

**LOWER PERKIOMEN VALLEY REGIONAL
SEWER AUTHORITY**

ANNUAL FINANCIAL REPORT

Year Ended December 31, 2020

INTRODUCTORY SECTION

LOWER PERKIOMEN VALLEY REGIONAL SEWER AUTHORITY

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YEAR ENDED DECEMBER 31, 2020

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FINANCIAL SECTION

Independent Auditors' Report

To the Board of the Authority
Lower Perkiomen Valley Regional Sewer Authority
Oaks, Pennsylvania

We have audited the accompanying financial statements of the Lower Perkiomen Valley Regional Sewer Authority, which comprise the statement of net position as of December 31, 2020, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Lower Perkiomen Valley Regional Sewer Authority's 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 qualified audit opinion.

To the Board of the Authority
Lower Perkiomen Valley Regional Sewer Authority
Oaks, Pennsylvania

Basis for Qualified Opinion

The retirement system in which the Lower Perkiomen Valley Regional Sewer Authority participates was not able to provide timely information related to the Lower Perkiomen Valley Regional Sewer Authority's pension plan as of December 31, 2020. Therefore, we were unable to obtain sufficient appropriate audit evidence about the carrying amount of the net pension asset or the related deferred inflows of resources. Consequently, these amounts have not been adjusted from the amounts previously reported in the financial statements for the year ended December 31, 2019.

Qualified Opinion

In our opinion, except for the possible effects on the 2020 financial statements of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Lower Perkiomen Valley Regional Sewer Authority as of December 31, 2020, and the results of its operations and its cash flows for the year 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 4 through 9, the schedule of changes in net pension liability and related ratios on page 23 and the schedule of pension plan contributions on page 24 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 evidence sufficient to express an opinion or provide any assurance.

Maille LLP

Limerick, Pennsylvania
August 26, 2021

LOWER PERKIOMEN VALLEY REGIONAL SEWER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2020

Lower Perkiomen Valley Regional Sewer Authority's (the "Authority") discussion and analysis offers readers of the Authority's financial statements a narrative overview and analysis of the Authority's financial activities for the fiscal year ended December 31, 2020. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the financial statements and notes to the financial statements (which immediately follow this discussion).

FINANCIAL HIGHLIGHTS

Total net position for 2020 is \$68,094,764. The Authority's net position increased by 2.18%, or \$1,450,303. The increase is mainly due to an increase in operating revenues of \$479,900 or 6.85% and a small decrease in operating expenses of \$106,608 or 1.87%. This resulted in the Authority's operating income increasing from \$1,305,646 in 2019 to \$1,892,154 for 2020.

Operating expenditures for 2020 decreased by approximately 1.87% relative to 2019. The decrease can be attributed to the Authority recognizing \$221,810 in 2019 for settlement costs related to agreement reached with Lower Providence Township Sewer Authority. Management and staff continue to be proactive in their efforts to control expenditures.

Nonoperating revenues for 2020, consisting of interest income, was down approximately \$472,000 relative to 2019, while nonoperating expenditures also increased approximately \$189,000 relative to 2019.

Capital contributions for 2020 were \$403,170 relative to \$405,571 for 2019, reflecting a 0.59% decrease. Capital contributions can vary year-to-year depending upon the level of developer activity during a particular year.

USING THIS ANNUAL REPORT

The Authority is a special-purpose government entity engaged in a single business-type activity of providing wastewater treatment services to the Boroughs of Collegeville and Trappe and the Townships of Perkiomen, Skippack, Lower Providence and Upper Providence. Therefore, it only maintains one fund, an Enterprise Fund (a component of proprietary funds). The accompanying financial statements of the Authority are the financial statements of its Enterprise Fund, as required by U.S. generally accepted accounting principles.

LOWER PERKIOMEN VALLEY REGIONAL SEWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2020

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements. These financial statements are comprised of the financial statements presented in the statement of net position, similar to businesses in the private sector. This report also contains other supplementary information in addition to the basic financial statements themselves.

Reporting the Authority as a Whole

One of the most important questions asked about the Authority's finances is, "Is the Authority as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the Authority and about its activities in a way that help answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenue and expenses are taken into account regardless of when cash is paid or received.

These two statements report the Authority's net position and changes to the net position. You can think of the Authority's net position, the difference between assets, what the Authority owns, and liabilities, what the Authority owes, as one way to measure the Authority's financial health, or financial position. Over time, increases or decreases in the Authority's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Authority's fee structure and the condition of the Authority's sewer system, to assess the overall health of the Authority.

The Statement of Cash Flows provides additional information about the Authority's sources and uses of cash (its "cash flows").

In the Statement of Revenues, Expenses and Changes in Net Position, we present the Authority's one kind of activity, a business-type activity. The Authority charges a fee to customers to help it cover all or most of the cost of the sewer wastewater treatment services it provides.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the Authority's financial statements. The notes can be found immediately following the basic financial statements in this report.

