

Bethel Township Sewer Authority

December 31, 2021

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Independent Auditor's Report

Board of Directors
Bethel Township Sewer Authority

Opinions

We have audited the accompanying financial statements of Bethel Township Sewer Authority (“the Authority”), a component unit of Bethel Township, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Bethel Township Sewer Authority as of December 31, 2021, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Bethel Township Sewer Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt Bethel Township Sewer Authority’s ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City of X, State Y's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Bethel Township Sewer Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 10 and page 23 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical

context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Bethel Township Sewer Authority's basic financial statements. The graphic analysis section is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The graphic analysis section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Barsz Gowie Amon & Fultz LLC

Media, Pennsylvania
December 30, 2022

BETHEL TOWNSHIP SEWER AUTHORITY
(A MUNICIPAL AUTHORITY ESTABLISHED BY THE TOWNSHIP OF BETHEL)
MANAGEMENT’S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021
UNAUDITED

This section presents management’s discussion of the financial condition and operating performance of the Bethel Township, Delaware County Sewer Authority (“Authority”) over the course of the fiscal year ended December 31, 2021. The Management’s Discussion and Analysis (MD&A) should be read in conjunction with the Authority’s basic financial statements beginning on page 12 of the Financial Section.

FINANCIAL AND ADMINISTRATIVE HIGHLIGHTS

- Total assets of the Authority of \$12,861,035 and total liabilities of \$1,867,458 represent a very favorable Asset to Liability Ratio of 6.89 :1.
- The Authority has begun to implement an asset management program for its sanitary sewer system. By closely monitoring capital assets, the total cost of ownership can be minimized. Part of this program entails the implementation of a geographic information system (GIS). Work on the GIS system has started and is updated routinely. Another part of the program is the installation of Pump Station SCADA system. Not only will this state of the art equipment act as an alarm and alert system for the pump stations, but it will also monitor station performance to aid in planned upgrades or repairs.
- In 2009, the Authority developed an Inflow & Infiltration (I&I) Program to clean, televise, joint test and repair pipes or manholes as needed. The Pennsylvania Department of Environmental Protection has determined that a great deal of I&I being treated at sewage treatment plants is coming from private residential and commercial sewer laterals. The sewer lateral is the pipe that connects the house to the public sewage system. In some areas, municipalities are surcharged for the additional treatment costs based on total flows measured. The Authority anticipates being charged for I&I in the future and is taking steps to reduce the amount of extraneous water entering its system. The inflow of rainwater and the infiltration of ground water (I&I) can cause serious capacity issues for the sewage collection system, pump stations and the sewage treatment plant. In addition to the inspection and maintenance programs being implemented to find and repair leaks in the public sewer lines, the Authority will be taking steps to encourage property owners to maintain their private building sewers.

SUMMARY OF ORGANIZATION, RELATIONSHIP BETWEEN THE TOWNSHIP OF BETHEL AND THE AUTHORITY, AND TREATMENT RELATIONSHIPS

The Authority is a municipal corporation created by the Township of Bethel (“Township”) in 1973 under the Pennsylvania Municipality Authorities Act of 1945, as amended, (“Act”) for the purpose of financing, engineering and building the public sanitary sewer system that currently serves 4,063 Equivalent Dwelling Units (“EDU’s”). The system includes approximately 54.2 miles of collection pipelines and 8 pumping stations.

The Authority system is for conveyance but not treatment of sanitary sewage. Portions of Authority wastewater are conveyed for ultimate treatment to two difference entities: through the Southern Delaware County Authority (“SDCA”) to the Delaware County Regional Water Quality Control Authority (“DELCORA”) for treatment at its sewage treatment plant in Chester, Pennsylvania and through the New Castle County Department of Special Services (“New Castle”) to the City of Wilmington’s sewage treatment plant in Wilmington, Delaware. The Sewage Treatment Agreement between SDCA and this Authority runs through 2024, with a five year non-renewal notification clause

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and the Sewage Treatment Agreement between New Castle and the Authority is an evergreen agreement.

The Township Board of Supervisors appoints the five members of the Sewer Authority Board of Directors to staggered terms of five years. The Authority hires its own employees and professional advisors.

The Authority which owns the sewer systems is a conveyance Operating Authority as permitted under the Act. The Authority has taxing power under the Act and relies on sewer rental rates and charges imposed under the Township sewer district establishment ordinances and set from time to time under Authority resolutions. Tapping fees, connection fees and other service charges may be assessed by the Authority for connection to its system, and also for increases in allocated wastewater volumes needed by commercial and industrial users. The Authority's tapping fee is currently at a rate of \$7,000 per EDU.

In 2012, the Authority received financing from the Delaware Valley Regional Finance Authority (DVRFA) in the amount of \$2,125,000. The financing retired the Authority's 2003 bond issuance in the amount of \$1,223,345 and provided costs of issuance as well as additional funding for capital projects over the next five years. The DVRFA financing interest charges ranged from 1.72 to 1.98% through 2025.

In 2020, the Authority received financing from DVRFA in the amount of \$650,000 for the purpose of constructing, renovating and operating needs. The DVRFA financing interest charge of 1.09% through July 2040.

The 2012 and 2020 Notes are limited obligations of the Authority payable solely from and secured by the receipts and revenues from the sewer system of the Authority and these obligations are guaranteed by the Township. As part of the 2012 & 2020 Notes, the Authority covenants to assess rates and charges, together with other unrestricted funds available to the Authority, which shall be sufficient to provide the costs to operate and maintain the system and to pay 115% of the Authority's estimated debt service obligation.

OVERVIEW OF ANNUAL FINANCIAL REPORT

Management's discussion and analysis (MD&A) serves as an introduction to the basic financial statements and supplementary information. The MD&A represents management's analysis of the authority's financial condition and performance. The financial statements report information about the Authority using full accrual accounting methods as utilized by similar business activities in the private sector. The financial statements include a *Statement of Net Position; Statement of Revenues, Expenses and Changes in Net Position; Statement of Cash Flows, Notes to Financial Statements and Supplementary Information.*

- **Statement of Net Position** – This statement provides information that will help the reader determine if the Authority is financially better or worse off as a result of the year's activity.

