

**LOWER PROVIDENCE TOWNSHIP SEWER AUTHORITY  
(A Component Unit of Lower Providence Township)**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION**

**JUNE 30, 2020**



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936 Easton Rd., PO Box 754, Warrington, PA 18976  
70 W. Oakland Ave., Ste. 106, Doylestown, PA 18901 | 130 Almshouse Rd., Suite 201A, Richboro, PA 18954  
215-343-2727 | [www.bbco-cpa.com](http://www.bbco-cpa.com)

## Independent Auditors' Report

To the Board of Directors  
Lower Providence Township Sewer Authority  
Eagleville, Pennsylvania

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the business type activities of Lower Providence Township Sewer Authority (the Authority), a component unit of Lower Providence Township, Montgomery County, Pennsylvania, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express opinions 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

### ***Basis for Qualified Opinion***

As explained in Note 11 to the financial statements, pension plan data is based on the measurement date of December 31, 2018, utilizing the January 1, 2017 actuarial valuation information provided by Pennsylvania Municipal Retirement System (PMRS). The information for January 1, 2019 actuarial valuation and measurement date of December 31, 2019 was not available from PMRS. Accounting principles generally accepted in the United States of America require if a valuation is not performed as of the measurement date, the total pension liability is required to be based on update procedures to roll forward amounts from an earlier actuarial valuation (performed as of a date no more than 30 months and 1 day prior to the employer's most recent year end). The effects on the accompanying financial statements for the out of date information have not been determined.

### ***Qualified Opinion***

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Lower Providence Township Sewer Authority as of June 30, 2020, and the changes in its net position 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 the management's discussion and analysis and schedule of changes in net pension liability and related ratios and the schedule of employer contributions on pages 5 through 8 and pages 32 through 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.

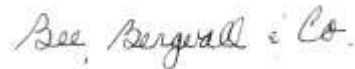
#### ***Other Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Lower Providence Township Sewer Authority's basic financial statements. The Schedules of Sewer System Expenses and Schedules of Administrative are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedules of Sewer System Expenses and Schedules of Administrative Expenses are the responsibility of management and were derived from and relate 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 Schedules of Sewer System Expenses and Schedules of Administrative Expenses are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

***Prior Period Financial Statements***

The Authority's 2019 financial statements were audited by other auditors, and in their report on the financial statements dated April 13, 2020, they expressed an unmodified audit opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it is derived.



Bee, Bergvall and Company, P.C.  
Certified Public Accountants

Warrington, PA  
May 12, 2021

LOWER PROVIDENCE TOWNSHIP SEWER AUTHORITY  
(A Component Unit of Lower Providence Township, Pennsylvania)

Management's Discussion and Analysis

June 30, 2020

Lower Providence Township 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 years ended June 30, 2020 and 2019. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in the financial statements and notes to the financial statements.

**Financial Highlights**

- The assets and deferred outflows of the Authority exceeded its liabilities and deferred inflows by \$20,540,075 as of June 30, 2020 and \$20,583,922 as of June 30, 2019. The Authority has restricted net position of \$10,000,000 as a result of the Guaranteed Sewer Revenues Notes, Series 2020.
- For the year ended June 30, 2020 the Authority's net position decreased by \$43,847 compared to a decrease of \$104,103 for the year ended June 30, 2019.

**Using This Annual Report**

The basic financial statements are comprised of the statement of net position, statement of revenues, expenses and changes in net position and the statement of cash flows, similar to a business in the private sector. This report also contains other supplementary information in addition to the basic financial statements themselves.

Basic Financial Statements

The financial statements are designed to provide readers with an overview of the Authority's financial position in a manner similar to a business in the private sector. The statement of net position presents information on the Authority's assets and liabilities, with the difference between the two reported as net position. The statement of revenues, expenses and changes in net position presents information on the Authority's revenues and expenses, with the difference reported as the change in net position. The statement of cash flows presents information on the Authority's sources and uses of cash during the year. The cash flows are reported based on three types of activity: operating, financing and investing.

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.

LOWER PROVIDENCE TOWNSHIP SEWER AUTHORITY  
(A Component Unit of Lower Providence Township, Pennsylvania)

Management's Discussion and Analysis

June 30, 2020

Other Information

In addition to the basic financial statements and accompanying notes, supplementary information presents a more detailed schedule of expenses as well as a schedule of changes in restricted funds.

**Overview of the Financial Statements**

A summarized version of the Authority's net position and changes in net position is as follows:

<b>Net Position</b>		
	<u>2020</u>	<u>2019</u>
<u>Assets</u>		
Current Assets	\$ 13,579,979	\$ 3,705,616
Restricted Assets	152,886	148,703
Capital Assets, Net	<u>18,382,114</u>	<u>19,162,346</u>
Total Assets	<u>32,114,979</u>	<u>23,016,665</u>
Deferred Outflows	<u>334,577</u>	<u>414,702</u>
<u>Current and Other Liabilities</u>		
Current Liabilities	934,600	1,141,752
Restricted Liabilities	-	-
Long Term Debt	<u>10,974,881</u>	<u>1,705,693</u>
Total Liabilities	<u>11,909,481</u>	<u>2,847,445</u>
<u>Net Position</u>		
Net Investment in Capital Assets	16,913,792	16,974,212
Restricted	10,000,000	-
Unrestricted	<u>(6,373,717)</u>	<u>3,609,710</u>
Total Net Position	<u>\$ 20,540,075</u>	<u>\$ 20,583,922</u>

LOWER PROVIDENCE TOWNSHIP SEWER AUTHORITY  
(A Component Unit of Lower Providence Township, Pennsylvania)

Management's Discussion and Analysis

June 30, 2020

**Changes in Net Position**

	<u>2020</u>	<u>2019</u>
<u>Operating Revenues</u>		
Sewer Rental Income	\$ 4,022,989	\$ 3,937,971
Other income	13,129	15,128
	<u>4,036,118</u>	<u>3,953,099</u>
<u>Operating Expenses</u>		
Sewer	2,868,713	2,998,721
Administration	632,941	576,069
Depreciation Expense	780,232	780,397
Total Operating Expenses	<u>4,281,886</u>	<u>4,355,187</u>
Operating Income (Loss)	(245,768)	(402,088)
Non Operating Revenues (Expenses), Net	(119,646)	(44,447)
Capital Contributions	<u>321,567</u>	<u>342,432</u>
Change in Net Position	(43,847)	(104,103)
Net Position, Beginning of the Year	<u>20,583,922</u>	<u>20,688,025</u>
Net Position, End of the Year	<u>\$ 20,540,075</u>	<u>\$ 20,583,922</u>

The Authority had an operating loss of \$(245,768) in the current year, compared to an operating loss of \$(402,088) for the year ended June 30, 2019. Overall, sewer rental income rose 2.2% in the most recent fiscal year. Operating expenses, exclusive of depreciation, decreased 2.0% during the same period. Non-operating revenues (expenses), net increased in the current year due to one-time bond fees for the issuance of Guaranteed Sewer Revenues Notes, Series 2020 in the current year. Capital contributions totaled \$321,567 and \$342,432 for the years ended June 30, 2020 and 2019, respectively.