Reporting the Authority's Single Business-Type Activity Financial Statements

The Authority only has one fund, which is an Enterprise Fund (a component of proprietary type funds).

Proprietary Fund: When the Authority charges customers for the services it provides, these services are reported in its Enterprise Fund (a proprietary type fund).

LOWER PERKIOMEN VALLEY REGIONAL SEWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2020

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

The Authority's total net position increased \$1,450,303 which represents a 2.18% increase from 2019. In contrast, last year net position increased by \$1,267,367. The analysis below focuses on net position and changes in net position of the Authority's business-type activities.

Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, changed from \$23,231,133 at December 31, 2019, to \$24,240,783 at the end of this year.

Condensed Statements of Net Position
December 31, 2020 and 2019

	December 31,		Variance	
	2020	2019	Amount Increase (Decrease)	%
ASSETS				
Cash and investments	\$ 40,856,439	\$ 50,912,508	\$ (10,056,069)	-19.75%
Accounts receivable	-	65,910	(65,910)	-100.00%
Prepaid expenses	72,370	21,027	51,343	244.18%
Net pension asset	315,149	315,149	-	0.00%
Capital assets, net	75,970,361	67,654,982	8,315,379	12.29%
TOTAL ASSETS	<u>117,214,319</u>	<u>118,969,576</u>	<u>(1,755,257)</u>	-1.48%
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	58,039	64,157	(6,118)	-9.54%
LIABILITIES				
Accounts payable and accrued expenses	225,808	862,393	(636,585)	-73.82%
Due to other governments	-	221,810	(221,810)	-100.00%
Notes payable	48,923,770	51,277,053	(2,353,283)	-4.59%
TOTAL LIABILITIES	<u>49,149,578</u>	<u>52,361,256</u>	<u>(3,211,678)</u>	-6.13%
DEFERRED INFLOWS OF RESOURCES				
Deferred inflow related to pensions	28,016	28,016	-	0.00%
NET POSITION				
Net investment in capital assets	43,853,981	43,413,328	440,653	1.02%
Unrestricted	24,240,783	23,231,133	1,009,650	4.35%
TOTAL NET POSITION	<u>\$ 68,094,764</u>	<u>\$ 66,644,461</u>	<u>\$ 1,450,303</u>	2.18%

LOWER PERKIOMEN VALLEY REGIONAL SEWER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2020

Condensed Statements of Revenues, Expenses and Changes in Net Position Years Ended December 31, 2020 and 2019

	December 31,		Variance	
	2020	2019	Amount Increase (Decrease)	%
OPERATING REVENUES				
Charges for services	\$ 7,418,670	\$ 6,985,820	\$ 432,850	6.20%
Industrial pretreatment program	9,890	9,089	801	8.81%
Other income	54,542	8,293	46,249	557.69%
TOTAL OPERATING REVENUES	<u>7,483,102</u>	<u>7,003,202</u>	<u>479,900</u>	6.85%
OPERATING EXPENSES				
Sewage treatment and operating expenses	2,161,866	2,206,959	(45,093)	-2.04%
Insurance, engineering, legal and administrative expenses	803,426	879,989	(76,563)	-8.70%
Depreciation and amortization	2,625,656	2,610,608	15,048	0.58%
TOTAL OPERATING EXPENSES	<u>5,590,948</u>	<u>5,697,556</u>	<u>(106,608)</u>	-1.87%
OPERATING INCOME	<u>1,892,154</u>	<u>1,305,646</u>	<u>586,508</u>	44.92%
NONOPERATING REVENUES (EXPENSES)				
Interest income	353,603	825,587	(471,984)	-57.17%
Bond issue costs	-	(259,765)	259,765	-100.00%
Interest expense	(1,198,624)	(1,009,672)	(188,952)	18.71%
NONOPERATING REVENUES (EXPENSES), net	<u>(845,021)</u>	<u>(443,850)</u>	<u>(401,171)</u>	90.38%
CHANGE IN NET POSITION BEFORE CAPITAL CONTRIBUTIONS				
CONTRIBUTIONS	1,047,133	861,796	185,337	21.51%
CAPITAL CONTRIBUTIONS				
CONTRIBUTIONS	<u>403,170</u>	<u>405,571</u>	<u>(2,401)</u>	-0.59%
CHANGE IN NET POSITION	1,450,303	1,267,367	<u>\$ 182,936</u>	14.43%
NET POSITION AT BEGINNING OF YEAR				
NET POSITION AT END OF YEAR	<u>\$ 66,644,461</u>	<u>\$ 65,377,094</u>		
NET POSITION AT END OF YEAR	<u>\$ 68,094,764</u>	<u>\$ 66,644,461</u>		

LOWER PERKIOMEN VALLEY REGIONAL SEWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2020

The Authority's total operating revenues increased by 6.85% and a slight decrease in operating expenditures of 1.87%. This resulted in the Authority results of operations increasing from operating income of \$1,305,646 in 2019 to operating income of \$1,892,154 for 2020. After considering the nonoperating revenues and expenditures, the Authority had an increase in Net Position of \$1,047,133. Including the capital contributions for 2020, the Authority posted an overall increase in Net Position of \$1,450,303. Capital contributions represent new sewer connections that will in the future increase sewer revenues. Although the Authority had an overall increase of \$1,450,303 in Net Position for the year, it should be noted that total depreciation costs for 2020 of \$2,619,538 were included in this net increase.