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- **Statement of Revenues, Expenses and Changes in Net Position** – This statement presents the results of business activities during the fiscal year and the amounts by which the net position has changed. All current year revenues and expenses are taken into account regardless of when the cash is received or paid.
- **Statement of Cash Flow** – Reports changes in cash and cash equivalents resulting from operational, capital and financing, and investment activities.
- **Notes to Financial Statements** – The financial statement note disclosures provide the reader with additional information that is essential to a full understanding of the data presented in the financial statements. The notes also provide information about the Authority's accounting policies, significant account balances, obligations, commitments, contingencies and subsequent events, if any.

The financial statements were prepared by the Authority's staff from the detailed books and records of the Authority. The statements were audited during the independent external audit process by Barsz Gowie Amon & Fultz LLC, Certified Public Accountants.

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FINANCIAL ANALYSIS

Statement of Net Position:

The statement of financial condition for the Authority as of December 31, 2021 and 2020 is presented in the following table:

SUMMARY STATEMENT OF NET POSITION
DECEMBER 31,

	2021	2020
Current Assets	<u>\$ 4,332,724</u>	<u>\$ 3,940,228</u>
Land	129,741	129,741
Property, plant and equipment	16,316,713	15,803,957
Accumulated depreciation	<u>(8,096,058)</u>	<u>(7,686,081)</u>
Net property, plant and equipment	<u>8,350,396</u>	<u>8,247,617</u>
Restricted assets	177,915	137,137
Other assets	<u>-</u>	<u>111,883</u>
Total assets	<u><u>\$12,861,035</u></u>	<u><u>\$12,436,865</u></u>
Current liabilities	\$ 522,064	\$ 602,895
Long-term liabilities	<u>1,345,394</u>	<u>1,511,615</u>
Total liabilities	<u>1,867,458</u>	<u>2,114,510</u>
Net position	<u>10,993,577</u>	<u>10,322,355</u>
Total liabilities and net position	<u><u>\$12,861,035</u></u>	<u><u>\$12,436,865</u></u>

Current assets consist primarily of cash, short-term investments and customer accounts receivable. Property, plant and equipment reflects the cost of the Authority's collection system and pump stations, capitalized repairs and infiltration and inflow expenses, and office furniture and equipment.

Current liabilities are comprised principally of accounts payable and accrued payroll and related payroll tax liabilities. Current liabilities payable from restricted assets include the principal on the Sewer Revenue Bonds payable during fiscal 2021 and 2020, accrued interest on bonds, and developer escrow deposit liabilities. Long term liabilities consist of the outstanding principal balance on the authority's Guaranteed Sewer Revenue Bonds net of the principal due during fiscal 2021 and 2020 respectively.

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Net position represents the equity of the Authority in total assets and is measured by the difference between total assets and the claims of bondholders, vendors, and other creditors on those assets and

totaled \$10,993,577 and \$10,322,355 as of December 31, 2021 and 2020 respectively, including \$177,915 for 2021 and \$137,137 for 2020 restricted for developer escrow deposit refunds.

Statement of Revenues, Expenses and Changes in Net Position:

The following graph presents net loss from operations including depreciation for the fiscal years ended December 31, 2021 and 2020:

TABLE 2
SUMMARY STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31,

	2021	2020
Sewer rentals	\$ 2,521,710	\$ 2,443,739
Penalties and miscellaneous	188,020	110,169
Total operating revenues	<u>2,709,730</u>	<u>2,553,908</u>
Sewage treatment and conveyancing	1,623,945	1,538,424
Operations and maintenance	161,068	163,744
Professional fees	187,716	191,596
General and administrative	152,558	165,183
Depreciation	409,977	396,898
Total operating expenses	<u>\$ 2,535,264</u>	<u>\$ 2,455,845</u>
Interest income	\$ 1,822	\$ 4,382
Non operating revenues	<u>1,822</u>	<u>4,382</u>
Interest expense	\$ (22,453)	\$ (21,236)
Non operating expenses	<u>(22,453)</u>	<u>(21,236)</u>
Tap in fee income	7,000	24,400
Dedications	510,387	-
Total capital contributions	<u>517,387</u>	<u>24,400</u>
Increase in net position	<u>\$ 671,222</u>	<u>\$ 105,609</u>

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Guaranteed Sewer Revenue Notes, Series 2012 and Series 2020:

As noted, the Authority holds debt related to guaranteed sewer notes Series 2012 and Series 2020. The following table summarizes outstanding principal and interest for the year ended December 31, 2021. Debt service principal was reduced by \$204,000 during this period.

TABLE 3
CHANGES IN OUTSTANDING NOTES BONDS PAYABLE
DECEMBER 31,

<u>Years Ended</u> <u>December 31,</u>	<u>Rates</u>	<u>Principle</u>	<u>Interest</u>	<u>Total Debt</u> <u>Service</u>
2022	1.72%/1.981%/1.086%	\$ 207,000	\$ 18,880	\$ 225,880
2023	1.72%/1.981%/1.086%	211,000	15,239	226,239
2024	1.72%/1.981%/1.086%	215,000	11,523	226,523
2025	1.72%/1.981%/1.086%	218,000	7,754	225,754
2026	1.72%/1.981%/1.086%	31,000	5,322	36,322
2027-2040	1.72%/1.981%/1.086%	472,000	37,417	509,417
Totals		<u>\$ 1,354,000</u>	<u>\$ 96,135</u>	<u>\$ 1,450,135</u>

Property, Plant and Equipment

Following reflects the change in the Authority's capital assets during the period:

TABLE 4
CHANGES IN CAPITAL ASSETS
YEAR-TO-YEAR COMPARISON
DECEMBER 31,

<u>Years ended December 31,</u>	<u>2021</u>	<u>2020</u>	<u>%Inc/ Decr</u>
Land and right of way	\$ 129,741	\$ 129,741	0.00%
Collection system	14,489,804	13,979,417	3.65%
Treatment plant capacity	108,892	108,892	0.00%
Phase I construction project	629,682	629,682	0.00%
SDCA capital contribution	1,000,000	1,000,000	0.00%
Metering pit equipment	47,530	47,530	0.00%
Office furniture and equipment	38,436	38,436	0.00%
Computer Software	2,369	-	100.00%
Totals	<u>\$ 16,446,454</u>	<u>\$ 15,933,698</u>	

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GENERAL TRENDS AND SIGNIFICANT EVENTS

The Authority projects an increase of less than 50 EDU during the next five years. Most of the new units are expected to be isolated residential construction. When, these proposed units are constructed, they will generate around \$350,000 in tapping fees and approximately \$40,000 in annual rental receipts under the revised rate structure of the Authority.