LOWER PROVIDENCE TOWNSHIP SEWER AUTHORITY  
(A Component Unit of Lower Providence Township, Pennsylvania)

Management's Discussion and Analysis

June 30, 2020

**Capital Assets**

At the end of June 30, 2020, the Authority had \$18,382,114, net of accumulated depreciation, invested in capital assets as shown in Note 5 to the financial statements. The Authority is completing system upgrades and maintenance projects are performed on an ongoing basis.

**Debt**

The Authority issued Guaranteed Sewer Revenue Notes, Series 2020, the proceeds which will be used to finance capital projects. Total long term debt outstanding as of June 30, 2020 was \$11,703,398 compared to \$2,424,128 in the previous year as shown in Note 8 to the financial statements.

**Factors Bearing on the Authority's Future**

The Authority continues work on a comprehensive Inflow/Infiltration Abatement Program designed to eliminate overflows in the sewer system that occur during periods of heavy rain but the total cost of the program has not been determined. In December 2019, a novel strain of coronavirus (COVID-19) surfaced. The spread of COVID-19 around the world in the first quarter of 2020 has caused significant volatility in U.S. and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies and, as such, the Authority is unable to determine if it will have a material impact to its operations.

**Contacting the Authority's Management**

This financial report is designed to provide citizens, taxpayers, customers and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Authority at 20 Parklane Drive, Eagleville, Pennsylvania 19403.

**LOWER PROVIDENCE TOWNSHIP SEWER AUTHORITY**  
(A Component Unit of Lower Providence Township, Pennsylvania)

Statements of Net Position

June 30, 2020 and 2019

	<b>ASSETS</b>	
	<u>2020</u>	<u>2019</u>
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 12,422,037	\$ 1,374,885
Investments	-	750,002
Accounts Receivable	1,152,072	1,309,995
Regional Treatment Refund Receivable	-	244,526
Reimbursable Engineering and Legal Fees	<u>2,133</u>	<u>22,471</u>
<b>Total Current Assets</b>	<u>13,576,242</u>	<u>3,701,879</u>
<b>Restricted Assets</b>		
Cash, Escrow Funds - Developers	<u>152,886</u>	<u>148,703</u>
<b>Capital Assets</b>		
Sewer System	36,777,794	36,777,794
Land and Garage Building	287,504	287,504
Equipment and Office Furniture	<u>427,742</u>	<u>427,742</u>
	37,493,040	37,493,040
Accumulated Depreciation	<u>(19,110,926)</u>	<u>(18,330,694)</u>
<b>Capital Assets, net</b>	<u>18,382,114</u>	<u>19,162,346</u>
<b>Other Assets</b>		
Notes Receivable, net of current portion	<u>3,737</u>	<u>3,737</u>
<b>TOTAL ASSETS</b>	<u>\$ 32,114,979</u>	<u>\$ 23,016,665</u>

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred Outflows - Pension Related	\$ 202,105	\$ 202,105
Deferred Outflows - Loss on Refunding	<u>132,472</u>	<u>212,597</u>
<b>TOTAL DEFERRED OUTFLOWS</b>	<u>\$ 334,577</u>	<u>\$ 414,702</u>

See accompanying notes to financial statements

**LOWER PROVIDENCE TOWNSHIP SEWER AUTHORITY**  
(A Component Unit of Lower Providence Township, Pennsylvania)

**Statements of Net Position**

**June 30, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
<b>LIABILITIES</b>		
Current Liabilities		
Sewer Revenue Notes, Current Portion	\$ 723,000	\$ 712,000
Accounts Payable and Accrued Expenses	53,197	274,614
Deposits from Real Estate Owners	152,886	148,703
Compensated Absences	<u>5,517</u>	<u>6,435</u>
Total Current Liabilities	<u>934,600</u>	<u>1,141,752</u>
Sewer Revenue Note, Net of Current Portion	10,745,322	1,476,134
Net Pension Liability	<u>229,559</u>	<u>229,559</u>
Total Non-Current Liabilities	<u>10,974,881</u>	<u>1,705,693</u>
Total Liabilities	<u>11,909,481</u>	<u>2,847,445</u>
<b>NET POSITION</b>		
Net Investment in Capital Assets	16,913,792	16,974,212
Restricted	10,000,000	-
Unrestricted	<u>(6,373,717)</u>	<u>3,609,710</u>
Total Net Position	<u>20,540,075</u>	<u>20,583,922</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 32,449,556</u>	<u>\$ 23,431,367</u>

See accompanying notes to financial statements

LOWER PROVIDENCE TOWNSHIP SEWER AUTHORITY  
(A Component Unit of Lower Providence Township, Pennsylvania)

Statements of Revenues, Expenses, and Changes in Net Position

For the Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating Revenues		
Sewer Rental Income	\$ 4,022,989	\$ 3,937,971
Inspection and Service Fee Income	12,584	11,779
Miscellaneous Income	545	3,349
	<u>4,036,118</u>	<u>3,953,099</u>
Operating Expenses		
Sewer Systems Expenses	2,868,713	2,636,303
Administrative Expenses	632,941	576,069
Sewer Billing Dispute Settlement	-	362,418
Depreciation	780,232	780,397
Total Operating Expenses	<u>4,281,886</u>	<u>4,355,187</u>
Operating Loss	<u>(245,768)</u>	<u>(402,088)</u>
Non-Operating Revenue (Expense)		
Interest Income	38,730	69,874
Interest Expense	(28,235)	(34,195)
Amortization	(80,126)	(80,126)
Bond Origination Fee	(50,015)	-
Total Non-Operating Revenue (Expense)	<u>(119,646)</u>	<u>(44,447)</u>
Capital Contributions	<u>321,567</u>	<u>342,432</u>
Change in Net Position	(43,847)	(104,103)
Net Position, Beginning of Year	<u>20,583,922</u>	<u>20,688,025</u>
Net Position, End of Year	<u>\$ 20,540,075</u>	<u>\$ 20,583,922</u>