CAPITAL ASSETS AND DEBT ADMINISTRATION

At the end of 2020, the Authority had \$75,970,361 invested in capital assets. This amount represents a net increase (including additions and deductions) of \$8,315,379, or 12.3%, relative to last year.

<i>Capital Assets and Accumulated Depreciation</i>				
	Beginning Balance	Increases	Decreases	Ending Balance
CAPITAL ASSETS NOT BEING DEPRECIATED				
Land and easement rights	\$ 5,415,861	\$ -	\$ -	\$ 5,415,861
Construction in progress	7,504,436	10,909,222	-	18,413,658
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	12,920,297	10,909,222	-	23,829,519
CAPITAL ASSETS BEING DEPRECIATED				
Collection system, plant interceptor and equipment	104,498,944	25,695	-	104,524,639
Accumulated depreciation	(49,764,259)	(2,619,538)	-	(52,383,797)
CAPITAL ASSETS BEING DEPRECIATED, net	54,734,685	(2,593,843)	-	52,140,842
CAPITAL ASSETS, net	\$ 67,654,982	\$ 8,315,379	\$ -	\$ 75,970,361

Plant Expansion, Parallel Interceptor and Metering Projects

Capital assets include the cost for engineering, design, site development, legal easements and construction costs for a major plant expansion, the upper and lower section of the parallel interceptor and meter pits. The interceptor is to be constructed in three sections. The lower section of the parallel interceptor and seven meter pits were completed in 2007. The plant expansion and upgrade were completed in 2009. Two additional meter pits were completed in 2010. The construction of the upper interceptor was completed in late 2011. The Authority was awarded a \$2.5 million state grant for construction and received the last payment for this grant in 2011. Construction in progress is primarily composed of costs associated with the middle interceptor project. Construction of the middle interceptor began in 2019 and is still on going in 2020.

LOWER PERKIOMEN VALLEY REGIONAL SEWER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2020

Debt

The Authority has several notes and bonds payable:

A note to the Pennsylvania Department of Community and Economic Development in the amount of \$3,000,000. The loan was for the construction of the lower section of the interceptor. Interest of \$21,739 was paid and principal of \$162,283 was repaid in 2020.

A note to the Delaware Valley Regional Finance Authority, Sewer Revenue Note Series of 2019 in the amount of \$25,000,000. Interest of \$677,986 and principal of \$1,000 was paid in 2020.

A note to the Delaware Valley Regional Finance Authority, Sewer Revenue Note Series A of 2019 in the amount of \$4,305,000. Interest of \$68,481 and principal of \$598,000 was paid in 2020.

A note to the Delaware Valley Regional Finance Authority, Sewer Revenue Note Series B of 2019 in the amount of \$8,248,000. Interest of \$147,231 and principal of \$241,000 was paid in 2020.

A note to the Delaware Valley Regional Finance Authority, Sewer Revenue Note Series A of 2014 in the amount of \$7,638,000. Interest of \$13,538 and the remaining principal of \$1,351,000 was paid in 2020.

A note to the Delaware Valley Regional Finance Authority, Sewer Revenue Note Series B of 2014 in the amount of \$11,212,000. Interest of \$269,649 was paid in 2020.

ECONOMIC FACTORS

The Authority's operating revenues are anticipated to rise over the next year due to the increase in system users. The Authority's operating expenses are likely to increase over the next year in proportion with the overall rate of inflation in the southeastern Pennsylvania region.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the funds it receives and disburses. If you have questions about this report or need additional information, please contact the Authority Manager at LPVRS, 101 Station Avenue, PO Box 297, Oaks, PA 19456.

