

**FRANCONIA SEWER AUTHORITY
(A COMPONENT UNIT OF
FRANCONIA TOWNSHIP)
MONTGOMERY COUNTY, PENNSYLVANIA**

**FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

YEARS ENDED DECEMBER 31, 2020 and 2019

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Independent Auditors' Report

Board of Directors
Franconia Sewer Authority
Telford, PA

Report on the Financial Statements

We have audited the accompanying financial statements of the business type activities of Franconia Sewer Authority (a Component Unit of Franconia Township), Montgomery County, Pennsylvania (the Authority), as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

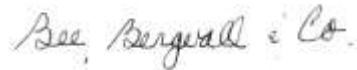
Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Franconia Sewer Authority as of December 31, 2020 and 2019, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



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

Warrington, PA
September 22, 2021

FRANCONIA SEWER AUTHORITY
(A Component Unit of Franconia Township)
Management's Discussion and Analysis
December 31, 2020

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

FINANCIAL HIGHLIGHTS

The assets of the Authority exceed its liabilities by \$20,873,108 as of December 31, 2020, while its net position increased by \$2,023,637 for the year then ended. Current assets increased by \$1,959,346, while noncurrent assets, including restricted cash, sewer loans receivable, and net capital assets increased by \$1,515,275. Current liabilities decreased by \$209,265, while non-current liabilities increased by \$1,622,987.

The Authority's operating revenues increased by \$160,031 in 2020 as a result of increased sewer rental income from continuing modest growth in new connections to its sewer collection system, a rate increase put into effect for 2020, and receipts from the sale of grinder pumps to residents tying to the new Morwood collection system more than offsetting the decline in revenues associated with the completion of the on-lot system inspection project in 2019 and the Authority's decision to suspend late fee charges in connection with the COVID-19 pandemic. Total operating expenses, including depreciation, increased by \$231,279 in 2020, due primarily to an increase in fees paid to Telford Borough Authority for the processing of effluent and increased depreciation expense associated with the Morwood Projected completed in 2020.

The Authority received \$2,603,890 in capital contributions for line construction and capacity during 2020. These fees were up by \$1,914,823 from the prior year primarily as a result of amounts collected from residents tying to the new Morwood collection system.

There were no major construction projects completed in 2020 besides the Morwood Project.

The Authority continues to participate in a lawsuit with Franconia Township, Lower Salford Township, and Lower Salford Township Authority against the Environmental Protection Agency (EPA), challenging their data that would invoke stricter water discharge limits, thereby increasing operating costs. EPA is proposing a settlement that would minimize the stricter water discharge units.

FRANCONIA SEWER AUTHORITY
(A Component Unit of Franconia Township)
Management's Discussion and Analysis
December 31, 2020

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial report consists of two parts: Management's Discussion and Analysis (this section) and the basic Financial Statements. The Financial Statements also include notes that provide additional information that is essential to the full understanding of the data provided in the statements.

Financial Statements

The Financial Statements of the Authority report information about the Authority using accounting methods similar to those used by private sector companies. These statements offer both short and long-term financial information about its activities. The Statement of Net Position includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Authority's creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all its costs through its user fees and other charges, along with its profitability and creditworthiness. The final required financial statement is the statement of cash flows. The primary purpose of this statement is to provide information about the Authority's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in balance during the reporting year.

Notes to the Basic Financial Statements

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

Reporting

For the past 50 years, Franconia Township has been in a period of substantial residential development, due mostly to convenient accessibility via the Pennsylvania Turnpike to Philadelphia and other regional areas. A five-member board, appointed by the Township's Board of Supervisors, governs the Authority. Although legally separate, the Authority is considered a component unit of the Township because the Township is financially accountable for it.