See accompanying notes to financial statements

**LOWER PROVIDENCE TOWNSHIP SEWER AUTHORITY**  
**(A Component Unit of Lower Providence Township, Pennsylvania)**

**Statements of Cash Flows**

**For the Years Ended June 30, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities:		
Receipts from Customers	\$ 4,463,088	\$ 4,061,627
Payments to Suppliers	(3,215,808)	(3,178,911)
Payments to Employees	(508,181)	(417,147)
Other Income and Expense	-	15,128
Net Cash Provided by (Used in) Operating Activities	<u>739,099</u>	<u>480,697</u>
Cash Flows from Capital and Related Financing Activities:		
Acquisition of Capital Assets	-	(2,724,692)
Principal Payments on Sewer Revenue Notes	(712,000)	(702,000)
Proceeds from Sewer Revenue Note, Series of 2020	10,000,000	-
Capital Contributions	321,567	342,432
Interest Paid on Bonds	(36,970)	(42,008)
Bond Issuance Fees	(50,015)	-
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>9,522,582</u>	<u>(3,126,268)</u>
Cash Flows from Investing Activities:		
Proceeds from Sale of Investments	750,924	1,497,873
Interest Income	38,730	69,874
Net Cash Provided by (Used in) Investing Activities	<u>789,654</u>	<u>1,567,747</u>
Net Increase (Decrease) in Cash and Cash Equivalents	11,051,335	(1,077,824)
Cash and Cash Equivalents, Beginning	<u>1,523,588</u>	<u>2,601,412</u>
Cash and Cash Equivalents, Ending	<u>\$ 12,574,923</u>	<u>\$ 1,523,588</u>
Reconciliation of Net Income (Loss) to Net Cash Provided by (Used In) Operating Activities		
Operating Income (Loss)	\$ (245,768)	\$ (402,088)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Depreciation	780,232	780,397
(Increase) Decrease in Receivable	422,787	47,528
(Increase) Decrease in Prepaid Expenses	-	39,078
Increase (Decrease) in Accounts Payable and Accrued Expenses	(221,417)	(66,199)
Increase (Decrease) in Compensated Absences	(918)	-
Increase (Decrease) in Escrows	4,183	15,480
Increase (Decrease) in Pension	-	66,501
Total Adjustments	<u>984,867</u>	<u>882,785</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ 739,099</u>	<u>\$ 480,697</u>
Cash and Cash Equivalents	\$ 12,422,037	\$ 1,374,885
Cash, Escrow Funds - Developers	152,886	148,703
	<u>\$ 12,574,923</u>	<u>\$ 1,523,588</u>

See accompanying notes to financial statements

LOWER PROVIDENCE TOWNSHIP SEWER AUTHORITY  
(A Component Unit of Lower Providence Township, Pennsylvania)

Notes to Financial Statements

June 30, 2020

**NOTE 1. Summary of Significant Accounting Policies**

Reporting Entity

Lower Providence Township Sewer Authority is a public corporation formed on January 30, 1962 under the Municipality Authorities Act of 1945. The Authority has constructed and operates a sewage collection system in the township that connects with a sewage treatment plant operated by the Lower Perkiomen Valley Regional Sewer Authority.

The Authority is administered by a five-member board appointed by the Lower Providence Township (the “Township”) Board of Supervisors. The Authority is considered a component unit within the financial reporting entity of the Township. This financial statement is the separate component unit financial statement of the Authority.

For purposes of defining the scope of the financial reporting entity, the Authority is considered a component unit of the Township. This determination is consistent with the Township’s exercise of “oversight responsibility” as set forth in Governmental Accounting Standards Board. Specific criteria evaluated in determining the extent of oversight responsibility include the financial interdependency and the selection of a governing body. The accompanying financial statements represent discreet component unit financial statements of the Authority.

Basis of Accounting

The Authority’s financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. The Authority is considered an enterprise fund, which is a proprietary fund-type used to account for operations that are financed and operated in a manner similar to private business enterprises.

Revenues and expenses are recognized on the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned, and expenses in the accounting period in which they are incurred and become measurable.

The Authority receives revenues annually, comprised principally of sewer rents and tapping fees for the collections and treatment of wastewater and supplying water to pay all operating and administrative expenses of the Authority.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Authority’s principal ongoing operations. Revenues and expenses not meeting the definition are reported as nonoperating revenues and expenses.

LOWER PROVIDENCE TOWNSHIP SEWER AUTHORITY  
(A Component Unit of Lower Providence Township, Pennsylvania)

Notes to Financial Statements

June 30, 2020

**NOTE 1. Summary of Significant Accounting Policies (Continued)**

Budgetary Data

The following procedures are used by the Authority in establishing the budgetary data which is reflected in the accompanying supplementary information included in the financial statements.

- The budget is formally adopted by the Authority's Board of Directors prior to June 30<sup>th</sup>.
- The budget is prepared and adopted using the cash basis of accounting.
- Amendments may be approved by the Board of Directors during the year.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in 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 contingent 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.

Cash and Cash Equivalents

The Authority considers all highly liquid investments (including restricted assets separately held) with a maturity of three months or less when purchased to be cash equivalents.

Accounts Receivable

The Authority provides continuous service to its customers. Customers are billed on a quarterly basis in January, April, July and October of each year, for the quarters ending December, March, June and September, respectively. The Authority's policy of placing a lien against all delinquent customer (over 90 days past due) accounts results in the collection of substantially all accounts receivable balances. The Authority recognizes any uncollectible amounts at the time that they are deemed uncollectible. As a result, no allowance for uncollectible accounts has been provided.