LOWER PERKIOMEN VALLEY REGIONAL SEWER AUTHORITY

STATEMENT OF NET POSITION

DECEMBER 31, 2020

ASSETS

CURRENT ASSETS

Cash and equivalents	\$	37,562,187
Investments		3,294,252
Prepaid expenses		72,370
TOTAL CURRENT ASSETS		<u>40,928,809</u>

NONCURRENT ASSETS

Net pension asset		315,149
Capital assets		
Land and easements		5,415,861
Construction in progress		18,413,658
Treatment plant and equipment		104,524,639
Accumulated depreciation		<u>(52,383,797)</u>
TOTAL CAPITAL ASSETS, net		<u>75,970,361</u>

TOTAL ASSETS 117,214,319

DEFERRED OUTFLOWS OF RESOURCES

Deferred charge on refunding		<u>58,039</u>
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LIABILITIES

CURRENT LIABILITIES

Accounts payable and accrued expenses		225,808
Current portion of notes payable		<u>2,403,559</u>
TOTAL CURRENT LIABILITIES		<u>2,629,367</u>

NONCURRENT LIABILITIES

Notes payable, less current portion		<u>46,520,211</u>
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TOTAL LIABILITIES 49,149,578

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to pensions		<u>28,016</u>
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NET POSITION

Net investment in capital assets		43,853,981
Unrestricted		<u>24,240,783</u>

TOTAL NET POSITION \$ 68,094,764

See accompanying notes to the basic financial statements.

LOWER PERKIOMEN VALLEY REGIONAL SEWER AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2020

OPERATING REVENUES

Charges for services	\$ 7,418,670
Industrial pretreatment program	9,890
Other operating revenues	<u>54,542</u>
TOTAL OPERATING REVENUES	<u>7,483,102</u>

OPERATING EXPENSES

Plant maintenance and operation	835,027
Plant wages	625,988
Sludge hauling and disposal	413,207
Electric and gas	287,644
Insurance	72,471
Depreciation	2,619,538
Amortization	6,118
Engineering	55,393
Legal	36,690
Office and administrative costs	<u>638,872</u>
TOTAL OPERATING EXPENSES	<u>5,590,948</u>

OPERATING INCOME 1,892,154

NONOPERATING REVENUES (EXPENSES)

Investment income, net	353,603
Interest expense	<u>(1,198,624)</u>
TOTAL NONOPERATING EXPENSES	<u>(845,021)</u>

CHANGE IN NET POSITION BEFORE CAPITAL
CONTRIBUTIONS 1,047,133

CAPITAL CONTRIBUTIONS 403,170

CHANGE IN NET POSITION 1,450,303

NET POSITION AT BEGINNING OF YEAR 66,644,461

NET POSITION AT END OF YEAR \$ 68,094,764

See accompanying notes to the basic financial statements.

LOWER PERKIOMEN VALLEY REGIONAL SEWER AUTHORITY

STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2020

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers and users	\$ 7,483,102
Payments to suppliers	(2,992,633)
Payments to employees	(816,487)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>3,673,982</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Capital contributions	403,170
Acquisition and construction of capital assets	(10,934,917)
Principal paid on debt	(2,353,283)
Interest paid on debt	(1,198,624)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(14,083,654)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Net change of investments	452,748
Interest received	353,603
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>806,351</u>

NET DECREASE IN CASH AND EQUIVALENTS (9,603,321)

CASH AND EQUIVALENTS AT BEGINNING OF YEAR 47,165,508

CASH AND EQUIVALENTS AT END OF YEAR \$ 37,562,187

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating income	\$ 1,892,154
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	2,619,538
Amortization	6,118
Increase in prepaid expenses	(51,343)
Decrease in accounts receivable	65,910
Decrease in due to other governments	(221,810)
Decrease in accounts payable and accrued expenses	(636,585)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 3,673,982</u>

See accompanying notes to the basic financial statements.

LOWER PERKIOMEN VALLEY REGIONAL SEWER AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Purpose of the Authority

The Boroughs of Collegeville and Trappe and the Townships of Perkiomen, Skippack, Lower Providence and Upper Providence have formed a joint municipal authority pursuant to the provisions of the Municipality Authorities Act of 1945, P.L. 382, as amended, with said authority being known as the Lower Perkiomen Valley Regional Sewer Authority (the "Authority"). The Authority was formed for the purpose of assuming operations of the Oaks Wastewater Treatment Plant, the Perkiomen Interceptor and the prospective sanitary sewer needs of the community within the geographic area of the Authority in Montgomery County, Pennsylvania.

The various municipalities, boroughs and townships are responsible for and maintain control over sanitary sewage, pipe and facility locations within their respective geographic boundaries.

The Authority is responsible for the Oaks Wastewater Treatment Plant and Perkiomen Creek Interceptor. The waste water treatment operations are located along the Schuylkill River in Upper Providence Township, Oaks, Pennsylvania. The plant has a capacity rating to process 14.25 million gallons per day (MGD) of wastewater.

Historically, the plant was owned by the Montgomery County Sewer Authority (the "County Authority"), a component unit of the County of Montgomery. On November 4, 2002, Montgomery County transferred all assets of the County Authority to the Authority.

Fund Accounting

The Authority is considered an Enterprise Fund, which is a fund type used to account for operations that are financed and operated in a manner similar to private business enterprises. The intent is that the costs of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

Basis of Accounting

The Authority's financial statements are presented on the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recognized when the underlying goods or services are received, regardless of when paid.

