

***PENNSYLVANIA MUNICIPAL LEAGUE***

***YEARS ENDED  
DECEMBER 31, 2018 AND 2017***



## Independent Auditors' Report

Board of Directors  
Pennsylvania Municipal League  
Harrisburg, Pennsylvania

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

We have audited the accompanying financial statements of Pennsylvania Municipal League (the League), which comprise the statements of financial position as of December 31, 2018 and 2017 and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended and the related notes to the financial statements.

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

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

### **Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 auditors consider internal control relevant to the League'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 League'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 more fully discussed in Note 7 of the financial statements, the League has not determined the cost of its defined benefit pension plan in accordance with accounting principles generally accepted in the United States of America, which require the cost of employees' pensions to be recognized over the employees' respective service periods and a net pension asset or liability to be recognized based on the projected benefit obligation and the fair value of plan assets. Quantification of the effects of that departure on the financial statements is not practicable.

### **Qualified Opinion**

In our opinion, except for the effects of the matter discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Pennsylvania Municipal League as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Brown Schultz Steindler & Fritz*

Camp Hill, Pennsylvania  
July 22, 2019

**PENNSYLVANIA MUNICIPAL LEAGUE**

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2018 AND 2017

ASSETS

	<u>2018</u>	<u>2017</u>
Current assets:		
Cash	\$ 97,878	\$ 90,027
Accounts receivable:		
Affiliates	1,450,052	1,243,987
Other	587,724	403,466
Prepays	<u>40,318</u>	<u>62,606</u>
Total current assets	<u>2,175,972</u>	<u>1,800,086</u>
Property and equipment:		
Land and land improvements	386,888	386,888
Building	643,500	643,500
Improvements	1,194,698	1,075,543
Office equipment and furniture	402,532	400,137
Automobiles	168,477	168,477
Construction in process	<u>338,446</u>	<u>338,446</u>
	3,134,541	3,012,991
Accumulated depreciation	<u>(1,808,095)</u>	<u>(1,675,376)</u>
	<u>1,326,446</u>	<u>1,337,615</u>
Total assets	<u><u>\$ 3,502,418</u></u>	<u><u>\$ 3,137,701</u></u>

See notes to financial statements.

**PENNSYLVANIA MUNICIPAL LEAGUE**

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2018 AND 2017

LIABILITIES AND NET ASSETS

	<u>2018</u>	<u>2017</u>
Current liabilities:		
Current maturities of long-term debt		\$ 95,650
Accounts payable:		
Affiliates	\$ 145,297	
Other	176,640	141,606
Accrued:		
Payroll	48,412	39,716
Payroll taxes and withholdings	3,677	7,911
Deferred revenue	<u>232,364</u>	<u>323,932</u>
Total current liabilities	<u>606,390</u>	<u>608,815</u>
Long-term liabilities:		
Long-term debt, less current maturities		39,435
Accrued compensated absences	<u>184,634</u>	<u>175,920</u>
Total long-term liabilities	<u>184,634</u>	<u>215,355</u>
Total liabilities	<u>791,024</u>	<u>824,170</u>
Net assets:		
Without donor restrictions	2,671,894	2,313,531
With donor restrictions	<u>39,500</u>	
Total net assets	<u>2,711,394</u>	<u>2,313,531</u>
Total liabilities and net assets	<u>\$ 3,502,418</u>	<u>\$ 3,137,701</u>

See notes to financial statements.

**PENNSYLVANIA MUNICIPAL LEAGUE**

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

YEAR ENDED DECEMBER 31, 2018

	Without donor restrictions	With donor restrictions	Total
Revenues and other support:			
Member dues	\$ 734,261		\$ 734,261
Associate dues	17,350		17,350
Annual convention	112,415		112,415
Other grants	33,000		33,000
Contracted training	1,357,571		1,357,571
Trust programs	1,628,009		1,628,009
Group program service fees	814,330		814,330
Workshops	13,215		13,215
Secretariat services	135,977		135,977
Publications	14,737		14,737
Other	6,108	\$ 45,000	51,108
Net assets released from donor restrictions	5,500	(5,500)	-
	4,872,473	39,500	4,911,973
Expenses:			
Program services:			
Annual summit and workshops	335,758		335,758
Trust programs	767,041		767,041
Group programs	253,975		253,975
Legislative services and research	233,016		233,016
Secretariat	182,207		182,207
Communications	264,187		264,187
Contracted training	1,010,595		1,010,595
Management and general:			
Board of directors and district operations	72,166		72,166
General management and operations	1,395,165		1,395,165
	4,514,110		4,514,110
Change in net assets	358,363	39,500	397,863
Net assets:			
Beginning of year	2,313,531		2,313,531
End of year	\$ 2,671,894	\$ 39,500	\$ 2,711,394

See notes to financial statements.