Bethel Township is required by state law to have a Sewage Facilities Plan. Historically, the plan has been prepared and implemented by the Authority. Approximately 96% of all households and businesses in the township are serviced by the Authority's system. On-lot disposal systems are being utilized by the remaining properties in various sections of the Township.

FINANCIAL CONDITION OF THE AUTHORITY

The Authority's overall financial condition was very strong at fiscal year-end. There are adequate liquid assets to meet next year's goals and objectives for routine operation and scheduled major capital improvement projects. Housing starts are expected to continue to increase gradually in 2022, even with mortgage interest rates increasing. During the year, the timeliness of sewer rental payments has declined the outstanding receivable at year-end has increased as a result. Management expects to be able to collect all outstanding balances.

Interest earnings decreased during the year, but there are sufficient reserves to cover any unexpected shortfall in revenue over the next three years and to provide emergency funding if necessary.

Major capital projects planned for the future have been projected in a long-term capital budget plan and will be paid from proceeds from Series 2020 revenue notes, tapping fee revenue, and Authority capital funds. The sewer rental rate increase and the potential for tapping fee increases will help to meet the challenges facing the Authority. It is very important to note that gradual rate increases will be necessary in the future due to unknown but expected treatment cost increases from DELCORA. The Authority sewer rents are \$684 per year (\$171 per quarter) for residential users. For all commercial users connected to a public water supply that measures water consumption, the charge per quarter is \$209.81 for the first 15,000 gallons of water consumed, then 11.42 per 1,000 gallons of water consumed. Tapping fees are \$7,000 per residence. The tapping fee, the cost assessed by the Authority to connect to its sanitary sewer system, became effective May 1, 2021. The tapping fee was computed pursuant to the formula provided under Pennsylvania law. Revenue generated by the tapping fee is not used for normal operation and maintenance of the sewer system. The fees provide additional capital funds for future preventative maintenance and repairs to the Authority's sanitary sewer system.

The Authority's annual budget is largely driven by treatment costs. As of 2021, these costs as a percentage of operating revenue were: Treatment: 52.4%; Operation and Maintenance: 5.2%; and, General and Administrative: 4.9%. Operating costs as a percentage of revenue did decrease again from 2020 to 2021.

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From 1998 through 2020, treatment plus operation and maintenance costs have increased from 50% to 70% of the Authority's operating expenses (without regard to depreciation). If the sewer rents were to track the increase in the consumer price index, sewer rents would have increased from \$360 to nearly \$684 during the period 1994 through 2021. During this period, the number of residences and businesses using the system has approximately doubled. The sewer rent rate is based upon one equivalent dwelling unit per household. The idea of usage based billed has been considered, however the costs to implement out way the benefits.

Knowledge of the current state of the various treatment entities processing sewage from Bethel points to a need for an increase in sewer rents rates to allow for anticipated substantial increases in treatment costs, as well as continued reserves for operating maintenance costs and to satisfy requirements of the trustee under the trust indenture for the bond issue. With careful planning, some maintenance costs can be avoided and administrative costs can be minimized at a level tracking the growth of the size of the system, but since treatment costs account for some 53% of the budget, increased expenses would result primarily from increases in treatment costs. Treatment costs for Authority conveyed sewage assessed by New Castle rose by 400% since 2004, and the SDCA rate increase by 75% since 2017. These drastic increases are not expected to continue but continued increases are likely, especially with the unknown status of the sale of the DELCORA system.

"The Authority has maintained a good balance between continued affordability of rates for its customers and prudent increases in light of general inflationary trends impacting all operations and sharp treatment specific increases. Indeed, rate increases for the Authority's customers have been well below those recently approved for two major wastewater entities by the Pennsylvania Utility Commission of 39% and 59%. *Water and Sewer Bills From Pa. American To Go Up.*, Philadelphia Inquirer, A1, 12/9/22."

Please read the remainder of this report in its entirety for more details regarding the current and historic financial condition and operating results of the Authority.

The Authority has enjoyed an excellent working relationship with the Township, our residents, commercial customers, other utilities as well as state and federal agencies. This professional and friendly affiliation has resulted in the creation of a valuable public utility service which benefits the natural environment in the entire community in which we live and work. The sanitary sewer system can be considered the backbone of any community. With a system in good operating condition and relatively low expenses, the Bethel Township Sewer Authority system remains a valuable asset to the Residents of Bethel Township.

We have prepared the MD&A in a manner we hope you find useful. Keep in mind, this entire report is a financial overview designed to give our customers and creditors a general understanding of how the Authority conducts business and accounts for the money it receives. Should you have questions regarding these statements, please contact our office by phone at (610) 358-5893 or e-mail us at btsa@comcast.net or by writing 1082 Bethel Road, Garnet Valley, PA, 19060.