Revenue Recognition

The Authority's primary source of revenue is sewer system rentals from the joint members of the Authority. Sewer rental is assessed at an annual rate of \$180 per Equivalent Dwelling Unit (EDU). The joint members remit payments monthly to the Authority.

LOWER PERKIOMEN VALLEY REGIONAL SEWER AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Authority considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

Investments

Investments consist of Certificates of Deposit which are valued at amortized cost.

Property and Equipment

Property, plant and equipment are stated at cost. The Authority's policy is to capitalize items of \$10,000 or greater. The depreciation provision for the plant and interceptor system has been calculated primarily on the basis of depreciating the capital asset costs over the estimated useful life of the assets using the straight-line method with one half of one year's depreciation recorded in the year the assets are placed in service.

	<u>Years</u>
Original plant and interceptor system	40
Expansion of plant and interceptor system	40
Administrative office building	40
Furniture, fixtures and equipment	15
Vehicles	5

Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the Authority. Operating revenues consist primarily of charges for services directly associated with sewage treatment. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities. Nonoperating revenues consist of capital grants, capital contributions and interest income. When an expense is incurred for purposes for which there is both restricted and unrestricted net position available, it is the Authority's policy to apply those expenses to restricted net position to the extent such are available and then to unrestricted net position.

Contributed Capital

The Authority records tapping fee/capacity rights collections as contributed capital. Capital contributions are recorded in the statement of revenues, expenses and changes in net position.

LOWER PERKIOMEN VALLEY REGIONAL SEWER AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE B - DEPOSITS AND INVESTMENTS

Concentration of Credit Risk

Financial instruments that potentially subject the Authority to credit risk include cash on deposit with Victory Bank and the PA Local Government Investment Trust.

Deposits with Financial Institutions and Investments

The Authority's deposits with financial institutions and investments, which are stated at cost at December 31, 2020, consisted of the following:

	<u>Carrying Amount</u>	<u>Bank Value</u>
Victory Bank	\$ 35,423,213	\$ 35,455,835
PLGIT	2,138,574	2,138,574
Petty cash	400	-
	<u>\$ 37,562,187</u>	<u>\$ 37,594,409</u>

The Authority's deposits with financial institutions (at bank balances) and investments (at market value) at December 31, 2020, categorized by risk are as follows:

	<u>Category</u>			<u>Totals</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
CASH AND CASH EQUIVALENTS				
Victory Bank	\$ 250,000	\$ 35,205,835	\$ -	\$ 35,455,835
PLGIT	-	-	2,138,574	2,138,574
	<u>\$ 250,000</u>	<u>\$ 35,205,835</u>	<u>\$ 2,138,574</u>	<u>\$ 37,594,409</u>

Differences between carrying amounts and bank balances are caused by checks that have not cleared the bank as of December 31, 2020.

LOWER PERKIOMEN VALLEY REGIONAL SEWER AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE B - DEPOSITS AND INVESTMENTS (Continued)

Categories of risk level are as follows:

1. Insured or collateralized with securities held by the Authority or by its agent in the Authority's name. While the FDIC insurance limit is \$250,000 per bank, Victory Bank deposits the Authority's funds, in the Authority's name, at other FDIC insured institutions up to a maximum of \$250,000 per institution in order to minimize risk.
2. Collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the Authority's name. This includes collateralization of securities on a pooled basis in accordance with Act No. 72 of the PA General Assembly. Under such Act, financial institutions have the responsibility to maintain sufficient assets in a pooled asset account to collateralize adequately all public deposits, including any interest accrued thereon, in excess of applicable deposit insurance coverage.
3. Uncollateralized and uninsured.

Investments

As of December 31, 2020, the Authority had the following investments and maturities:

<u>Investment Type</u>	<u>Amortized Cost</u>	<u>Investment Maturities</u>	
		<u>Less Than One Year</u>	<u>1 to 5 Years</u>
Certificates of deposit	\$ <u>3,294,252</u>	\$ <u>3,294,252</u>	\$ <u>-</u>

NOTE C - CAPITAL ASSETS AND ACCUMULATED DEPRECIATION

Pursuant to the November 4, 2002 agreement with the Montgomery County Sewer Authority, the Montgomery County Sewer Authority terminated and transferred all remaining assets to the Authority. The fair market value of the assets could not be determined because of lack in marketability. Engineering estimates were used to revalue assets using their original costs and adding approximate inflation factors to arrive at replacement costs. Due to the related-party nature of the transaction, accumulated depreciation was carried over from the Montgomery County Sewer Authority at inflation-adjusted amounts. Depreciation will be carried out over the remaining lives of the property, plant and equipment originally set forth on the records of the Montgomery County Sewer Authority.