FRANCONIA SEWER AUTHORITY
(A Component Unit of Franconia Township)
Management's Discussion and Analysis
December 31, 2020

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

One of the most important questions asked about the Authority's finances is, "Is Franconia Sewer Authority as a whole better off or not as a result of this year's activities?". The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Authority in a way that will help answer this question. These two statements report the net position of the Authority and changes in net position. One can think of the Authority's net position (the difference between assets and liabilities) as one way to measure financial health or financial position. Over time, increases and decreases in the Authority's net position are an indicator of whether its financial health is improving or deteriorating. However, one will need to consider other nonfinancial factors such as changes in economic conditions, population growth, and new or changing governmental legislation.

Statements of Net Position

The following summarizes the net position as of December 31, 2020, 2019, and 2018:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Assets			
Current Assets	\$ 4,051,174	\$ 2,091,828	\$ 1,734,653
Restricted Assets	30	3,484	119,713
Other Non Current Assets	51,461	69,091	78,378
Capital Assets, net	<u>32,309,448</u>	<u>30,773,089</u>	<u>30,872,279</u>
Total Assets	<u>\$ 36,412,113</u>	<u>\$ 32,937,492</u>	<u>\$ 32,805,023</u>
Deferred Outflows	<u>\$ 307,104</u>	<u>\$ 344,366</u>	<u>\$ 386,126</u>
Current and Other Liabilities			
Current Liabilities	\$ 1,130,598	\$ 1,339,863	\$ 860,218
Non Current Liabilities	<u>14,715,511</u>	<u>13,092,524</u>	<u>13,401,674</u>
Total Liabilities	<u>\$ 15,846,109</u>	<u>\$ 14,432,387</u>	<u>\$ 14,261,892</u>
Net Position			
Net Investment in Capital Assets	\$ 16,738,856	\$ 16,934,465	\$ 17,018,486
Restricted	-	-	99,337
Unrestricted	<u>4,134,252</u>	<u>1,915,006</u>	<u>1,811,434</u>
Total Net Position	<u>\$ 20,873,108</u>	<u>\$ 18,849,471</u>	<u>\$ 18,929,257</u>

FRANCONIA SEWER AUTHORITY
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Statements of Net Position (Continued)

At the end of the current fiscal year, the Authority is able to report positive balances in its unrestricted and net investment in capital assets categories of net position and no restricted net position. The increase in current assets from 2019 to 2020 is primarily attributable to various fees collected in connection with resident hookups to the Morwood collection system. The Authority's investment in capital assets increased primarily as a result of its completion of the Morwood collection system during 2020.

Statements of Revenues, Expenses, and Changes in Net Position

While the statements of net position show the changes in net position, the statements of revenues, expenses, and changes in net position provide answers as to the nature and source of these changes.

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Operating Revenues:			
Sewer Rental Income	\$ 2,867,365	\$ 2,805,252	\$ 2,732,321
Other Operating Income	<u>281,059</u>	<u>183,141</u>	<u>134,953</u>
Total Operating Revenues	<u>3,148,424</u>	<u>2,988,393</u>	<u>2,867,274</u>
 Operating Expenses	 <u>3,405,189</u>	 <u>3,173,910</u>	 <u>3,191,700</u>
 Operating Loss	 <u>(256,765)</u>	 <u>(185,517)</u>	 <u>(324,426)</u>
 Non-operating Revenue (Expenses)			
Investment Income	2,658	9,223	8,179
Interest Expense	(281,262)	(496,137)	(421,330)
Bond Issuance Expenses	(44,884)	(49,395)	(47,140)
Rental Income	-	10,800	9,450
Loss on Asset Sale	-	(57,827)	-
Capital Contribution	<u>2,603,890</u>	<u>689,067</u>	<u>508,681</u>
Total Non-operating Revenue (Expenses)	<u>2,280,402</u>	<u>105,731</u>	<u>57,840</u>
 Increase (Decrease) in Net Assets	 2,023,637	 (79,786)	 (266,586)
 Net Position, Beginning	 <u>18,849,471</u>	 <u>18,929,257</u>	 <u>19,195,843</u>
 Net Position, Ending	 <u>\$ 20,873,108</u>	 <u>\$ 18,849,471</u>	 <u>\$ 18,929,257</u>