LOWER PROVIDENCE TOWNSHIP SEWER AUTHORITY  
(A Component Unit of Lower Providence Township, Pennsylvania)

Notes to Financial Statements

June 30, 2020

**NOTE 1. Summary of Significant Accounting Policies (Continued)**

Capital Assets

Capital assets are stated at cost if purchased or fair market value at the time of contribution to the Authority if donated. Construction in progress is not depreciated. When the construction project is complete, the related cost is transferred to the plant and equipment account. Additions and improvements are capitalized and depreciated. Expenditures for maintenance, repairs and minor replacements are expensed as incurred. Replacements and betterments which increase the service capacity or prolong the service life beyond that originally contemplated are capitalized. Upon retirement or disposal, the cost of the asset and the related allowance for depreciation are removed from the respective accounts, and any gain or loss is included in the statement of revenues, expenses and changes in the net position in the accompanying financial statements.

Depreciation is computed using the straight-line and double declining balance methods over the estimated useful lives of the respective assets as follows:

Sewer system	15-40 years
Garage building	10-30 years
Furniture and equipment	5-10 years

The minimum capitalization threshold is an individual item with a cost in excess of \$5,000 and a useful life in excess of one year.

Capital Contributions

Upon completion of a development by a developer, the sewer infrastructures are dedicated to the Authority and recorded as dedication of infrastructure and depreciated over their estimated useful lives. Capital contributions totaled \$321,567 and \$342,432 for the years ended June 30, 2020 and 2019, respectively. Contributed capital is recorded as income in the year of dedication to the Authority.

Net Position

Net position comprises the various net earnings from operating and nonoperating revenues, expenses and contributions of capital. Net position is classified in the following components: net investment in capital assets; restricted for capital activity; and unrestricted.

Net investment in capital assets consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets.

LOWER PROVIDENCE TOWNSHIP SEWER AUTHORITY  
(A Component Unit of Lower Providence Township, Pennsylvania)

Notes to Financial Statements

June 30, 2020

**NOTE 1. Summary of Significant Accounting Policies (Continued)**

Net Position (continued)

Net position restricted for capital activity consists of cash and cash equivalents restricted to fund capital improvements.

Unrestricted net position consists of all other assets not included in the above categories.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period or periods and so will not be recognized as an outflow of resource (expense/expenditure) until that time.

In addition to liabilities, the statement of financial position will sometimes report a separate section of deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period or periods and so will not be recognized as an inflow of resources (revenues) until that time.

Revenue Recognition

The Authority distinguishes between operating revenues and expenses from nonoperating items. Operating revenues and expense generally result from providing services in connection with the Authority's ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

For expenses that could be paid by either restricted or unrestricted resources, it is the Authority's policy to use restricted revenues first, and then unrestricted resources as they are needed.

Revenues and Rate Structure

Revenues from services are recognized on the accrual basis as earned. Services are supplied to customers under a rate structure designed to produce revenues sufficient to provide for operating and maintenance costs, capital outlay, and debt coverage.

LOWER PROVIDENCE TOWNSHIP SEWER AUTHORITY  
(A Component Unit of Lower Providence Township, Pennsylvania)

Notes to Financial Statements

June 30, 2020

**NOTE 1. Summary of Significant Accounting Policies (Continued)**

Subsequent Events

Management had evaluated subsequent events through the date of this report, which is the date the financial statements were available to be issued. In December 2019, a novel strain of coronavirus (COVID-19) surfaced. The spread of COVID-19 around the world in the first quarter of 2020 has caused significant volatility in U.S. and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies and, as such, the Authority is unable to determine if it will have a material impact to its operations.

Reclassifications

Certain reclassifications have been made to the prior year financial statements in order for them to be in conformity with the current year presentation.

Comparative Information

The financial statements include certain prior period summarized information in total. Such information does not include sufficient detail to constitute a presentation in conformity with accounting policies generally accepted in the United States of America, because the management discussion and analysis presented for two years only. Accordingly, such information should be read in conjunction with the Authority's financial statements for the year ended June 30, 2019, from which the summarized information was derived.

New Accounting Pronouncements

*GASB Codification Section L20, Leases (GASB 87)*: GASB 87 substantially changes current accounting procedures regarding lease accounting and offers specific accounting guidance for lessees, lessors and sale-leaseback transactions. GASB 87 establishes a right-of-use ("ROU") model that requires lessees to record a ROU asset and lease liability in the statement of financial position for all leases with terms longer than 12 months (the standard may optionally be applied to leases with terms of 12 months or less). Leases will be classified as either finance leases or operating leases depending on the characteristics of the lease; consistent with current accounting procedures, the recognition, measurement and presentation of expenses and cash flows arising from the lease will depend on the lease classification. This statement is expected to have an implementation date for fiscal years beginning after June 15, 2021.

LOWER PROVIDENCE TOWNSHIP SEWER AUTHORITY  
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June 30, 2020

**NOTE 2. Budgets and Budgetary Accounting**

Annual budgets are adopted on the cash basis of accounting.

The Authority follows these procedures in establishing the budget:

1. During May, a preliminary budget is presented.
2. In June, the final budget is adopted.
3. All budget revisions require the approval of the Authority Board.
4. Budgetary control is maintained at the account level.
5. The budget is adopted on the cash basis of accounting. All appropriations lapse at year end.

**NOTE 3. Cash and Deposits**

State law allows the Authority to invest in obligations of the United States of America, the Commonwealth of Pennsylvania, or any agency or instrumentality of either, which are secured by the full faith and credit of such entity. The law also allows for the Authority to invest in certificates of deposit of banks, savings and loans, and savings banks both within and outside the Commonwealth of Pennsylvania, provided such amounts are insured by the Federal Deposit Insurance Corporation (FDIC) or other like insurance, and that deposits in excess of such insurance are collateralized by the depository. The state also imposes limitations with respect to the amount of investment in certificates of deposit to the extent that such deposits may not exceed 20% of a bank's total capital surplus or 20% of a savings and loans or savings bank's assets, net of its liabilities. The Authority may also invest in shares of registered investment companies, provided that investments of the Authority are authorized investments, as noted above.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned to it. Deposits are insured under Act 72 of the 1971 Session of the Pennsylvania General Assembly, whereby financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of NCUA limits. The Authority does not have a deposit policy for custodial credit risk.

As of June 30, 2020, the carrying amount of the Authority's bank balance was \$10,687,079. Of the bank balance, \$250,000 was covered by depository insurance. Any balances exceeding depository insurance are exposed to custodial credit risk because it is uninsured and collateralized with securities held by the pledging institution's trust department or agent, but not in the Authority's name.