**PENNSYLVANIA MUNICIPAL LEAGUE**

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

YEAR ENDED DECEMBER 31, 2017

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Revenues and other support:			
Member dues	\$ 728,274		\$ 728,274
Associate dues	15,400		15,400
Annual convention	91,065		91,065
Contracted training	1,366,704		1,366,704
Trust programs	1,730,377		1,730,377
Group program service fees	757,520		757,520
Workshops	11,715		11,715
Secretariat services	138,555		138,555
Publications	12,607		12,607
Other	<u>23,670</u>		<u>23,670</u>
Total revenues and other support	<u>4,875,887</u>		<u>4,875,887</u>
Expenses:			
Program services:			
Annual summit and workshops	257,262		257,262
Trust programs	807,652		807,652
Group programs	251,452		251,452
Legislative services and research	230,949		230,949
Secretariat	188,830		188,830
Communications	238,518		238,518
Contracted training	971,017		971,017
Management and general:			
Board of directors and district operations	66,692		66,692
General management and operations	<u>1,331,675</u>		<u>1,331,675</u>
Total expenses	<u>4,344,047</u>		<u>4,344,047</u>
Change in net assets	531,840		531,840
Net assets:			
Beginning of year	<u>1,781,691</u>		<u>1,781,691</u>
End of year	<u>\$ 2,313,531</u>		<u>\$ 2,313,531</u>

See notes to financial statements.

**PENNSYLVANIA MUNICIPAL LEAGUE**

**STATEMENT OF FUNCTIONAL EXPENSES**

**YEAR ENDED DECEMBER 31, 2018**

	Programs							Supporting services			Total	
	Annual summit and workshops	Trust programs	Group programs	Legislative services and research	Secretariat	Communications	Contracted training	Total programs	Board of directors and district operations	General management and operations		Total supporting services
Personnel and fringe benefits:												
Salaries	\$ 79,692	\$ 460,896	\$ 70,185	\$ 119,548	\$ 109,380	\$ 145,282	\$ 88,675	\$ 1,073,658	\$ 27,771	\$ 624,352	\$ 652,123	\$ 1,725,781
Social Security taxes	5,761	34,305	5,149	8,747	8,022	10,907	6,490	79,381	2,066	44,575	46,641	126,022
Pension	9,293	61,018	10,092	15,391	14,677	19,068	11,777	141,316	3,775	80,472	84,247	225,563
Employee insurance	14,026	90,954	15,124	23,147	21,548	28,505	17,493	210,797	5,287	135,176	140,463	351,260
Workers' compensation	183	2,237	346	539	628	646	438	5,017	278	2,505	2,783	7,800
Unemployment compensation	536	6,050	1,484	1,459	1,604	1,756	1,281	14,170	339	7,152	7,491	21,661
	<u>109,491</u>	<u>655,460</u>	<u>102,380</u>	<u>168,831</u>	<u>155,859</u>	<u>206,164</u>	<u>126,154</u>	<u>1,524,339</u>	<u>39,516</u>	<u>894,232</u>	<u>933,748</u>	<u>2,458,087</u>
Operating expenses:												
Telephone	713	5,692	831	5,212	1,227	2,359	976	17,010	351	12,818	13,169	30,179
Postage and shipping	405	2,620	386	673	635	816	486	6,021	262	3,367	3,629	9,650
Printing	4,684	1,614	8,930			15,308		30,536		23,099	23,099	53,635
Endorsement fees			32,025					32,025				32,025
Advertising and promotions	47,868			150		4,000		52,018		31,825	31,825	83,843
Dues and subscriptions	443			15,624				16,067		34,477	34,477	50,544
Meetings and travel	154,439	1,286	87,436	6,525	901			250,587	26,112	43,692	69,804	320,391
Professional service fees							859,691	859,691		72,042	72,042	931,733
Training and seminar						45		45		1,190	1,190	1,235
Legal fees			6,268	11,005				17,273		8,578	8,578	25,851
Business privilege tax										10,214	10,214	10,214
	<u>208,552</u>	<u>11,212</u>	<u>135,876</u>	<u>39,189</u>	<u>2,763</u>	<u>22,528</u>	<u>861,153</u>	<u>1,281,273</u>	<u>26,725</u>	<u>241,302</u>	<u>268,027</u>	<u>1,549,300</u>
Maintenance and supplies expenses:												
Computer expenses		2,084						2,084		84,823	84,823	86,907
Office/computer supplies	4,615	12,439	2,033	3,265	3,360	8,795	6,996	41,503	628	30,398	31,026	72,529
Office maintenance	2,188	13,602	2,181	3,485	3,175	4,295	2,593	31,519	771	18,232	19,003	50,522
Auto expense										29,459	29,459	29,459
	<u>6,803</u>	<u>28,125</u>	<u>4,214</u>	<u>6,750</u>	<u>6,535</u>	<u>13,090</u>	<u>9,589</u>	<u>75,106</u>	<u>1,399</u>	<u>162,912</u>	<u>164,311</u>	<u>239,417</u>