FRANCONIA SEWER AUTHORITY
(A Component Unit of Franconia Township)
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Statements of Revenues, Expenses, and Changes in Net Position (Continued)

As indicated above, the Authority's overall increase in net position totaled \$2,023,637 for 2020, which represents a \$2,103,423 improvement from the figure reported for 2019. Sewer rental income increased 2.2% in 2020, primarily as a result of additional residential units coming into the system and a rate increase put into effect for 2020. Other operating revenues increased primarily as a result of the sale of grinder pumps to residents tying into the Morwood collection system. Operating expenses increased by 7.3%, primarily due to an increase in fees paid to Telford Borough Authority for the processing of effluent and increased depreciation expenses associated with the completion of the Morwood project in 2020. Capital contributions were up 278% as a result of residents tying to the new Morwood collection system. The Authority's net position continues to be impacted by the level of its annual depreciation expense which increased by \$69,149 to \$951,022.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Authority's investment in capital assets as of December 31, 2020 totaled \$32,309,448 (net of accumulated depreciation). Capital asset values are summarized in the following table:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Land	\$ 354,261	\$ 354,261	\$ 652,012
Sewer Collection System	21,180,682	18,157,725	18,114,605
Dedicated Sewer System	10,179,122	10,530,379	10,881,632
Capacity Rights	213,798	232,938	236,483
Fixtures and Equipment	46,774	62,882	80,271
Construction in Progress	334,811	1,434,904	907,276
Capital Assets Net of Depreciation	<u>\$ 32,309,448</u>	<u>\$ 30,773,089</u>	<u>\$ 30,872,279</u>

Additional information on the Authority's capital assets can be found in Note 5 on page 21 of this report.

Long-Term Liabilities

At the end of the current fiscal year, the Authority had outstanding long-term liabilities totaling \$15,570,592. Long-term liability balances are summarized in the following table:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Bonds and Notes Payable	<u>\$ 15,570,592</u>	<u>\$ 13,838,624</u>	<u>\$ 13,853,793</u>

FRANCONIA SEWER AUTHORITY
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Management's Discussion and Analysis
December 31, 2020

Long-Term Liabilities (Continued)

The increase in long-term liabilities was attributable to additional amounts borrowed on the 2019 Pennvest Note in connection with the construction of the Morwood collection system more than offsetting the effect of principal reductions made on the 2018 TBA, 2019 DVRFA Note and the 2019 Pennvest Note during the year.

Additional information on the Authority's long-term liabilities can be found in Note 6 on pages 22-24 of this report.

LOOKING TO THE FUTURE

It is important to note that the annual depreciation expense attributable to the Authority's existing property, plant, and equipment totaled approximately \$951,022 for the year ended December 31, 2020. At the present time, the Authority does not anticipate having to do any significant level of repairs or replacements to its existing infrastructure system. The Authority may need to reassess its current rate structure as such projects become necessary in the future or should operating costs increase beyond current levels.

Major capital expenditures can be divided into two types – sewer service extension and repair/replacement/upgrade of existing facilities. The expectation is that the cost to expand sewer service will be borne by those benefitting from the extension, whereas the cost to upgrade would be shared amongst all customers. The projects listed below are of the sewer extension type.

Projects anticipated for 2021 include the completion of the public sewer extension into the Morwood Phase 2 area providing service to 65 residences, although only about 15 are anticipated to connect. Construction will begin on Schoolhouse Road extension, servicing about 28 homes. The 82-home Lincoln Woods development is complete. The 51-home Hillstone development is virtually complete, with three homes remaining. The extension at Mininger and Cowpath was not bid in 2020, but may be in 2021. Other possible projects for 2021 include the Towamencin Interconnect, an 11-home development called the Allebach Tract, and a 24-home development known as the Bergey tract.

During 2020 and continuing into 2021, a global pandemic due to the spread of the COVID-19 coronavirus caused the United States government to declare a national emergency. As a result, economic uncertainties have arisen that could negatively impact the Authority finances including investment income. The potential long-term impact is unknown at this time. Franconia Sewer Authority continues to monitor the impact and will make decisions best suited for its community.