LOWER PERKIOMEN VALLEY REGIONAL SEWER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2020

NOTE C - CAPITAL ASSETS AND ACCUMULATED DEPRECIATION (Continued)

A summary of property, plant and equipment placed in service and current year deletions is as follows:

	January 1, 2020	Additions (Deletions)	December 31, 2020
Land and easements	\$ 5,415,861	\$ -	\$ 5,415,861
Construction in progress	7,504,436	10,909,222	18,413,658
Treatment plant and equipment	104,498,944	25,695	104,524,639
	<u>117,419,241</u>	<u>10,934,917</u>	<u>128,354,158</u>
Accumulated depreciation	<u>(49,764,259)</u>	<u>(2,619,538)</u>	<u>(52,383,797)</u>
CAPITAL ASSETS, net	<u>\$ 67,654,982</u>	<u>\$ 8,315,379</u>	<u>\$ 75,970,361</u>

NOTE D - LONG-TERM LIABILITIES

Notes Payable

On August 22, 2006, the Authority entered into an agreement with the Pennsylvania Department of Community and Economic Development. The amount of the note was \$3,000,000. Principal and interest at a rate of 2.00% are to be paid back. As of December 31, 2020, \$998,769 was due on the note.

Annual debt service requirements to maturity are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 165,559	\$ 18,463
2022	168,901	15,122
2023	172,310	11,712
2024	175,788	8,234
2025	179,336	4,686
2026	<u>136,876</u>	<u>1,118</u>
	<u>\$ 998,770</u>	<u>\$ 59,335</u>

On August 1, 2014, the Authority issued Sewer Revenue Note Series A of 2014 and Sewer Revenue Note Series B of 2014, both notes totaling \$18,850,000, to currently refund the Sewer Revenue Note of 2006 issued by the Pennsylvania Infrastructure Investment Authority, and pay the costs and expenses incurred in connection with the issuance of the notes.

The Sewer Revenue Note Series A of 2014 was issued for \$7,638,000 and bore interest at a rate of 2.405%. The Sewer Revenue Note Series A of 2014 was fully paid in 2020.

LOWER PERKIOMEN VALLEY REGIONAL SEWER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2020

NOTE D - LONG-TERM LIABILITIES (Continued)

The Sewer Revenue Note Series B of 2014 was issued for \$11,212,000 and bears interest at a rate of 2.405%. Interest only payments will be made through April 2021 with principal and interest payments being made through May 2028. As of December 31, 2020, \$11,212,000 was due on the note.

Annual debt service requirements to maturity are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 1,383,000	\$ 250,246
2022	1,417,000	216,508
2023	1,451,000	181,952
2024	1,487,000	146,551
2025	1,523,000	110,283
2026 to 2028	<u>3,951,000</u>	<u>116,192</u>
	<u>\$ 11,212,000</u>	<u>\$ 1,021,732</u>

On June 25, 2019, the Authority issued Sewer Revenue Note Series of 2019 in the amount of \$25,000,000 to fund various capital projects including the Perkiomen Creek Middle Interceptor. The note bears interest at a rate of 2.712% with principal and interest payments being made through June 25, 2039. As of December 31, 2020, \$24,999,000 was due on the note.

Annual debt service requirements to maturity are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 1,000	\$ 677,973
2022	1,000	677,946
2023	1,000	677,919
2024	1,000	677,892
2025	1,000	677,864
2026 to 2030	2,558,000	3,383,247
2031 to 2035	11,763,000	2,422,196
2036 to 2039	<u>10,673,000</u>	<u>733,759</u>
	<u>\$ 24,999,000</u>	<u>\$ 9,928,796</u>

LOWER PERKIOMEN VALLEY REGIONAL SEWER AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE D - LONG-TERM LIABILITIES (Continued)

On August 26, 2019, the Authority issued the Sewer Revenue Note, Series A of 2019 in the amount of \$4,305,000. The note was used to currently refund all of its outstanding Sewer Revenue Bonds, Series of 2012, and pay the costs of issuing the note. The refunding resulted in cash savings of \$186,038 and an economic gain of \$155,938. The note bears interest at a rate of 1.731% with principal and interest payments being made through May 25, 2030. As of December 31, 2020, \$3,707,000 was due on the note.

Annual debt service requirements to maturity are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 609,000	\$ 58,019
2022	619,000	47,376
2023	630,000	36,550
2024	640,000	25,544
2025	651,000	14,354
2026 to 2030	<u>558,000</u>	<u>42,661</u>
	<u>\$ 3,707,000</u>	<u>\$ 224,504</u>

On August 26, 2019, the Authority issued the Sewer Revenue Note, Series B of 2019 in the amount of \$8,248,000. The note was used to currently refund all of its outstanding Sewer Revenue Bonds, Series A of 2012, and pay the costs of issuing the note. The refunding resulted in cash savings of \$629,278 and an economic gain of \$560,386. The note bears interest at a rate of 1.816% with principal and interest payments being made through May 25, 2029. As of December 31, 2020, \$8,007,000 was due on the note.