(continued)



**PENNSYLVANIA MUNICIPAL LEAGUE**

STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)

YEAR ENDED DECEMBER 31, 2018

	Programs							Supporting services			Total	
	Annual summit and workshops	Trust programs	Group programs	Legislative services and research	Secretariat	Communications	Contracted training	Total programs	Board of directors and district operations	General management and operations		Total supporting services
Physical plant expenses:												
Utilities-electric, steam, gas and water	\$ 1,099	\$ 6,474	\$ 1,021	\$ 1,647	\$ 1,505	\$ 2,060	\$ 1,235	\$ 15,041	\$ 349	\$ 8,825	\$ 9,174	\$ 24,215
Insurance	786	7,022	1,052	1,748	1,838	2,101	1,348	15,895	722	8,424	9,146	25,041
Repairs and maintenance, building	1,391	8,673	1,374	2,226	2,022	2,738	1,649	20,073	503	11,604	12,107	32,180
Real estate taxes	1,702	13,804	2,586	3,436	3,478	4,178	2,740	31,924	942	17,252	18,194	50,118
	<u>4,978</u>	<u>35,973</u>	<u>6,033</u>	<u>9,057</u>	<u>8,843</u>	<u>11,077</u>	<u>6,972</u>	<u>82,933</u>	<u>2,516</u>	<u>46,105</u>	<u>48,621</u>	<u>131,554</u>
Capital and other expenses:												
Interest expense		632						632		2,403	2,403	3,035
Depreciation expense	5,934	35,639	5,472	9,189	8,207	11,328	6,727	82,496	2,010	48,211	50,221	132,717
	<u>5,934</u>	<u>36,271</u>	<u>5,472</u>	<u>9,189</u>	<u>8,207</u>	<u>11,328</u>	<u>6,727</u>	<u>83,128</u>	<u>2,010</u>	<u>50,614</u>	<u>52,624</u>	<u>135,752</u>
Total expenses	<u>\$ 335,758</u>	<u>\$ 767,041</u>	<u>\$ 253,975</u>	<u>\$ 233,016</u>	<u>\$ 182,207</u>	<u>\$ 264,187</u>	<u>\$ 1,010,595</u>	<u>\$ 3,046,779</u>	<u>\$ 72,166</u>	<u>\$ 1,395,165</u>	<u>\$ 1,467,331</u>	<u>\$ 4,514,110</u>

See notes to financial statements.