**LOWER PROVIDENCE TOWNSHIP SEWER AUTHORITY**  
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Notes to Financial Statements

June 30, 2020

**NOTE 4. Escrow Developer Accounts**

The Authority enters into professional service agreements with various real estate owners whereby each owner deposits funds with the Authority, the proceeds of which would be used to pay engineering, legal, and other administrative costs incurred relating to the owner's request to be connected to the Authority's sewage collection system. Unused deposits from real estate owners totaled \$19,297 at June 30, 2020.

In addition, the Authority has received deposits from certain property owners for the future purchase of additional sewer capacity. Capacity escrow deposits totaled \$133,588 at June 30, 2020.

**NOTE 5. Capital Assets**

Capital asset activity for the year ended June 30, 2020 was as follows:

	Balance June 30, <u>2019</u>	<u>Additions</u>	<u>Deletions</u>	Balance June 30, <u>2020</u>
Capital Assets Being Depreciated				
Sewer System	\$ 36,777,794	\$ -	\$ -	\$ 36,777,794
Garage Building	287,504	-	-	287,504
Equipment and Office Furniture	427,742	-	-	427,742
Total Capital Assets Being Depreciated	<u>37,493,040</u>	<u>-</u>	<u>-</u>	<u>37,493,040</u>
Less Accumulated Depreciation				
Sewer System	(17,715,753)	(768,082)	-	(18,483,835)
Garage Building	(222,074)	(5,565)	-	(227,639)
Equipment and Office Furniture	(392,867)	(6,585)	-	(399,452)
Total Accumulated Depreciation	<u>(18,330,694)</u>	<u>(780,232)</u>	<u>-</u>	<u>(19,110,926)</u>
Capital Assets Being Depreciated, net	<u>19,162,346</u>	<u>(780,232)</u>	<u>-</u>	<u>18,382,114</u>
Total Capital Assets, net	<u>\$ 19,162,346</u>	<u>\$ (780,232)</u>	<u>\$ -</u>	<u>\$ 18,382,114</u>

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**NOTE 6. Notes Receivable**

Notes receivable consists of non-interest bearing notes related to connection fees due from property owners. The notes call for quarterly installments. No payments were received during the year ended June 30, 2020.

**NOTE 7. Compensated Absences**

The Authority provides eligible employees annual leave upon completion of six months of employment. No more than five days of vacation may be carried over to the following fiscal year. An employee that separates from employment are compensated for any unused annual leave. Employees also accumulate sick leave at the rate of one half day per month of service up to a maximum of thirty (30) days. Sick leave does not vest and is lost upon termination of employment. Compensated absences totaled \$5,517 at June 30, 2020.

**NOTE 8. Long-Term Debt**

Guaranteed Sewer Revenue Bonds, Series of 2006

On May 1, 2006, the Authority authorized the issuance of Guaranteed Sewer Revenue Bonds, Series of 2006, totaling \$11,510,000. The purpose of the issue was to finance the refunding of the outstanding Guaranteed Sewer Revenue Bonds, Series of 1995. These bonds were issued pursuant to and secured by the Authority's Trust Indenture dated April 15, 2006.

The Series of 2006 bonds are dated May 1, 2006, and pay interest semi-annually on May 1 and November 1 of each year until maturity or redemption. The bonds carry interest rates ranging from 3.75% to 5.00%. They mature on various dates between May 1, 2007 and May 1, 2022. The bonds maturing on and after May 1, 2020, are subject to redemption prior to maturity on May 1, 2020. The Series of 2006 Bonds outstanding on May 1, 2016 were refunded on that date.

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Notes to Financial Statements

June 30, 2020

**NOTE 8. Long-Term Debt (Continued)**

Guaranteed Sewer Revenue Notes, Series of 2016

On April 25, 2016, the Authority authorized the issuance of Guaranteed Sewer Revenue Notes, Series of 2016, totaling \$4,245,000. The purpose of the issue was to finance the refunding of the outstanding Guaranteed Sewer Revenue Bonds, Series of 2006.

The Series of 2016 notes are dated April 25, 2016, and pay interest monthly at the rate of 1.527% per annum until maturity or redemption. They mature on various dates between April 25, 2017 and April 25, 2022.

Guaranteed Sewer Revenue Notes, Series of 2020

In June of 2020, the Authority authorized the issuance of Guaranteed Sewer Revenue Notes, Series of 2020, totaling \$10,000,000. The purpose of the issue was to finance future capital projects.

The Series of 2020 notes are dated June 12, 2020, and pay interest semi-annually at the rate of 1.325% per annum until maturity or redemption. They mature on various dates between June 2020 and May 2050.

Changes in long term debt for 2020 are as follows:

	Balance			Balance	Due Within
	<u>June 30, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2020</u>	<u>One Year</u>
Sewer Revenue Notes	\$ 2,166,000	\$ 10,000,000	\$ (712,000)	\$ 11,454,000	\$ 723,000
Premium on Issuance	<u>22,134</u>	<u>-</u>	<u>(7,812)</u>	<u>14,322</u>	<u>-</u>
Total Notes Payable	2,188,134	10,000,000	(719,812)	11,468,322	723,000
Net Pension Liability	229,559	-	-	229,559	-
Compensated Absences	<u>6,435</u>	<u>-</u>	<u>(918)</u>	<u>5,517</u>	<u>-</u>
	<u>\$ 2,424,128</u>	<u>\$ 10,000,000</u>	<u>\$ (720,730)</u>	<u>\$ 11,703,398</u>	<u>\$ 723,000</u>

**LOWER PROVIDENCE TOWNSHIP SEWER AUTHORITY**  
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Notes to Financial Statements

June 30, 2020

**NOTE 8. Long-Term Debt (Continued)**

Aggregate maturities on long term debt as of June 30, 2020 are as follows:

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 723,000	\$ 152,864	\$ 875,864
2022	733,000	141,800	874,800
2023	297,000	132,146	429,146
2024	301,000	128,206	429,206
2025	305,000	124,213	429,213
2026-2030	1,586,000	559,321	2,145,321
2031-2035	1,694,000	451,307	2,145,307
2036-2040	1,811,000	335,918	2,146,918
2041-2045	1,935,000	212,514	2,147,514
2046-2050	2,069,000	80,686	2,149,686
	<u>\$ 11,454,000</u>	<u>\$ 2,318,975</u>	<u>\$ 13,772,975</u>

**NOTE 9. Deferred Loss on Refunding**

Series of 1992

On May 1, 1992, the Authority authorized the issuance of sewer revenue bonds in the amount of \$11,800,000. During the year ended June 30, 1996, the Authority authorized the issuance of the Guaranteed Sewer Revenue Bonds, Series of 1995. A portion of the proceeds of the 1995 issuance was used to finance the advanced refunding of the outstanding Guaranteed Sewer Revenue Bonds, Series of 1992 maturing on or after May 1, 2003. The advanced refunding resulted in a deferred loss on debt refunding of \$1,125,202.