Bethel Township Sewer Authority
Management's Discussion and Analysis
(Unaudited)
December 31, 2021

Organization

Board Members

Donna J. Vance
Donna L. Vickers
William Litton
Kim Easter
Dan Van Wyk

Officers

Donna J. Vance, Chairperson
Donna Vickers, Vice-Chairperson
Patricia Petrosky, Secretary/Treasurer

Consulting Engineer

Walter A. Fazler, P.E.
Bradford Engineering Associates, Inc.
Aston, Pennsylvania

Solicitor

Laurence L. Smith, Esquire
Simon and Smith, P.C.
Media, Pennsylvania

Bethel Township Sewer Authority
Statement of Net Position
December 31, 2021

Assets

Current Assets

Cash and cash equivalents - unrestricted	\$ 3,303,051
Sewer rents receivable, net	1,010,460
Tap in fees, receivable	7,000
Prepaid expenses	12,213
Total Current Assets	4,332,724

Noncurrent Assets

Restricted cash - developers' escrow	177,915
Property, plant and equipment, net	8,350,396
Total Noncurrent Assets	8,528,311

<u>Total Assets</u>	\$ 12,861,035
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Liabilities and Net Position

Current Liabilities

Accounts payable and accrued expenses	\$ 311,650
Accrued payroll and payroll tax withholdings	3,414
Notes payable	207,000
Total Current Liabilities	522,064

Noncurrent Liabilities

Funds held in escrow	177,916
Notes payable	1,147,000
Other noncurrent liabilities	20,478
Total Noncurrent Liabilities	1,345,394

<u>Total Liabilities</u>	1,867,458
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Net Position

Net investment in capital assets	7,808,463
Unrestricted	3,185,114
Total Net Position	10,993,577

<u>Total Liabilities and Net Position</u>	\$ 12,861,035
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See accompanying notes to financial statements.

Bethel Township Sewer Authority
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ending December 31, 2021

<u>Operating Revenues</u>	
Sewer rentals	\$ 2,521,710
Miscellaneous fees	188,020
Total Operating Revenues	2,709,730
 <u>Operating Expenses</u>	
Sewage treatment and conveyancing:	
Southern Delaware County Authority	1,025,706
New Castle County, Delaware	598,239
Operations and maintenance	161,068
Professional fees	187,716
General and administrative	152,558
Depreciation	409,977
Total Operating Expenses	2,535,264
<u>Operating Income (Loss)</u>	174,466
 <u>Non-Operating Revenues</u>	
Interest Income	1,822
Total Non-Operating Revenues	1,822
 <u>Non-Operating Expenses</u>	
Interest expense	(22,453)
Total Non-Operating Expenses	(22,453)
<u>Income (Loss) Before Capital Contributions</u>	153,835
<u>Capital Contributions</u>	517,387
<u>Change in Net Position</u>	671,222
<u>Net Position</u> - beginning	10,322,355
<u>Net Position</u> - ending	\$ 10,993,577

See accompanying notes to financial statements.

Bethel Township Sewer Authority
Statement of Cash Flows
For the Year Ending December 31, 2021

<u>Cash Flows From Operating Activities</u>	
Receipts from customers	\$ 2,384,188
Payments to suppliers	(2,125,980)
Payments to employees	(80,333)
Other operating cash receipts	188,020
Net Cash Provided by Operating Activities	365,895
 <u>Cash Flows From Capital and Related Financing Activities</u>	
Capital contributions received	517,387
Interest expense	(22,453)
Proceeds from bond issuance	-
Principal payments of notes payable	(204,000)
Cash Flows Provided by Capital and Related Financing Activities	290,934
 <u>Cash Flows From Investing Activities</u>	
Change in restricted cash	40,778
Purchase of property, plant, and equipment	(512,755)
Interest income	1,822
Cash Flows Provided by Investing Activities	(470,155)
<u>Increase in Cash and Cash Equivalents</u>	186,674
<u>Cash, Cash Equivalents, and Restricted Cash - beginning</u>	3,294,292
<u>Cash, Cash Equivalents, and Restricted Cash - ending</u>	\$ 3,480,966

See accompanying notes to financial statements.

Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 174,466
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	409,977
(Increase) decrease in assets	
Sewer rents receivable	(249,405)
Prepaid expenses	2,805
Recoverable disbursements	111,883
Increase (decrease) in liabilities	
Accounts payable and accrued expenses	(85,264)
Accrued payroll and withholdings	1,433
	<hr/>
Net Cash Provided by Operating Activities	<u><u>\$ 365,895</u></u>

Bethel Township Sewer Authority
Notes to Financial Statements
December 31, 2021

Note 1 Summary of Significant Accounting Policies

Organization and Description of Operation

The Bethel Township Sewer Authority (the “Authority”) is a body, politic and corporate, created pursuant to an ordinance of the Board of Supervisors of Bethel Township, Delaware County, Pennsylvania (the “Township”), under the Pennsylvania Municipality Authorities Act 53 Pa. C.S 5601 et seq. (the “Act”). The certificate of incorporation of the Authority was issued by the Secretary of the Commonwealth of Pennsylvania on October 1, 1973. A charter amendment was filed with the Secretary of the Commonwealth of Pennsylvania on May 25, 1995 to extend the term of existence of the Authority to March 15, 2045.

The governing body of the Authority is a Board consisting of five members appointed by the Township Board of Supervisors. The Board is authorized to exercise any and all powers conferred by the aforementioned Act necessary for the acquisition, construction, improvement, extension, maintenance and operation of the system facilities. Staggered terms for Board Members result in the term of one member expiring annually.

COVID-19

The Authority was deemed an essential business and was able to continue to provide services throughout the pandemic. The Authority has experienced a slow down in collections from residence and commercial customers, but management expects to be able to collect all outstanding balances.

Reporting Entity

For purposes of defining the scope of the financial reporting entity, the Bethel Township Sewer Authority is considered a component unit of the Township. The criteria for consideration as a component unit are the ability to exercise financial interdependency, selection of governing authority, designation of management, the ability to significantly influence operations, and accountability for fiscal matters.

The financial statements of the Authority represent a discrete presentation of a segment of the primary government’s (Bethel Township) financial statements. Based on the aforementioned criteria, the Authority is considered a component unit of Bethel Township.

Basis of Presentation

The Authority’s financial statements are presented in conformity with accounting principles generally accepted in the United States of America (“GAAP”) as applicable to governmental entities. The Governmental Accounting Standards Board (“GASB”) is accepted as the standard-setting body for establishing governmental accounting and financial reporting principles. As required by GASB standards, the transactions of the Authority are accounted for on a flow of economic resources measurement focus and accrual basis of accounting.