**PENNSYLVANIA MUNICIPAL LEAGUE**

**STATEMENT OF FUNCTIONAL EXPENSES**

**YEARS ENDED DECEMBER 31, 2017**

	Programs							Supporting services			Total	
	Annual summit and workshops	Trust programs	Group programs	Legislative services and research	Secretariat	Communications	Contracted training	Total programs	Board of directors and district operations	General management and operations		Total supporting services
<b>Personnel and fringe benefits:</b>												
Salaries	\$ 61,748	\$ 469,941	\$ 83,251	\$ 119,746	\$ 109,193	\$ 126,649	\$ 82,934	\$ 1,053,462	\$ 22,325	\$ 590,421	\$ 612,746	\$ 1,666,208
Social Security taxes	4,468	34,595	6,145	8,822	8,038	9,301	6,119	77,488	1,665	43,450	45,115	122,603
Pension	7,391	62,012	12,405	15,607	14,790	16,272	10,963	139,440	3,083	76,471	79,554	218,994
Employee insurance	9,508	81,173	16,816	20,405	19,210	21,184	14,367	182,663	3,862	118,470	122,332	304,995
Workers' compensation	111	1,591	175	407	470	410	292	3,456	192	1,744	1,936	5,392
Unemployment compensation	578	7,511	2,324	1,777	1,961	1,753	1,321	17,225	384	8,581	8,965	26,190
	<u>83,804</u>	<u>656,823</u>	<u>121,116</u>	<u>166,764</u>	<u>153,662</u>	<u>175,569</u>	<u>115,996</u>	<u>1,473,734</u>	<u>31,511</u>	<u>839,137</u>	<u>870,648</u>	<u>2,344,382</u>
<b>Operating expenses:</b>												
Telephone	315	3,233	405	4,325	544	1,427	426	10,675	110	9,085	9,195	19,870
Postage and shipping	504	3,878	693	1,003	857	1,039	698	8,672	418	5,066	5,484	14,156
Printing	12,367	250	6,775	416	328	24,403		44,539	107	7,133	7,240	51,779
Endorsement fees		37,575						37,575				37,575
Advertising and promotions	46,871	776		850		4,000		52,497		7,892	7,892	60,389
Dues and subscriptions	280			16,637				16,917		35,290	35,290	52,207
Meetings and travel	100,181	2,170	101,810	3,567	9,879			217,607	29,892	43,231	73,123	290,730
Professional service fees			3,500	5,000			835,414	843,914		29,572	29,572	873,486
Training and seminar				190		87		277		1,469	1,469	1,746
Legal fees				6,283				6,283		41,403	41,403	47,686
Business privilege tax										8,260	8,260	8,260
	<u>160,518</u>	<u>47,882</u>	<u>113,183</u>	<u>38,271</u>	<u>11,608</u>	<u>30,956</u>	<u>836,538</u>	<u>1,238,956</u>	<u>30,527</u>	<u>188,401</u>	<u>218,928</u>	<u>1,457,884</u>
<b>Maintenance and supplies expenses:</b>												
Computer expenses		3,347						3,347		95,869	95,869	99,216
Office/computer supplies	3,456	24,292	2,825	6,847	5,715	12,019	5,244	60,398	985	93,538	94,523	154,921
Office maintenance	1,606	13,480	2,370	3,446	3,177	3,588	2,408	30,075	723	16,799	17,522	47,597
Auto expense		84						84		19,276	19,276	19,360
	<u>5,062</u>	<u>41,203</u>	<u>5,195</u>	<u>10,293</u>	<u>8,892</u>	<u>15,607</u>	<u>7,652</u>	<u>93,904</u>	<u>1,708</u>	<u>225,482</u>	<u>227,190</u>	<u>321,094</u>

(continued)

**PENNSYLVANIA MUNICIPAL LEAGUE**

STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)