This deferred loss is being amortized over the original remaining life of the refunded debt. Amortization totaled \$43,277 for the year ended June 30, 2020.

Series of 1995

During the year ended June 30, 2006, the Authority authorized the issuance of the Guaranteed Sewer Revenue Bonds, Series of 2006. The proceeds of the 2006 issuance were used to finance the current refunding of the outstanding Guaranteed Sewer Revenue Bonds, Series of 1995 maturing on or after May 1, 2006. The refunding resulted in a deferred loss on debt refunding of \$589,582.

This deferred loss is being amortized over the original remaining life of the refunded debt. Amortization is included as a component of interest expense and totaled \$36,849 for the year ended June 30, 2020.

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June 30, 2020

**NOTE 10. Commitments and Contingencies**

The Authority is exposed to various kinds of loss related to limited torts, theft of and damage to and destruction of assets, errors and omissions; and natural disasters for which it is covered by insurance.

The Authority is party to various legal proceedings which occur in the ordinary course of operations. While the outcome of these cannot be predicted, the Authority is covered by insurance for these matters.

**NOTE 11. Pension Plan**

The information included in this note is based on information provided by PMRS as of the measurement date December 31, 2018, utilizing the January 1, 2017 actuarial valuation and has not been updated for the most recent financial statements as the information is not available from PMRS.

**Plan Description**

General: The Lower Providence Township Sewer Authority pension plan is a single-employer defined benefit pension plan controlled by the provisions of Resolution No. 2003-01 adopted pursuant to Act 15 of 1974. The Authority's plan is administered by the Pennsylvania Municipal Retirement System ("PMRS"), a statewide local government system. PMRS is an agent, multiple-employer system with the purpose to administer sound, cost-effective pensions for local government employees. PMRS consists of over 900 participating employer plans. Responsibility for the organization and administration of the system is vested in the eleven-member Pennsylvania Municipal Retirement Board including the State Treasurer and Secretary of the Commonwealth by virtue of statute, and eight other members appointed by the Governor based on their respective organizations. PMRS issues a separate Comprehensive Annual Financial Report ("CAFR"). A copy of the CAFR can be obtained by contacting the PMRS Accounting Office, P.O. Box 1165, Harrisburg, PA 17108-1165.

The Plan is a contributory, single employer defined benefit plan that covers all regular, full-time employees, excluding sworn police officers, who join the Plan after a 90-day probationary period.

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June 30, 2020

**NOTE 11. Pension Plan (Continued)**

The following table provides information concerning types of covered employees:

Inactive employees (or their beneficiaries) currently receiving benefits	7
Inactive employees entitled to benefits but not yet receiving them	-
Active employees	<u>5</u>
Total members	<u>12</u>

Benefit Provisions: The Plan provides retirement, disability and death benefits to Plan members and their beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 60. Early retirement is available to members with 15 years of credited service with reduced benefits. The death benefit is one of the following: If eligible to retire at the time of death, beneficiary receives the present value of accrued benefits. At retirement, member may select a survivor benefit. Cost-of-living allowances are provided at the discretion of the Plan.

**Summary of Significant Accounting Policies**

Basis of Accounting: Pension Plan financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Employer and member contributions are recognized as when due pursuant to formal commitments, as well as statutory or contractual requirements. Investment income is recognized as revenue when earned. Retirement benefits and refunds are recognized when due and payable in accordance with terms of the plan. Other expenses are recognized when the corresponding liabilities are incurred. The net appreciation/(depreciation) in fair value of investments is recorded as an increase/(decrease) to investment income based on the valuation of investments. The entire expense of plan administration is charged against the earnings of the plan. Investment earnings are reduced for investment management fees, portfolio evaluation, custodial services, and actuarial services, as required by State statutes.

Method Used to Value Investments: Investments are reported at fair value. The Plan's assets with PMRS are pooled for investment purposes and, therefore, do not represent specific identifiable investment securities. Disclosures required by Statement No. 3 of the Governmental Accounting Standards Board for aggregate PMRS investments are included in PMRS's separately issued CAFR.

LOWER PROVIDENCE TOWNSHIP SEWER AUTHORITY  
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Notes to Financial Statements

June 30, 2020

**NOTE 11. Pension Plan (Continued)**

Contributions: Act 205 requires that annual contributions be based upon the plan's Minimum Municipal Obligation (MMO). The MMO is based upon the plan's biennial actuarial valuation. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

In accordance with the plan's governing Resolution, members are not required to contribute to the plan. Administrative costs, including the investment manager, custodial trustee, and actuarial services are charged to the plan and funded through investment earnings.

**Net Pension Liability**

The Authority's net pension liability is measured as the total pension liability, less the pension plan's fiduciary net position. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

The components of the net pension liability of participating entities for the Measurement Date of December 31, 2018, were as follows:

Total pension liability	\$ 2,176,442
Plan fiduciary net position	<u>(1,946,883)</u>
Net pension liability	<u>\$ 229,559</u>

Plan fiduciary net position as a percentage of the total pension liability	89%
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Actuarial Assumptions: The total pension liabilities in the actuarial valuations were determined using the following actuarial assumptions:

The Plan uses the entry age, normal actuarial cost method. The actuarial assumptions included (a) 5.50 percent investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 2.8-7.05% percent per year, inflation rate of 3.0%.

Mortality rates were based on the RP 2000 Healthy Annuity Table with a 1-year setback for males and 5-year setback for females.

LOWER PROVIDENCE TOWNSHIP SEWER AUTHORITY  
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Notes to Financial Statements

June 30, 2020

**NOTE 11. Pension Plan (Continued)**

The current mortality assumptions, while not reflecting projections for improvements as recommended under Actuarial Standard of Practice No. 35 are subject to experience review every four years at which time the Plan receives recommendations of changes to reflect changes in the experience over those expected from the tables applied over the five-year period preceding the experience analysis. Such experience review is required by State statute.