Bethel Township Sewer Authority
Notes to Financial Statements
December 31, 2021

Note 1 Summary of Significant Accounting Policies (Continued)

Revenue Recognition

The Authority distinguishes operating revenues from non-operating items in the preparation of the financial statements. Operating revenues and expenses generally result from providing services in connection with the Authority's ongoing operations which consist of sewer rentals and assessments intended to cover the cost of connecting new customers to the system. Sewer revenues and other related revenues are recorded when they are earned. Operating expenses include the cost of sewage treatment services, facility maintenance, professional and administrative expenses, and depreciation on capital assets. All other revenues and expenses not meeting the aforementioned criteria are reported as non-operating revenues and expenses.

Use of Management's Estimates

The presentation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Tax Status

The Authority qualifies as a tax-exempt organization under applicable sections of the Internal Revenue Code. Accordingly, there is no provision for income taxes reflected in the accompanying financial statements.

Sewer Rents Receivable, Recoverable Disbursements, and Allowance for Doubtful Accounts

Accounts receivable are stated at the amount management expects to collect. The Authority maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The Authority estimates its allowance for doubtful accounts based on historical collection trends, type of customer, the age of outstanding receivables and existing economic conditions. If events or changes in circumstances indicate that specific balances may be uncollectible, further considerations is given to the collectability of those balances and the allowance is adjusted accordingly. The Authority's policy is to file a lien against those delinquent accounts over \$200 resulting in collection of substantially all sewer rental accounts receivable. An allowance account has been established representing those items delinquent over ninety days below \$200 and those estimated uncollectible recoverable disbursements (see Note 2). At December 31, 2021 those estimated delinquencies totaled \$13,649.

Bethel Township Sewer Authority
Notes to Financial Statements
December 31, 2021

Note 1 Summary of Significant Accounting Policies (Continued)

Property, Plant and Equipment

Capital assets are stated at cost. The Authority capitalizes assets in excess of \$2,000. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets. Expenditures for maintenance and repairs are charged to expense as incurred. Construction in progress is not depreciated until the asset is placed in service. Renewals, improvements and the cost of additions to and replacements of capital assets are capitalized. Cost includes materials, direct labor, overhead, and charges for third-party engineering and supervision. The disposition of property, as well as the ownership of any proceeds, is subject to government regulations. The original cost of property replaced, retired, or otherwise disposed of in ordinary retirements, along with removal expense less salvage value, is charged to non-operating expense on the Statements of Revenues, Expenses and Changes in Net Position. Upon retirement or other disposition of items of property and equipment, the cost of the item and the related accumulated depreciation are relieved, and any gain or loss is included in other income and expense on the statement of Revenues, Expenses and Changes in Net Position.

Buildings	30 years
Equipment	3-5 years
Machinery	10 years
Infrastructure	40 years

The Authority evaluates long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. The estimated future undiscounted cash flows associated with the asset would be compared to the asset's carrying amount to determine if a write down to a new depreciable basis is required. If required, an impairment charge is measured by the difference between the carrying value and the estimated fair value of the assets. There were no identified impairment charges.

Compensated Absences

Full-time Authority employees are compensated for unused vacation days. The Authority did not have any liability for unused vacation at December 31, 2021.

Bethel Township Sewer Authority
Notes to Financial Statements
December 31, 2021

Note 1 Summary of Significant Accounting Policies (Continued)

Net Position

Net position represents the difference between the Authority's assets and liabilities. Net investment in capital assets component of net position represents unrestricted capital assets, net of accumulated depreciation and reduced by any outstanding debt related to the acquisition, construction or improvement of those assets. The unrestricted component of net position consists of net position that does not meet the definition of restricted or net investment in capital assets. There were no restricted components of net position at December 31, 2021.

Concentrations of Credit Risk

Financial instruments that potentially subject the Authority to concentrations of credit risk consist principally of cash and accounts receivables. The Authority maintains cash in bank accounts which, at times, may exceed the FDIC insurance coverage of \$250,000. The Authority primarily maintains deposits either with financial institutions which, pursuant to Pennsylvania Act No. 72 of 1971, pool assets required to be pledged to secure public deposits, the total value of the pool to equal not less than the sum of all the pledges required for each separate deposit, or in the amounts insured by the FDIC. Deposits for all funds are either fully insured or collateralized pursuant with the Commonwealth of Pennsylvania statutes.

Note 2 Recoverable Disbursements/Developers' Escrow

The Authority enters into contractual arrangements with developers which provide for reimbursement by the developers of certain legal and engineering fees incurred by the Authority in connection with the construction of certain sewer-related facilities. There were no receivables for the year ended December 31, 2021. Management has established an allowance for uncollected reimbursements at two percent based on estimated collections, which is included with the allowance for doubtful accounts. Developers' escrow deposits held by the Authority and related liabilities totaled \$177,916 at December 31, 2021.

Bethel Township Sewer Authority
Notes to Financial Statements
December 31, 2021

Note 3 Property, Plant and Equipment

The capital assets activity for the year ended December 31, 2021 was as follows:

	2021			
	<u>Beginning Balance</u>	<u>Additions and Transfers</u>	<u>Retirements and Transfers</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 129,741	\$ -	\$ -	\$ 129,741
Capital assets being depreciated:				
Computer software	-	2,369	-	2,369
Metering pit	47,530	-	-	47,530
Office equipment	38,436	-	-	38,436
Phase 1 extension	629,682	-	-	629,682
Sewer system	13,979,417	510,387	-	14,489,804
Treatment plant capacity	108,892	-	-	108,892
Capital contribution for improvements	<u>1,000,000</u>	<u>-</u>	<u>-</u>	<u>1,000,000</u>
Total capital assets being depreciated	<u>15,803,957</u>	<u>512,756</u>	<u>-</u>	<u>16,316,713</u>
Total capital assets	<u>\$ 15,933,698</u>	<u>\$ 512,756</u>	<u>\$ -</u>	<u>\$ 16,446,454</u>
Accumulated depreciation:				
Computer software	\$ -	\$ 790	\$ -	\$ 790
Metering pit	39,518	982	-	40,500
Office equipment	38,378	58	-	38,436
Phase 1 extension	334,874	15,742	-	350,616
Sewer system	6,675,694	364,683	-	7,040,377
Treatment plant capacity	60,117	2,722	-	62,839
Capital contribution for improvements	<u>537,500</u>	<u>25,000</u>	<u>-</u>	<u>562,500</u>
Total capital assets	<u>\$ 7,686,081</u>	<u>\$ 409,977</u>	<u>\$ -</u>	<u>\$ 8,096,058</u>
Net Totals	<u>\$ 8,247,617</u>	<u>\$ 102,779</u>	<u>\$ -</u>	<u>\$ 8,350,396</u>

During 2021 the sanitary sewer system for the Belmont Subdivision was offered for dedication and accepted by the Authority. A capital contribution was recognized (Note 6) and an asset was recorded based on the construction costs of the assets dedicated, which totaled \$510,387.