YEARS ENDED DECEMBER 31, 2017

	Programs							Supporting services			Total	
	Annual summit and workshops	Trust programs	Group programs	Legislative services and research	Secretariat	Communications	Contracted training	Total programs	Board of directors and district operations	General management and operations		Total supporting services
Physical plant expenses:												
Utilities-electric, steam, gas and water	\$ 729	\$ 5,467	\$ 961	\$ 1,414	\$ 1,181	\$ 1,485	\$ 969	\$ 12,206	\$ 206	\$ 7,106	\$ 7,312	\$ 19,518
Insurance	705	7,596	1,424	1,900	2,023	1,936	1,360	16,944	591	8,806	9,397	26,341
Repairs and maintenance, building	1,277	10,094	1,961	2,536	2,421	2,675	1,771	22,735	501	12,433	12,934	35,669
Real estate taxes	1,328	11,868	2,857	2,973	2,969	2,994	2,064	27,053	567	14,119	14,686	41,739
	<u>4,039</u>	<u>35,025</u>	<u>7,203</u>	<u>8,823</u>	<u>8,594</u>	<u>9,090</u>	<u>6,164</u>	<u>78,938</u>	<u>1,865</u>	<u>42,464</u>	<u>44,329</u>	<u>123,267</u>
Capital and other expenses:												
Interest expense	105	847	159	213	197	225	149	1,895	41	3,280	3,321	5,216
Depreciation expense	3,734	25,872	4,596	6,585	5,877	7,071	4,518	58,253	1,040	32,911	33,951	92,204
	<u>3,839</u>	<u>26,719</u>	<u>4,755</u>	<u>6,798</u>	<u>6,074</u>	<u>7,296</u>	<u>4,667</u>	<u>60,148</u>	<u>1,081</u>	<u>36,191</u>	<u>37,272</u>	<u>97,420</u>
Total expenses	<u>\$ 257,262</u>	<u>\$ 807,652</u>	<u>\$ 251,452</u>	<u>\$ 230,949</u>	<u>\$ 188,830</u>	<u>\$ 238,518</u>	<u>\$ 971,017</u>	<u>\$ 2,945,680</u>	<u>\$ 66,692</u>	<u>\$ 1,331,675</u>	<u>\$ 1,398,367</u>	<u>\$ 4,344,047</u>

See notes to financial statements.

**PENNSYLVANIA MUNICIPAL LEAGUE**

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ 397,863	\$ 531,840
Adjustments:		
Depreciation	132,717	92,204
(Increase) decrease in:		
Prepays	22,288	2,530
Accounts receivable:		
Affiliates	(206,065)	(28,175)
Other	(184,258)	(278,968)
Increase (decrease) in:		
Accrued:		
Compensated absences	8,714	4,638
Payroll taxes and withholdings	(4,234)	2,069
Payroll	8,696	3,258
Accounts payable:		
Affiliates	145,297	
Other	35,034	88,240
Deferred revenue	<u>(91,568)</u>	<u>106,556</u>
Net cash provided by operating activities	<u>264,484</u>	<u>524,192</u>
Cash flows used in investing activities, acquisition of property and equipment	<u>(121,548)</u>	<u>(537,932)</u>
Cash flows from financing activities:		
Proceeds from borrowings on note payable		72,893
Payments on long-term debt	<u>(135,085)</u>	<u>(22,364)</u>
Net cash provided by (used in) financing activities	<u>(135,085)</u>	<u>50,529</u>
Net increase in cash	7,851	36,789
Cash:		
Beginning of year	<u>90,027</u>	<u>53,238</u>
End of year	<u>\$ 97,878</u>	<u>\$ 90,027</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 3,035	\$ 5,216

See notes to financial statements

# **PENNSYLVANIA MUNICIPAL LEAGUE**

## **NOTES TO FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2018 AND 2017**

### **1. Nature of activities and summary of significant accounting policies:**

#### *Nature of activities:*

The Pennsylvania Municipal League (the League) is a voluntary professional membership organization of local governments within the Commonwealth of Pennsylvania. The League provides services to its members to improve the delivery of governmental programs through education, group initiatives and legislative efforts.

#### *Adoption of new accounting pronouncement:*

In 2018, the League implemented Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The League has adjusted the presentation of its financial statements accordingly, applying the changes retrospectively to the comparative periods presented. The new standard changes the following aspects of the League's financial statements:

- The unrestricted net asset class has been renamed net assets without donor restrictions and temporarily restricted net assets has been renamed net assets with donor restrictions.
- The financial statements include a statement of functional expenses for the years ended December 31, 2018 and 2017. A disclosure has been added describing the allocation method used by the League.
- The notes include a new disclosure about liquidity and availability of resources (Note 3).

#### *Financial statement presentation:*

Financial statement presentation follows the requirements of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Financial Statements of Not-for-Profit Organizations*. Under FASB ASC 958, the League is required to report information regarding its financial position and activities in up to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

#### *Accounts receivable:*

Accounts receivable are stated at the amount that management expects to collect from balances outstanding at year end. The receivables are monitored by League management and are written off or adjusted down when an account is deemed uncollectible.