In addition, the retired life reserves measure by PMRS is annually reviewed against the actuarial liability for retirees to ensure they are within a reasonable level of difference which has proven to remain consistent year by year as a reflection of the effectiveness of the reserves and the underlying actuarial assumption for mortality.

**Long-term Expected Rate of Return on Plan Assets**

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. These ranges are combined to produce the Long-Term Expected Rate of Return, by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

PMRS has not performed a formal cash flow projection but has applied an alternative method to confirm the sufficiency of the pension plan's projected Net Position. The result would be greater than or equal to the benefit payments projected for each future period. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic Equity (large cap)	25%	4.6%
Domestic Equity (small cap)	15%	7.3%
International Equity(developed markets)	15%	3.5%
International Equity (emerging markets)	10%	8.3%
Fixed Income	15%	5.4%
Real Estate	20%	1.1%

LOWER PROVIDENCE TOWNSHIP SEWER AUTHORITY  
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Notes to Financial Statements

June 30, 2020

**NOTE 11. Pension Plan (Continued)**

Based on the analysis, the Board established the System's Long-Term Expected Rate of Return at 7.0%.

In addition to determining the System's Long-Term Expected Rate of Return, PMRS, under the laws of the Commonwealth of Pennsylvania (Act 15 of 1974), is obligated to develop and apply the Regular Interest Rate to each of the individual participating municipalities' actuarial asset accounts held by PMRS.

Investments

*Investment Policy:* The pensions plan's policy in regard to the allocation of invested assets is established and may be amended by the Pennsylvania Municipals Retirement System (PMRS). The policy is to pursue an investment strategy that reduces risk through prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans.

*Rate of Return:* For the measurement date of December 31, 2018, the annual money-weighted rate of return on Plan investments, net of investment expense was -4.57 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for changing amounts actually invested.

LOWER PROVIDENCE TOWNSHIP SEWER AUTHORITY  
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Notes to Financial Statements

June 30, 2020

**NOTE 11. Pension Plan (Continued)**

**Changes in Net Pension Liability**

	Increase (Decrease)		
	Total Pension <u>Liability</u>	Plan Fiduciary <u>Net Position</u>	Net Pension <u>Liability</u>
Balance at December 31, 2017	\$ 1,968,627	\$ 2,030,850	\$ (62,223)
Changes for the year:			
Service cost	45,528	-	45,528
Interest	103,004	-	103,004
Change of benefit terms	-	-	-
Differences between expected and actual experience	164,972	-	164,972
Change of assumptions	-	-	-
Contributions - employer	-	73,598	(73,598)
Contributions - employee	-	-	-
Net investment income	-	(47,121)	47,121
Benefit payments, including refunds of employee contributions	(105,689)	(105,689)	-
Administrative expense	-	(4,755)	4,755
Other changes	-	-	-
Net Changes	207,815	(83,967)	291,782
Balance at December 31, 2018	\$ 2,176,442	\$ 1,946,883	\$ 229,559

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate:* The following presents the net pension liability of participating entities calculated using the discount rate as well as what the net pension liability would be if it were calculated using a discount rate 1-percentage –point lower or 1-percentage-point higher than the current rate:

	1%	Current	1%
	Decrease	Discount	Increase
	<u>(4.25%)</u>	<u>Rate (5.25%)</u>	<u>(6.25%)</u>
Net pension liability	\$ 462,671	\$ 229,559	\$ 27,196

LOWER PROVIDENCE TOWNSHIP SEWER AUTHORITY  
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Notes to Financial Statements

June 30, 2020

**NOTE 11. Pension Plan (Continued)**

*Deferred Outflows and Inflows of Resources:* For the year ended June 30, 2019, the Authority recognized pension expense of \$116,154. At June 30, 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
	<u>of Resources</u>	<u>of Resources</u>
Differences between expected and actual experience	\$ 130,351	\$ -
Changes in assumptions	21,076	-
Net difference between projected and actual earnings on pension plan investments	1,045	-
Contribution after the measurement date	<u>49,633</u>	<u>-</u>
Total	<u>\$ 202,105</u>	<u>\$ -</u>

The \$49,633 reported as deferred outflows of resources related to contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the measurement period ended December 31, 2019. The remaining amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows:

<u>Year Ended</u> <u>December 31:</u>		
2019	\$	67,014
2020		22,814
2021		32,898
2022		29,746
2023		-
Thereafter		<u>-</u>
Total	\$	<u>152,472</u>

LOWER PROVIDENCE TOWNSHIP SEWER AUTHORITY  
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Notes to Financial Statements

June 30, 2020

**NOTE 12. Sewer Billing Dispute Settlement**

In August 2015 the Lower Perkiomen Valley Regional Sewer Authority (LPVRSAs) advised both the Authority and its customer that it was changing the way that the customer would be billed for both EDUs and treatment charges. The Authority then advised its customer that it would also begin billing according to the revised billing established by the LPVRSAs for both EDUs and conveyancing charges. The customer filed a lawsuit disputing the formula used by both the Authority and the LPVRSAs for sewer capacity, conveyancing and treatment charges. The customer contended that their usage is considerably less than the standard EDU/UFU rate of 200 gallons per day. The customer paid EDU fees under protest and withheld payment of the disputed conveyancing and treatment charges and late fees since August 2015. The Authority and the LPVRSAs filed counterclaims for the underpayments.

The dispute was resolved effective October 1, 2019 so that the customer will be permitted to continue to purchase EDUs from both the Authority and LPVRSAs at the historical amounts (in effect since the customer's development was originally approved); and be required to pay for ongoing quarterly collection, transportation and treatment charges at the newly established rate which is at the full rate for each residential apartment. This settlement resulted in the customer receiving a credit for the purchase of extra EDUs from both the Authority and LPVRSAs. The Authority will receive a reduced payment from the customer for disputed treatment charges plus a penalty; and the Authority will receive a credit from the LPVRSAs for the difference between the amounts paid by the Authority at the original rate and the adjusted rates due to the LPVRSAs based upon the settlement terms for the period from August 2015 through September 2019. Beginning with the fourth quarter 2019, the customer, Authority and LPVRSAs are in agreement as to the correct billing for customer's use and development.

As a result of the settlement agreement the Authority has recognized a charge to operations in the amount of \$362,418 and recorded an amount due from LPVRSAs of \$244,527.