FRANCONIA SEWER AUTHORITY
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December 31, 2020

The following table shows a history of the number of customers connected to the Franconia Sewer Authority public sewer system (at the beginning of the year) and the quarterly rates.

<u>Year</u>	<u>Residential</u>			<u>Non-Residential</u>			
	<u>Total Customers</u>	<u>Customer All Flat Rate</u>	<u>Quarterly Rate</u>	<u>Customer Flat Rate</u>	<u>Customer Metered</u>	<u>Quarterly Flat Rate</u>	<u>\$/1000 Gals Metered</u>
2001	2,061	2,038	\$ 90.00	20	3	\$ 90.00	4.00
2002	2,124	2,090	\$ 105.00	29	5	\$ 105.00	4.67
2003	2,183	2,150	\$ 105.00	28	5	\$ 105.00	4.67
2004	2,188	2,155	\$ 105.00	28	5	\$ 105.00	4.67
2005	2,163	2,130	\$ 105.00	28	5	\$ 105.00	4.67
2006	2,290	2,257	\$ 105.00	28	5	\$ 105.00	4.67
2007	2,436	2,402	\$ 105.00	28	6	\$ 105.00	4.67
2008	2,757	2,717	\$ 115.00	34	6	\$ 115.00	5.11
2009	2,853	2,808	\$ 115.00	38	7	\$ 115.00	5.11
2010	2,901	2,850	\$ 115.00	44	7	\$ 115.00	5.11
2011	2,918	2,858	\$ 125.00	52	8	\$ 125.00	5.56
2012	2,997	2,932	\$ 135.00	57	8	\$ 135.00	6.00
2013	3,123	3,058	\$ 135.00	57	8	\$ 135.00	6.00
2014	3,265	3,203	\$ 155.00	54	8	\$ 180.00	8.00
2015	3,330	3,263	\$ 155.00	59	8	\$ 180.00	8.00
2016	3,405	3,320	\$ 160.00	61	24	\$ 186.00	8.27
2017	3,431	3,346	\$ 160.00	61	24	\$ 186.00	8.27
2018	3,471	3,384	\$ 160.00	61	26	\$ 186.00	8.27
2019	3,511	3,424	\$ 160.00	61	26	\$ 186.00	8.27
2020	3,559	3,472	\$ 165.00	61	26	\$ 192.00	8.27

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the funds it receives and disburses. If you have questions about this report or need additional information, please contact or visit the Authority's office at 671 Allentown Road, Telford, PA 18969 (215-723-1137) during normal business hours.

FRANCONIA SEWER AUTHORITY
(A Component Unit of Franconia Township)
Statements of Net Position
December 31, 2020 and 2019