# **PENNSYLVANIA MUNICIPAL LEAGUE**

## **NOTES TO FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2018 AND 2017**

### **1. Nature of activities and summary of significant accounting policies (continued):**

#### *Property and equipment:*

Property and equipment are carried at cost. All acquisitions that exceed \$2,500 and significantly add to productive capacity or useful life as an asset are capitalized. Depreciation is computed using the straight-line method. Construction in process consists of costs related to the construction of the League's new accounting system, which is not yet complete. These costs will begin to depreciate once the accounting system is completely placed into service.

#### *Deferred revenue:*

Deferred revenue represents membership dues and registrations for the upcoming year received in advance.

#### *Compensated leave:*

Compensated leave is accrued as it vests to the employees. The League allows vacation benefits to accumulate to a maximum of 30 days. Sick leave can be accumulated to a maximum of 180 days, limited to 25% payable upon an employee's termination. The liability fluctuates based on number of employees, salary increases and employee longevity. The liability would only be payable upon employee termination and, accordingly, has been classified as noncurrent.

The League updated this policy effective January 1, 2019. The new policy combines vacation benefits and sick leave into a comprehensive paid time off (PTO) program that can be used for any type of time off from work. The League allows employees to accumulate anywhere from 26 to 76 days of total PTO depending on employee longevity. Upon separation from the League, employees will be compensated at their current rate of pay for 50% of all unused PTO.

#### *Functional classification of expenses:*

Management's calculation of functional expense percentages is based upon time entered by employees into timekeeping software. Costs directly related to a program or supporting service are charged directly to that program or supporting service.

# **PENNSYLVANIA MUNICIPAL LEAGUE**

## **NOTES TO FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2018 AND 2017**

### **1. Nature of activities and summary of significant accounting policies (continued):**

#### *Program expenses:*

Program expenses shown in the League's statements of activities relate to the following operational programs:

Annual Summit and Workshops: These expenses relate to the League's annual summit for members and training workshops held periodically throughout the year.

Trust Programs: These expenses relate to the administrative expenses for the League's insurance programs: PennPRIME Pooled Insurance Risk for Municipal Entities (PPT), PennPRIME Workers' Compensation (PPWCT) and Unemployment Compensation Group Trust (U-Comp).

Group Programs: These expenses relate to the costs associated with providing benefits to members for various subscription programs including: Municipal Utility Alliance (MUA), Pennsylvania Utility and Telecom Consulting Service (PUTCS), Home Rule (Advocacy Network), Local Piggyback Purchasing Program (L3P), Public Employer Labor Relations Advisory Service (PELRAS) and Business Leaders Network (BLN).

Legislative Services and Research: These expenses relate to the lobbying and government research efforts carried on for members' benefit.

Secretariat: These expenses are secretariat and financial services provided through contracts to various governmental organizations including: Pennsylvania State Association of Township Commissioners (PSATC) and Association for Pennsylvania Municipal Management (APMM).

Communications: These expenses relate to newsletters and magazine production to disseminate current information to members.

Contracted Training: These expenses relate to the League's training contracts with the Department of Community and Economic Development (DCED) through which the League provides training on various topics to both members and non-members.

# **PENNSYLVANIA MUNICIPAL LEAGUE**

## **NOTES TO FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2018 AND 2017**

### **1. Nature of activities and summary of significant accounting policies (continued):**

#### *Use of estimates:*

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### *Reclassifications:*

Certain amounts in the 2017 financial statements have been reclassified to conform to the 2018 presentation. Net assets remain unchanged as a result of the reclassification.

#### *Recently issued accounting standards:*

##### Revenue:

FASB ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, with effective dates amended by FASB ASU 2015-14, is effective for the League's 2019 year end and identifies specific steps to be applied to properly recognize revenue from customer contracts. Under the standard, revenue recognition is determined using a five-step model which identifies customer contracts, identifies performance obligations in each contract, determines transaction price, allocates transaction price to performance obligations and recognizes revenue when or as the performance obligations are satisfied. The standard permits the use of either the retrospective or cumulative effect transition method. Management is evaluating the effect that FASB ASU 2014-09 will have on the League's financial statements. The League has not yet selected a transition method, nor has it determined the effect of this standard on its ongoing financial reporting.