Depreciation expense for the year ending December 31, 2021 totaled \$409,977.

Note 4 Notes Payable

On July 2, 2020, the Authority authorized the issuance of Guaranteed Revenue Notes, 2020 Series (the "2020 Notes") totaling \$650,000 and maturing in July 2040 for the purpose of constructing, renovating, operating, and acquiring certain facilities for the collection, transmission, and conveyance of wastewater (collectively the "Wastewater System") to benefit the residents of the Township. The Authority entered into an agreement with the Delaware Valley Regional Finance Authority (the "Lender") who currently holds the previously issued 2012 Revenue Notes. The 2020 Notes are guaranteed by Bethel Township.

Bethel Township Sewer Authority
Notes to Financial Statements
December 31, 2021

Note 4 Notes Payable (Continued)

On November 15, 2012, the Authority authorized the issuance of Guaranteed Revenue Notes, 2012 Series (the “2012 Notes”) totaling \$2,125,000 and entered into a loan agreement with the Lender. The 2012 Notes are guaranteed by the Bethel Township and were issued to provide funds for certain capital projects consisting of a) improvements to the wastewater system, b) redemption of the 2003 Bonds, and c) costs of issuance of the 2012 Notes.

Both the 2020 and 2012 Notes are funded through the Lender’s Loan Program, (the “Loan Program”) where the Lender, from time to time, will enter into master interest rate swap agreements in order to hedge exposure to future changes in long-term interest rates and provide borrowers with an enhanced ability to manage their interest rate risks. The notes were issued in the following series:

Guaranteed Revenue Notes, 2020 Series in the amount of \$650,000 were issued with principal payable annually on July 25 beginning July 25, 2021 and ending on July 25, 2040.

Guaranteed Revenue Notes, 2012 A-1 Series in the amount of \$645,000 were issued with principal payable annually on April 25 beginning April 25, 2013 and ending on April 25, 2020. The balance was paid in full as of December 31, 2020.

Guaranteed Revenue Notes, 2012 A-2 Series in the amount of \$450,000 were issued with principal payable annually on April 25 beginning April 25, 2021 and ending April 25, 2025.

Guaranteed Revenue Notes, 2012 B-1 Series in the amount of \$236,000 were issued with principal payable annually on October 25 beginning October 25, 2014 and ending October 25, 2016. The balance was paid in full as of December 31, 2016.

Guaranteed Revenue Notes, 2012 B-2 Series in the amount of \$336,000 were issued with principal payable annually on October 25 beginning October 25, 2017 and ending October 25, 2020. The balance was paid in full as of December 31, 2020.

Guaranteed Revenue Notes, 2012 B-3 Series in the amount of \$458,000 were issued with principal payable annually on October 25 beginning October 25, 2021 and ending October 25, 2025.

Interest related to these borrowings was originally based on a variable rate, based upon the weekly Securities Industry and Financial Markets Association Municipal Swap Index (the, “SIFMA Index”) up to a maximum rate of 15%.

In 2012, the Authority executed an interest rate swap management policy and, pursuant to Section 4.01 of the Loan Agreement, requested the Lender to covert the interest rate to fixed rates of 1.72% and 1.981% for Series A and B, respectively by executing master swap agreements to which the Authority is not a direct party.

Bethel Township Sewer Authority
Notes to Financial Statements
December 31, 2021

Note 4 Notes Payable (Continued)

Termination Risk

Under the terms of the Loan Agreement, the Authority may request that the lender terminate the swap agreements, as described above, by giving at least thirty days written notice. A termination could also be triggered in the event of (i) a payment default by the Authority, (ii) a payment default by the Lender, (iii) the occurrence of events that may precipitate a payment default by the Authority or Lender, or (iv) the downgrading of the long term, unsecured, senior debt ratings of the Lender.

Upon termination, the Authority is obligated to pay termination fees incurred by the Lender, including, but not limited to, net settlement of the swap transactions if a net obligation was due at the time of termination.

As of December 31, 2021, the transactions underlying the Authority's borrowings were in a net liability position; therefore, if terminated, a termination fee would be incurred. The Authority has no plans to request the Lender to terminate these swap agreements.

Additionally, in the event of a termination of the master swap agreements included in the Lender's Loan Program, the Authority would be obligated to pay any termination charge equal to its allocable share of a termination payment required to be made by the Lender.

In all instances of termination, except the termination of a swap transaction used to provide a fixed rate for a loan due to a payment default by the borrower, the Lender would seek to replace the terminated transactions of the Lender swap agreement under a master interest rate swap agreement with a different counterparty on similar terms and conditions. The market value of the terminated transactions of the Lender swap agreement should largely offset any premium paid or received to execute the new transactions; therefore, management considers this risk to be minimal.