REQUIRED SUPPLEMENTARY INFORMATION

**LOWER PROVIDENCE TOWNSHIP SEWER AUTHORITY**  
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**REQUIRED SUPPLEMENTARY INFORMATION**

**Schedule of Changes in Net Pension Liability and Related Ratios**

	Measurement year ending December 31,				
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Total pension liability</b>					
Service cost	\$ 45,528	\$ 46,342	\$ 47,006	\$ 42,764	\$ 42,186
Interest	103,004	100,378	97,494	90,929	87,704
Changes of benefit terms	-	-	-	-	-
Differences between expected and actual experience	164,972	-	26,494	-	(4,859)
Changes of assumptions	-	-	45,580	48,405	-
Benefit payments, including refunds of employee contributions	<u>(105,689)</u>	<u>(86,335)</u>	<u>(66,981)</u>	<u>(66,981)</u>	<u>(66,981)</u>
Net change in total pension liability	207,815	60,385	149,593	115,117	58,050
Total pension liability - beginning	<u>1,968,627</u>	<u>1,908,242</u>	<u>1,758,649</u>	<u>1,643,532</u>	<u>1,585,482</u>
Total pension liability - ending (a)	<u>\$ 2,176,442</u>	<u>\$ 1,968,627</u>	<u>\$ 1,908,242</u>	<u>\$ 1,758,649</u>	<u>\$ 1,643,532</u>
<b>Plan fiduciary net position</b>					
Contributions - employer	\$ 73,598	\$ 82,379	\$ 83,837	\$ 82,639	\$ 77,280
Contributions - employee	-	-	-	-	-
Net investment income	(47,121)	289,120	147,232	7,640	91,890
Benefit payments, including refunds of employee contributions	(105,689)	(86,335)	(66,981)	(66,981)	(66,981)
Administrative expense	(4,755)	(4,757)	(4,963)	(3,978)	(3,444)
Other	-	-	-	-	-
Net change in plan fiduciary net position	<u>(83,967)</u>	<u>280,407</u>	<u>159,125</u>	<u>19,320</u>	<u>98,745</u>
<b>Plan fiduciary net position - beginning</b>	<u>2,030,850</u>	<u>1,750,443</u>	<u>1,591,318</u>	<u>1,571,998</u>	<u>1,473,253</u>
<b>Plan fiduciary net position - ending (b)</b>	<u>\$ 1,946,883</u>	<u>\$ 2,030,850</u>	<u>\$ 1,750,443</u>	<u>\$ 1,591,318</u>	<u>\$ 1,571,998</u>
<b>Authority's net pension liability - ending (a)-(b)</b>	<u>\$ 229,559</u>	<u>\$ (62,223)</u>	<u>\$ 157,799</u>	<u>\$ 167,331</u>	<u>\$ 71,534</u>
Plan fiduciary net position as a percentage of the total pension liability	89.5%	103.2%	91.7%	90.5%	95.6%
Covered payroll	\$ 342,547	\$ 348,674	\$ 372,201	\$ 343,960	\$ 338,833

LOWER PROVIDENCE TOWNSHIP SEWER AUTHORITY  
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REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Employer Contributions

Fiscal Year	Actuarially determined Contribution	Actual Employer Contribution	Contribution deficiency (excess)	Covered Payroll	Contributions as a % of Covered Payroll
2014	\$ 77,280	\$ 77,280	\$ -	\$ 338,833	22.8%
2015	82,639	82,639	-	343,960	24.0%
2016	83,837	83,837	-	372,201	22.5%
2017	82,379	82,379	-	348,674	23.6%
2018	35,291	73,598	(38,307)	342,547	21.5%

**Notes to Schedule:**

Actuarially determined contribution rates are calculated as of January 1, two years to four years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Valuation date	1/1/2015
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar based on the amortization periods in Act 205
Remaining amortization period	7 years
Asset valuation method	Based on the municipal reserves
Inflation	3%
Salary increases	4%
Investment rate of return	5.5%
Retirement age	Normal Retirement Age
Mortality	Males-RP 2000 Table with 1 year setback, Females RP 2000 with 5 year set back.

Change in benefit terms: None since 1/1/2015

Actuarial assumptions were updated for the January 1, 2017 actuarial valuations, which is used to determine the Minimum Municipal Obligations for 2019 and 2020, based on the PMRS experience study for the five year period of January 1, 2009 - December 31, 2013 and the annual Board's review of the Regular Interest Rate.

**Other Information**

Plan Changes: Please refer to the Plan's Act 205 filing for prior year plan changes.

Assumption Changes: Effective with the December 31, 2016 measurement date, the Investment Return Assumption for Municipal assets decreased from 5.50% to 5.25%.

## SUPPLEMENTARY INFORMATION

LOWER PROVIDENCE TOWNSHIP SEWER AUTHORITY  
(A Component Unit of Lower Providence Township, Pennsylvania)

SUPPLEMENTARY INFORMATION

Schedules of Sewer System Expenses

	<u>2020</u>	<u>2019</u>
Consulting Fee - Engineer	\$ 12,960	\$ 29,121
Electric and Water - Pumping Stations	53,439	60,107
Employee Benefits	82,978	48,852
Inflow/Infiltration Abatement	-	12,912
Miscellaneous Operating Expenses	10,740	9,277
Payroll Taxes	24,640	16,562
Salaries - Operators	303,365	199,446
Sewer Maintenance and Repairs	71,958	129,918
Treatment Charges	2,292,380	2,117,272
Truck Expenses	16,253	12,836
Total Sewer System Expenses	<u>\$ 2,868,713</u>	<u>\$ 2,636,303</u>

Schedules of Administrative Expenses

	<u>2020</u>	<u>2019</u>
Auditing and Accounting	\$ 9,300	\$ 11,100
Authority Board Members' Compensation	10,400	9,400
Billing and Collections Service	23,812	23,756
Building Operations and Maintenance	230,374	8,612
Employees' Benefits	31,657	46,821
Employees' Pension Plan	55,223	116,154
Health and Safety	6,958	6,342
Insurance	32,960	44,138
Legal	81,071	67,566
Office Supplies	15,178	9,189
Operator Training	3,076	1,155
Payroll Taxes	9,400	17,133
Salaries - Office	105,790	197,000
Telephone	17,742	17,703
Total Administrative Expenses	<u>\$ 632,941</u>	<u>\$ 576,069</u>