debt service @110%	1,641,006
Excess over required funding	$1,033,916

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, 2016, 2015 and 2014.

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, 2016, 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 per year through 2019.

d) Severance Agreement

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 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, 2016 and 2015, totaled $114,307 and $162,838, respectively.

11. Risk Management and Commitments (Continued)

A summary of projected future severance payments for health insurance as of December 31, 2016 follows:

Year	Amount
2017	28,668
2018	24,383
2019	25,846
2020	27,397
2021	19,902
	126,196
Less: Present Value Discount	11,889
Total	114,307

12. Subsequent Events

Subsequent events have been evaluated through June 19, 2017, which is the date the financial statements were available to be issued. There were no subsequent events requiring recognition or disclosure in these financial statements as a result of this evaluation.

REQUIRED SUPPLEMENTARY INFORMATION

PERKASIE REGIONAL AUTHORITY

Schedule of Changes in Net Pension Liability and Related Ratios

Last Two Fiscal Years

	2016	2015
Total Pension Liability - Authority's Portion		
Service cost	$ 95,533	$ 106,864
Interest	164,836	165,220
Differences between expected and actual experience	(4,901)	(168,060)
Changes of assumptions	3,889	-
Benefit payments	(98,088)	(91,780)
Net change in total pension liability - Authority's portion	161,269	12,244
Total pension liability - beginning	2,960,682	2,948,438
Total pension liability - ending - Authority's portion	$ 3,121,951	$ 2,960,682
Plan Fiduciary Net Position - Authority's portion		
Contributions - employer	$ 82,722	$ 44,964
Contributions - PMRS assessment	460	-
Contributions - employee	31,878	32,854
PMRS investment income	147,816	139,919
Market value investment income	(154,434)	18,558
Benefits payments	(98,088)	(91,780)
PMRS administrative expense	(460)	(480)
Additional administrative expense	(6,162)	(5,366)
Net change in plan fiduciary net position	3,732	138,669
Plan fiduciary net position - beginning	2,647,987	2,509,318
Plan fiduciary net position - ending - Authority's Portion	$ 2,651,719	$ 2,647,987
Net position liability - ending - Authority's Portion	$ 470,232	$ 312,695
Plan fiduciary net position as a percentage of total pension liability	84.9%	89.4%
Covered employee payroll	673,946	757,952
Net pension liability as a percentage of covered employee payroll	69.8%	41.3%

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

Last Two Fiscal Years

	2016	2015
Actuarially determined contribution	$ 83,182	$ 44,197
Contributions in relation to the Actuarially determined contribution	83,182	44,964
Contribution excess	-	(767)
Covered payroll	$ 673,946	$ 757,952
Contributions as a percentage of covered payroll	12.34%	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, 2016 and 2015

	2016	2015	Variance Increase (Decrease)
SEWER SERVICE			
Salaries	$ 127,581	$ 127,666	$ (85)
Payroll Taxes	10,585	10,373	212
Materials and Supplies	2,769	5,193	(2,424)
Electric	289	201	88
Maintenance and Repairs	18,824	17,790	1,034
Vehicle	13,985	14,232	(247)
Uniforms	657	1,044	(387)
Treatment Fees - Operating	567,115	673,223	(106,108)
Total Sewer Service	741,805	849,722	(107,917)
WATER SERVICE			
Salaries	223,759	219,831	3,928
Payroll Taxes	18,564	17,861	703
Materials and Supplies	26,055	25,428	627
Electric	100,799	78,483	22,316
Maintenance and Repairs	86,153	92,064	(5,911)
Vehicle	9,584	10,374	(790)
Uniforms	2,882	2,987	(105)
Buildings	-	648	(648)
Testing	9,651	9,412	239
Meters	560	2,300	(1,740)
Total Water Service	478,007	459,388	18,619
PROFESSIONAL FEES			
Consulting Engineer	8,832	97,667	(88,835)
Accounting and Audit	30,907	28,534	2,373
Legal	11,053	20,951	(9,898)
Hydrogeologist	25,910	24,935	975
Total Professional Fees	76,702	172,087	(95,385)
GENERAL AND ADMINISTRATIVE			
Office Payroll	239,590	225,167	14,423
Employee Insurance	160,691	166,682	(5,991)
Payroll Taxes	21,810	25,955	(4,145)
Pension	90,319	77,436	12,883
Office Equipment	23,947	19,702	4,245
General Business Insurance	52,217	58,041	(5,824)
Communications	12,609	13,369	(760)
Real Estate Taxes	-	(220)	220
Postage	6,551	8,089	(1,538)
Education	4,791	7,493	(2,702)
Utilities	14,200	17,732	(3,532)
Maintenance and Repairs - Office	18,907	10,197	8,710
Office Supplies	4,984	5,686	(702)
Newsletter	984	-	984
Trustee Fees	5,100	5,100	-
Dues and Subscriptions	24,114	29,591	(5,477)
Miscellaneous	8,613	198	8,415
Legal Advertising	361	637	(276)
Vehicles	6,854	2,331	4,523
Billing	2,686	11,163	(8,477)
Website	4,158	3,682	476
Total General and Administrative Expenses	703,486	688,031	15,455
Total Operating Expenses	$ 2,000,000	$ 2,169,228	$ (169,228)