The aggregate annual principal and interest payment requirements for each of the following years ending December 31 are as follows:

	<u>Principal</u>	<u>Interest</u>
2022	\$ 207,000	\$ 18,880
2023	211,000	15,239
2024	215,000	11,523
2025	218,000	7,754
2026	31,000	5,322
2027-2040	<u>472,000</u>	<u>37,417</u>
Total	<u>\$ 1,354,000</u>	<u>\$ 96,135</u>

Bethel Township Sewer Authority
Notes to Financial Statements
December 31, 2021

Note 4 Notes Payable (Continued)

Notes payable activity for the year ended December 31, 2021 is as follows:

	<u>12/31/2021</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/2022</u>	<u>Due within one year</u>
Guaranteed Revenue Notes Series 2012 A	\$ 450,000	\$ -	\$ 87,000	\$ 363,000	\$ 88,000
Guaranteed Revenue Notes Series 2012 B	458,000	-	88,000	370,000	90,000
Guaranteed Revenue Notes Series 2020	650,000	-	29,000	621,000	29,000
Total	\$1,558,000	\$ -	\$ 204,000	\$1,354,000	\$207,000

Note 5 Revenue from Sewer Rentals

Sewer rates and charges are imposed on the users of the system. Sewer rental rates for residential customers are imposed at the annual rate of \$684 per equivalent dwelling units (“EDU”) and are payable to the Authority in equal quarterly annual installments of \$171 per quarter per EDU. The minimum charge for sewer rental rates for commercial customers that are connected to a public water supply that measures water consumption is calculated based on the greater amount using the following methods of calculation: (1) the reserved capacity of EDUs as outlined in the land planning documents for the property, in quarterly annual installments of \$181 per quarter per EDU (if land planning documents are not available the minimum charge shall be the average annual flow for the 2019 calendar year) or (2) \$181 for the first 15,000 gallons of water consumed then \$9.85 per 1,000 gallons of water consumed per quarter. Sources of sewer rent billings and EDUs are as follows:

	<u>Annual Charge per EDU</u>	<u>EDUs as of 12/31/21</u>	<u>Sewer Rents 2021</u>
Flat Iron Point Sewer District Southern Delaware County Sewer District	\$ 684	1,198.50	\$ 819,774
Total residential	684	<u>2,220.21</u>	<u>1,518,624</u>
Commercial		3,418.71	2,338,398
Total		<u>268.00</u>	<u>183,312</u>
		<u>3,686.71</u>	<u>\$ 2,521,710</u>

Bethel Township Sewer Authority
Notes to Financial Statements
December 31, 2021

Note 6 Capital Contributions

Tap-in fees represent amounts paid for the right and/or privilege of tapping into the Authority's sewer system and were established pursuant to Authority Resolution 2012-02 at the rate of \$6,100 per EDU for all sewer districts located in the Township. Tap-in fees, net of reimbursements to developers, totaled \$7,000 in 2021.

During 2021 the sanitary sewer system for the Belmont Subdivision was offered for dedication and accepted by the Authority. Capital contributions of \$510,387 were recognized and represent the construction costs of the assets dedicated (Note 3).

Note 7 Sewage Treatment Contracts

Southern Delaware County Authority

An "evergreen" Sewage Disposal Agreement ("Agreement") dated July 13, 1999, between the Authority and the Southern Delaware County Authority ("SDCA") permits the Authority to convey effluent from its Southern Delaware County Sewer District to the SDCA's sewer system to a maximum of 2,800 EDUs. The Agreement calls for an initial twenty-five (25) year term which may be extended for successive additional five (5) year periods. Either party may terminate the Agreement upon five (5) years written notice. Under the Agreement, the Authority is required to pay SDCA for the transportation and disposal of sewage at 125% of the rate charged by SDCA to its residential customers (currently \$444 annually per EDU). Conveyance charge expense totaled \$1,025,706 in 2021.

New Castle County, Delaware

The Authority transmits sewage from the Flat Iron Point Sewer District to New Castle County, Delaware for treatment and disposal pursuant to the terms of an agreement, which specifies that the Authority can transmit up to 312,500 gallons of sewage daily. Sewage treatment expense pursuant to this Agreement totaled \$598,239 in 2021.

Note 8 Commitments and Contingencies

Lease

The Authority entered into a long-term lease agreement for office rental space with the Township. The lease began October 1, 2020 and ends on September 30, 2030 with no rate change. The amount paid in 2021 was \$7,824. The annual future lease payments are as follows:

2022	7,824
2023	7,824
2024	7,824
2025	7,824
2026	7,824
Thereafter	<u>29,340</u>
Total	<u>\$ 68,460</u>

Bethel Township Sewer Authority
Notes to Financial Statements
December 31, 2021

Note 8 Commitments and Contingencies (Continued)

Litigation

The Authority is involved in certain claims and legal actions, which arise in the ordinary course of business. In the opinion of management and legal counsel, there are no such matters pending that are expected to be material in relation to the Authority's financial condition or results of operations