Annual debt service requirements to maturity are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 245,000	\$ 142,812
2022	249,000	138,320
2023	254,000	133,745
2024	258,000	129,090
2025	263,000	124,352
2026 to 2029	<u>6,738,000</u>	<u>287,463</u>
	<u>\$ 8,007,000</u>	<u>\$ 955,782</u>

LOWER PERKIOMEN VALLEY REGIONAL SEWER AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2020

NOTE D - LONG-TERM LIABILITIES (Continued)

The Authority financed the Sewer Revenue Note Series A of 2014, Sewer Revenue Note Series B of 2014, Sewer Revenue Series of 2019, Sewer Revenue Note Series A of 2019 and Sewer Revenue Note Series B of 2019 through the Delaware Valley Regional Finance Authority (DeIVal). DeIVal has, in turn, entered into interest rate swap agreements with various counterparties to provide fixed interest rates to borrowers. These agreements may be terminated under the following circumstances: (1) DeIVal and the counterparty mutually consent to termination, (2) the borrower defaults on its loan, or (3) DeIVal or the counterparty default or their financial conditions deteriorate to make a default imminent. Upon termination, DeIVal would receive or make a payment depending on the market value of the related interest rate swap. If DeIVal were obligated to make such a payment and sufficient funds were not available, DeIVal could assess each borrower its allocable share of the termination payment.

As of December 31, 2020, DeIVal would have received a payment of approximately \$110 million if all of the swap agreements were terminated. Therefore, no amounts are reflected on the Authority's financial statements.

Long-term liability activity for the year ended December 31, 2020, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
NOTES PAYABLE					
Pennsylvania Department of Community and Economic Development	\$ 1,161,053	\$ -	\$ (162,283)	\$ 998,770	\$ 165,559
Delaware Valley Regional Finance Authority					
Series A of 2014	1,351,000	-	(1,351,000)	-	-
Series B of 2014	11,212,000	-	-	11,212,000	1,383,000
Series of 2019	25,000,000	-	(1,000)	24,999,000	1,000
Series A of 2019	4,305,000	-	(598,000)	3,707,000	609,000
Series B of 2019	8,248,000	-	(241,000)	8,007,000	245,000
TOTAL NOTES PAYABLE	<u>51,277,053</u>	<u>-</u>	<u>(2,353,283)</u>	<u>48,923,770</u>	<u>2,403,559</u>
TOTAL LONG-TERM LIABILITIES	<u>\$ 51,277,053</u>	<u>\$ -</u>	<u>\$ (2,353,283)</u>	<u>\$ 48,923,770</u>	<u>\$ 2,403,559</u>

LOWER PERKIOMEN VALLEY REGIONAL SEWER AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE E - PENSION EXPENSE

The Authority sponsors a defined contribution retirement plan. The plan is qualified pursuant to Section 457 of the Internal Revenue Code. All eligible employees are immediately vested in the plan. The plan has a minimum deferred compensation rate of 1% to participate. The plan matches up to 6% of deferred compensation per eligible employee. Full-time employees who have completed 180 days of employment are eligible. The Authority contribution for 2020 was \$55,699.

NOTE F - DEFINED BENEFIT PENSION PLAN

Summary of Significant Accounting Policies

Method Used to Value Investments - Pension Plan investments are carried at fair value as reported by the investment managers. For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plan and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the pension plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms.

Plan Description

The Lower Perkiomen Valley Regional Sewer Authority pension plan is a single-employer, defined benefit pension plan. The plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Comprehensive Annual Financial Report (CAFR). A copy of the CAFR can be obtained by contacting the PMRS accounting office.

Reporting Delays

Due to unforeseen delays by the Pennsylvania Municipal Retirement System ("PMRS"), no information is available for the current year. As such, the amounts reported on the Statement of Net Position relating to the Net Pension Asset and the Deferred inflows of resources relating to pensions remain unchanged from the prior year.

LOWER PERKIOMEN VALLEY REGIONAL SEWER AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE G - CONSTRUCTION IN PROGRESS

Construction in progress is comprised of the construction and associated costs for the middle section of the Perkiomen Creek parallel interceptor and several other small projects.

NOTE H - RELATED-PARTY TRANSACTIONS

The members of the Board are comprised of a representative from each municipality that the Authority serves. The Authority wastewater treatment services are provided solely to these municipalities.