**PENNSYLVANIA MUNICIPAL LEAGUE**

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

**1. Nature of activities and summary of significant accounting policies (continued):**

*Recently issued accounting standards:*

Leases:

FASB ASU 2016-02, *Leases*, will require lessees to recognize assets and liabilities on the statement of financial position for the rights and obligations created by all leases with terms of more than 12 months. Disclosures will also be required by lessees to meet the objective of enabling users of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. For public business entities, as well as certain nonprofit entities and employee benefit plans, the effective date is annual reporting periods, and interim periods therein, beginning after December 15, 2018. The effective date for all other entities is one year later than this, December 15, 2019 for annual reporting and interim periods with fiscal years beginning after December 15, 2020. The League will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients that the League may elect to apply. At adoption, the League will recognize a right-of-use asset and a lease liability initially measured at the present value of its operating lease payments. The League is currently evaluating the impacts of adopting this guidance on its financial position, results of operations and cash flows.

**2. Cash:**

Cash consists of the following at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Petty cash	\$ 150	\$ 150
Checking, Wells Fargo Bank	49,187	42,114
Government Investment Trust	<u>48,541</u>	<u>47,763</u>
	<u>\$ 97,878</u>	<u>\$ 90,027</u>

**PENNSYLVANIA MUNICIPAL LEAGUE**

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

**2. Cash (continued):**

Financial instruments that potentially subject the League to concentrations of credit risk consist of cash and money funds held at financial institutions in excess of the Federal Deposit Insurance Corporation (FDIC) limit. The funds held by Wells Fargo Bank are insured by the FDIC up to \$250,000 and at times, the balance of the League's account may exceed the federally insured limit. The League's cash balance did not exceed the FDIC limit at December 31, 2018. The money market funds held with Pennsylvania Local Government Investment Trust (PLGIT) are subject to the investment policies of PLGIT, which confine investments to those backed by the full faith and credit of the United States government, its agencies and instrumentalities.

**3. Financial assets and liquidity resources:**

As of December 31, 2018 and 2017, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, payments on notes payable and purchases of property and equipment were as follows:

	<u>2018</u>	<u>2017</u>
Financial assets:		
Cash and cash equivalents, operating	\$ 49,337	\$ 42,264
Money market fund	48,541	47,763
Receivables:		
Affiliates	1,450,052	1,243,987
Other	587,724	403,466
Net assets with donor restrictions	<u>(39,500)</u>	<u></u>
Total financial assets available within one year	<u>\$ 2,096,154</u>	<u>\$ 1,737,480</u>

The League maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities and other obligations come due.

**PENNSYLVANIA MUNICIPAL LEAGUE**

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

**4. Long-term debt:**

Long-term debt at December 31, 2017 consisted of the following:

A loan payable to a commercial bank requiring monthly payments of \$418, including interest at 5.34% per annum. The loan was secured by an automobile. The entire balance was paid off in 2018.	\$ 13,390
A loan payable to a commercial bank requiring monthly payments of \$664, including interest at 0% per annum. The loan was secured by an automobile. The entire balance was paid off in 2018.	10,813
A loan payable to a commercial bank requiring monthly payments of \$664, including interest at 0% per annum. The loan was secured by an automobile. The entire balance was paid off in 2018.	8,614
A loan payable to a commercial bank requiring monthly payments of \$676, including interest at 4.75% per annum. The loan was secured by an automobile. The entire balance was paid off in 2018.	29,375
A note payable to U-Comp of \$70,670, including accrued interest at 5% per annum. The entire balance was paid off in 2018.	<u>72,893</u>
	135,085
Less current maturities	<u>(95,650)</u>
Long-term debt, less current maturities	<u><u>\$ 39,435</u></u>

These payables were satisfied during 2018 and the League has no long-term debt as of December 31, 2018.

**5. Operating leases:**

The League leases two copiers and a printer under operating leases that expire in December 2022 and November 2019, respectively. The minimum commitment under the copier lease is \$2,193 per month. The minimum commitment under the printer lease is \$172 per month.