Note 9 Subsequent Events

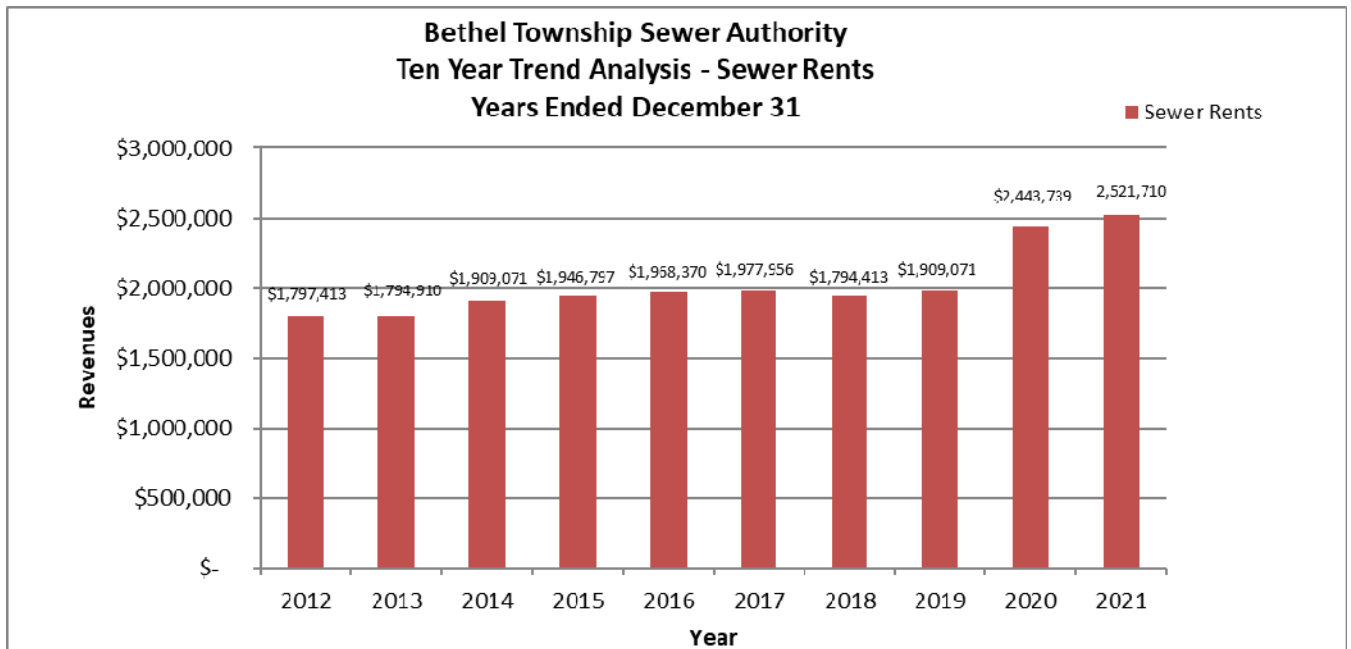
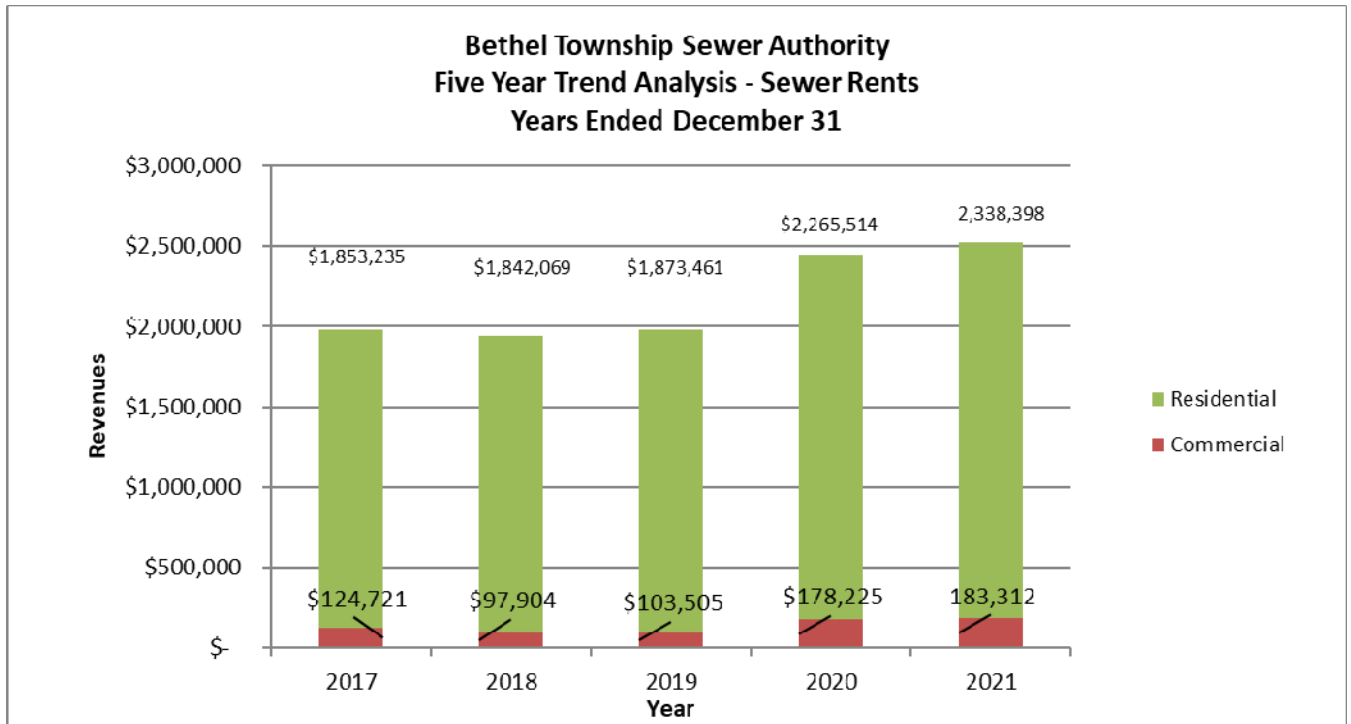
An ongoing worldwide pandemic of coronavirus disease 2019 ("COVID-19") has continued to have an effect on the United States since March 2020. As of the report date, the Authority continues to evaluate the ongoing effects of this pandemic on its current and future 2021 operations.

The Authority's management has evaluated subsequent events through December 30, 2022 the date on which the financial statements were available to be issued.

Bethel Township Sewer Authority
Required Supplementary Information
Capital Projects Fund - Budget to Actual - Unaudited
For the Year Ending December 31, 2021

	Budget	Actual
<u>Operating Revenues</u>		
Sewer rentals		
Sewer rentals - residential	2,293,064	2,338,398
Sewer rentals - commercial	120,000	183,312
Miscellaneous fees	54,500	188,020
Interest income	2,000	1,822
Total Operating Revenues	2,469,564	2,711,552
<u>Operating Expenses</u>		
Sewage treatment and conveyancing:		
Southern Delaware County Authority	1,050,000	1,025,706
New Castle County, Delaware	525,000	598,239
Operations and maintenance	112,643	161,068
Professional fees		
Accounting Fees	49,975	42,322
Engineering	76,200	67,857
Legal Fees	90,000	77,537
General and administrative	74,363	62,102
Payroll expense	97,000	90,456
Depreciation	386,000	409,977
Total Operating Expenses	2,461,181	2,535,264
<u>Operating Loss / Gain</u>	8,383	176,288
<u>Non-Operating Expenses</u>		
Interest expense	(24,012)	(22,453)
Total Non-Operating Expenses	(24,012)	(22,453)
<u>Income Before Capital Contributions</u>	(15,629)	153,835
<u>Capital Contributions</u>	-	517,387
<u>Change in Net Position</u>	(15,629)	671,222

Bethel Township Sewer Authority
Supplementary Information – Graphic Analysis
(Unaudited)
December 31, 2021



Bethel Township Sewer Authority
Supplementary Information – Graphic Analysis
(Unaudited)
December 31, 2021