REQUIRED SUPPLEMENTARY INFORMATION

LOWER PERKIOMEN VALLEY REGIONAL SEWER AUTHORITY
SCHEDULE OF CHANGES IN NET PENSION
LIABILITY AND RELATED RATIOS
LAST SIX FISCAL YEARS

	<u>2020</u>	<u>2019</u>
TOTAL PENSION LIABILITY		
Interest	\$ -	\$ 11,260
Changes of benefit terms	-	2,449
Differences between expected and actual experience	-	4,844
Changes of assumptions	-	-
Benefit payments	-	(20,453)
NET CHANGE IN TOTAL PENSION LIABILITY	-	(1,900)
Total pension liability, beginning	<u>222,681</u>	<u>224,581</u>
TOTAL PENSION LIABILITY, ENDING (a)	<u>\$ 222,681</u>	<u>\$ 222,681</u>
PLAN FIDUCIARY NET POSITION		
Contributions		
Employer	\$ -	\$ -
Net investment income	-	(23,663)
Benefit payments, including refunds of member contributions	-	(20,453)
Administrative expense	-	(1,307)
NET CHANGE IN PLAN FIDUCIARY NET POSITION	-	(45,423)
Plan fiduciary net position, beginning	<u>537,830</u>	<u>583,253</u>
PLAN FIDUCIARY NET POSITION, ENDING (b)	<u>\$ 537,830</u>	<u>\$ 537,830</u>
NET PENSION LIABILITY (EXCESS), ENDING (a)-(b)	<u>\$ (315,149)</u>	<u>\$ (315,149)</u>
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	<u>241.52%</u>	<u>241.52%</u>
COVERED PAYROLL	<u>\$ -</u>	<u>\$ -</u>
NET PENSION LIABILITY (EXCESS) AS A PERCENTAGE OF COVERED PAYROLL	<u>N/A</u>	<u>N/A</u>

NOTES TO SCHEDULE

Valuation date:

Actuarially determined contribution rates are calculated by September 30 of each year for the upcoming calendar year.

Methods and assumptions used to determine contribution rates:

- Actuarial cost method
- Amortization method
- Remaining amortization period
- Asset valuation method
- Inflation
- Salary increases

- Investment rate of return
- Retirement age
- Mortality

Note: GASB Statement No. 68 requires this information to be presented for the last ten fiscal years, or shorter period for which the information is available. Since the report was not available for the current year, the relevant pension information presented above is for the last five available years.

	2018	2017	2016	2015
\$	11,719	\$ 3,110	\$ 3,969	\$ 3,582
	-	-	-	-
	-	179,535	-	23,944
	-	4,479	866	-
	<u>(20,453)</u>	<u>(20,453)</u>	<u>(20,453)</u>	<u>(20,493)</u>
	(8,734)	166,671	(15,618)	7,033
	<u>233,315</u>	<u>66,644</u>	<u>82,262</u>	<u>75,229</u>
\$	<u><u>224,581</u></u>	<u><u>233,315</u></u>	<u><u>66,644</u></u>	<u><u>82,262</u></u>
\$	-	\$ -	\$ -	\$ 40
	89,649	44,299	151,512	26,873
	(20,453)	(20,453)	(20,453)	(20,493)
	<u>(1,325)</u>	<u>(1,444)</u>	<u>(860)</u>	<u>(779)</u>
	67,871	22,402	130,199	5,641
	<u>515,382</u>	<u>492,980</u>	<u>362,781</u>	<u>357,140</u>
\$	<u><u>583,253</u></u>	<u><u>515,382</u></u>	<u><u>492,980</u></u>	<u><u>362,781</u></u>
\$	<u><u>(358,672)</u></u>	<u><u>(282,067)</u></u>	<u><u>(426,336)</u></u>	<u><u>(280,519)</u></u>
	<u>259.71%</u>	<u>220.90%</u>	<u>739.72%</u>	<u>441.01%</u>
\$	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
	<u><u>N/A</u></u>	<u><u>N/A</u></u>	<u><u>N/A</u></u>	<u><u>N/A</u></u>

January 1, 2018

Entry age normal
Level dollar, closed
N/A
Market value
3.00%
Age related scale with merit and
inflation component
5.25%
Normal retirement age
RP-2000 Mortality Tables

LOWER PERKIOMEN VALLEY REGIONAL SEWER AUTHORITY

SCHEDULE OF PENSION PLAN CONTRIBUTIONS

LAST SIX FISCAL YEARS

	<u>2020</u>	<u>2019</u>	<u>2018</u>
ACTUARIALLY DETERMINED CONTRIBUTION	\$ -	\$ -	\$ -
CONTRIBUTIONS IN RELATION TO THE ACTUARIALLY DETERMINED CONTRIBUTION	<u>-</u>	<u>-</u>	<u>-</u>
CONTRIBUTION EXCESS	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
COVERED PAYROLL	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
CONTRIBUTION AS A PERCENTAGE OF COVERED PAYROLL	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

Note: GASB Statement No. 68 requires this information to be presented for the last ten fiscal years, or shorter period for which the information is available. The information is available for the last five years.



<u>2017</u>	<u>2016</u>	<u>2015</u>
\$ -	\$ -	\$ -
<u>-</u>	<u>-</u>	<u>40</u>
\$ <u>-</u>	\$ <u>-</u>	\$ <u>(40)</u>
\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
<u>N/A</u>	<u>N/A</u>	<u>N/A</u>