**PENNSYLVANIA MUNICIPAL LEAGUE**

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

**5. Operating leases (continued):**

Future minimum lease payments are as follows:

2019	\$ 28,203
2020	26,316
2021	26,316
2022	<u>26,316</u>
	<u>\$ 107,151</u>

**6. Related party transactions:**

There are common members of the Boards of Directors, as well as management between the League and the entities described below. However, none of the entities have the ability to exercise control over each other. A description of each of the related parties follows.

The League receives administrative and promotional fees from U-Comp. In 2018 and 2017, the League received fees amounting to \$687,757 and \$721,260, respectively, which are included in the statements of activities under trust programs revenue.

The League receives administrative fees from PPT. The agreement provides for an administrative fee based on a percentage of policy premiums written or renewed during the year. The administrative fee percentage was 6% for 2018 and 2017. In 2018 and 2017, the League recognized trust programs revenue of \$255,719 and \$239,180, respectively, under this agreement.

The League receives fees from PPWCT. The agreement provides for an administrative fee of 6% of policy premiums written or renewed during the year. In 2018 and 2017, the League recognized \$253,067 and \$292,544, respectively, as trust programs revenue under the agreement.

The League received reimbursement from PPT and PPWCT for loss control and marketing services provided by the League during the year. These services are incurred as part of the normal course of business for these affiliate organizations. For the year ended December 31, 2018 and 2017, the League recognized \$405,300, as trust programs revenue for reimbursement of expenses incurred related to loss control and marketing.

**PENNSYLVANIA MUNICIPAL LEAGUE**

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

**6. Related party transactions (continued):**

The League receives 100% reimbursement from U-Comp for marketing services provided by the League during the year. These services are incurred as part of the normal course of business for these affiliate organizations. For the year ended December 31, 2018 and 2017, the League recognized \$76,166 and \$72,093, respectively, as trust programs revenue for reimbursement of expenses incurred related to loss control and marketing.

The net amounts due from affiliates consist of the following at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
U-Comp	\$ 769,243	\$ 582,716
PPWCT	276,020	301,955
PPT	<u>404,789</u>	<u>359,316</u>
	<u>\$ 1,450,052</u>	<u>\$ 1,243,987</u>

**7. Pension and departure from generally accepted accounting principles:**

The League's pension plan is a single-employer defined benefit pension plan controlled by the provisions of Resolution No.1-2006 adopted pursuant to Act 15 of 1974. 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. The plan provides retirement, disability and death benefits to plan members and their beneficiaries. Cost of living allowances are provided at the discretion of the plan.

PMRS reports pension information following standards established by the Governmental Accounting Standards Board (GASB) which are not applicable to the League. The information provided by PMRS does not contain the information necessary to calculate a net pension asset or net pension liability as required by generally accepted accounting principles; therefore, no net pension asset or net pension liability has been recorded or presented in the statements of financial position.

Annual contributions are based on the plan's minimum municipal obligation (MMO) as determined in accordance with Act 205 and which are based upon biennial actuarial valuations.

# **PENNSYLVANIA MUNICIPAL LEAGUE**

## **NOTES TO FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2018 AND 2017**

### **7. Pension and departure from generally accepted accounting principles (continued):**

In accordance with the plan's governing ordinance and resolution as applicable, the League is required to contribute 4.50% of compensation to the plan. Contributions made to the plan for 2018 and 2017 totaled \$181,533 and \$179,184, respectively.

The League also participates in a 457(b) deferred compensation plan in which the League will match up to 3% of employee's wages. This amounted to \$42,546 and \$41,108 for 2018 and 2017, respectively.

### **8. Tax status:**

The League has been recognized as exempt from income taxes under Section 501(c)(4) of the Internal Revenue Code and similar statutes and files federal Form 990, *Return of Organization Exempt from Income Tax*, annually.

### **9. Net assets with donor restrictions and net assets released from donor restrictions:**

Net assets with donor restrictions as of December 31, 2018 consist of a time restricted contribution in the amount of \$39,500.

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified or implied by donors. For the year ended December 31, 2018, \$5,500 of net assets were released from donor restrictions by satisfying a time restriction specified by the donor.

### **10. Subsequent events:**

Management has evaluated subsequent events through July 22, 2019, the date the financial statements were available to be issued.