PERKASIE REGIONAL AUTHORITY

Schedule of Revenues and Expenses - Budget and Actual

Year Ended December 31, 2016

	Actual	Budget	Variance
OPERATING REVENUES			
Sewer Service Charges:			
Single Family	$ 1,514,192	$ 1,667,200	$ (153,008)
Multi-Family	306,501	337,000	(30,499)
Commercial	102,746	155,100	(52,354)
Industrial	33,939	35,400	(1,461)
School	56,597	74,400	(17,803)
Church	8,143	7,800	343
Public	38,740	31,000	7,740
Mixed	25,575	29,000	(3,425)
Miscellaneous	40,066	96,300	(56,234)
Total Sewer Service Charges	2,126,499	2,433,200	(306,701)
Water Sales:			
Single Family	1,582,350	1,641,900	(59,550)
Multi-Family	268,298	292,700	(24,402)
Commercial	109,780	134,900	(25,120)
Industrial	27,982	25,400	2,582
School	66,216	66,300	(84)
Church	11,408	11,700	(292)
Public	22,762	28,400	(5,638)
Mixed	24,393	25,800	(1,407)
Miscellaneous	45,560	95,500	(49,940)
Total Water Sales	2,158,749	2,322,600	(163,851)
Other Revenue:			
Fire Charges	78,437	74,300	4,137
Other	112,165	52,250	59,915
Total Other Revenue	190,602	126,550	64,052
Total Operating Revenues	$ 4,475,850	$ 4,882,350	$ (406,500)
OPERATING EXPENSES			
Sewer Service:			
Salaries	$ 127,581	$ 136,200	$ (8,619)
Materials and Supplies	2,769	8,000	(5,231)
Electric	289	400	(111)
Maintenance and Repairs	18,824	17,600	1,224
Vehicle	13,985	24,080	(10,095)
Uniforms	657	2,250	(1,593)
Treatment Fees	567,115	659,000	(91,885)
Total Sewer Service	731,220	847,530	(116,310)

PERKASIE REGIONAL AUTHORITY

Schedule of Revenues and Expenses - Budget and Actual, Continued

Year Ended December 31, 2016

	Actual	Budget	Variance
Water Service:			
Salaries	223,759	226,000	(2,241)
Materials and Supplies	26,055	38,100	(12,045)
Electric	100,799	101,110	(311)
Maintenance and Repairs	86,153	105,300	(19,147)
Vehicle	9,584	17,890	(8,306)
Uniforms	2,882	5,960	(3,078)
Testing	9,651	18,800	(9,149)
Meters	560	7,300	(6,740)
Total Water Service	459,443	520,460	(61,017)
Professional Fees:			
Consulting Engineer	8,832	45,000	(36,168)
Auditor	30,907	31,000	(93)
Legal	11,053	17,500	(6,447)
Hydrogeologist	25,910	31,000	(5,090)
Total Professional Fees	76,702	124,500	(47,798)
General and Administrative:			
Salaries	239,590	247,700	(8,110)
Employee Benefits	301,969	397,300	(95,331)
Materials and Supplies	44,110	90,400	(46,290)
Utilities	14,200	20,600	(6,400)
Communications	16,767	16,900	(133)
Maintenance and Repairs - Office	23,947	35,420	(11,473)
Vehicles	1,714	1,620	94
Maintenance and Repairs - Building	18,907	3,500	15,407
Lease of Vehicles	5,140	17,000	(11,860)
Trustee Fees	5,100	5,600	(500)
Insurance	52,217	76,400	(24,183)
Legal Advertising	361	3,500	(3,139)
Miscellaneous	8,613	2,200	6,413
Total General and Administrative	732,635	918,140	(185,505)
Total Operating Expenses	2,000,000	2,410,630	(410,630)
Operating Income	$ 2,475,850	$ 2,471,720	$ 4,130

PERKASIE REGIONAL AUTHORITY

Schedule of Revenues and Expenses - Budget and Actual, Continued

Year Ended December 31, 2016

	Actual	Budget	Variance
Operating Income	$ 2,475,850	$ 2,471,720	$ 4,130
Nonoperating Revenues (Expenses):			
Investment Income	19,161	4,500	14,661
Rental Income	49,626	48,350	1,276
Interest Expense	(552,109)	(890,000)	337,891
Principal Payments on Bonds and Construction Loan	(1,312,422)	(1,125,000)	(187,422)
Transfer for Debt Coverage	0	(509,570)	509,570
Total Nonoperating Revenues (Expenses) - Net	(1,795,744)	(2,471,720)	675,976
Revenues Over Expenses	$ 680,106	$ 0	$ 680,106

Reconciliation of Budget Reporting to Financial Statements:

Revenues Over Expenses	$ 680,106
Principal Payments on Bonds	1,312,422
Tapping Fees	130,285
Depreciation and Amortization	(1,242,382)
Increase in Net Position per Statement of Revenues, Expenses, and Changes in Net Position	$ 880,431