<u>ASSETS</u>		
	<u>2020</u>	<u>2019</u>
Current Assets		
Cash and cash equivalents	\$ 3,218,607	\$ 1,233,843
Accounts receivable, sewer, net of allowance for uncollectible	806,534	825,267
Other receivable	-	7,500
Notes receivable, current portion	<u>26,033</u>	<u>25,218</u>
Total Current Assets	<u>4,051,174</u>	<u>2,091,828</u>
Non-Current Assets		
Restricted Assets		
Cash and cash equivalents	30	3,484
Notes receivable, less current portion	51,461	69,091
Property, plant and equipment		
Land	354,261	354,261
Construction in progress	334,811	1,434,904
Sewer system infrastructure		
Constructed	25,628,673	22,041,199
Dedicated	17,562,642	17,562,642
Participation rights	1,532,350	1,532,350
Fixtures and equipment	180,410	180,410
Accumulated depreciation	<u>(13,283,699)</u>	<u>(12,332,677)</u>
Total Property, Plant and Equipment	<u>32,309,448</u>	<u>30,773,089</u>
Total Non-Current Assets	<u>32,360,939</u>	<u>30,845,664</u>
TOTAL ASSETS	<u>36,412,113</u>	<u>32,937,492</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Deferred amount on bond refunding	<u>307,104</u>	<u>344,366</u>
TOTAL DEFERRED OUTFLOWS	<u>307,104</u>	<u>344,366</u>
<u>LIABILITIES</u>		
Current Liabilities		
Current portion of long term debt	855,081	746,100
Accounts payable	1,404	1,935
Accrued expenses	269,526	587,356
Interest payable	4,557	963
Escrow Liability	30	3,484
Security deposits	-	25
Total Current Liabilities	<u>1,130,598</u>	<u>1,339,863</u>
Non-Current Liabilities		
Bonds payable, net of current portion	<u>14,715,511</u>	<u>13,092,524</u>
Total Non-Current Liabilities	<u>14,715,511</u>	<u>13,092,524</u>
TOTAL LIABILITIES	<u>15,846,109</u>	<u>14,432,387</u>
<u>NET POSITION</u>		
Net investment in capital assets	16,738,856	16,934,465
Unrestricted	<u>4,134,252</u>	<u>1,915,006</u>
TOTAL NET POSITION	<u>\$ 20,873,108</u>	<u>\$ 18,849,471</u>

See independent auditors' report and accompanying notes to financial statements

FRANCONIA SEWER AUTHORITY
(A Component Unit of Franconia Township)
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating revenues		
Sewer service	\$ 2,867,365	\$ 2,805,252
Conveyance and inspection fees	58,000	75,900
Other	<u>223,059</u>	<u>107,241</u>
Total operating revenues	<u>3,148,424</u>	<u>2,988,393</u>
Operating expenses		
Capacity, EDU and treatment costs	1,613,359	1,453,108
Engineering services	43,280	67,973
Professional fees	87,663	83,671
Personnel services, salaries and benefits	346,029	342,020
Operating, office supplies and expenses	53,540	56,339
Rent	27,000	27,000
Repairs and maintenance	83,788	82,007
Utilities	75,901	84,047
Other Township provided services	99,471	91,875
Other	<u>24,136</u>	<u>3,997</u>
Total operating expenses	<u>2,454,167</u>	<u>2,292,037</u>
Operating income before depreciation	694,257	696,356
Depreciation	<u>951,022</u>	<u>881,873</u>
Operating loss	(256,765)	(185,517)
Nonoperating revenues (expenses)		
Investment income	2,658	9,223
Interest expense	(281,262)	(496,137)
Amortization of bond defeasance	(44,884)	(49,395)
Rental income	-	10,800
Loss on sale of capital asset	<u>-</u>	<u>(57,827)</u>
Total nonoperating revenues (expenses)	<u>(323,488)</u>	<u>(583,336)</u>
Loss before contributed capital	(580,253)	(768,853)
Capital contributions		
Line construction fees	1,961,818	256,635
Capacity fees	<u>642,072</u>	<u>432,432</u>
Total capital contributions	<u>2,603,890</u>	<u>689,067</u>
Change in net position	2,023,637	(79,786)
Net position, beginning of year	<u>18,849,471</u>	<u>18,929,257</u>
Net position, end of year	<u>\$ 20,873,108</u>	<u>\$ 18,849,471</u>

See independent auditors' report and accompanying notes to financial statements

FRANCONIA SEWER AUTHORITY
(A Component Unit of Franconia Township)
Statements of Cash Flows
For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Cash received from customers	\$ 3,174,657	\$ 3,005,389
Cash paid to suppliers of goods and services	(2,319,026)	(1,843,602)
Cash paid for salaries and benefits	(354,056)	-
Cash paid for administrative support	(99,471)	(90,858)
Net cash provided by (used in) operating activities	<u>402,104</u>	<u>1,070,929</u>
Cash flows from investing activities:		
Interest and dividends received	2,658	9,223
Rental income received	-	10,800
Net cash provided by (used in) investing activities	<u>2,658</u>	<u>20,023</u>
Cash flows from capital and related financing activities:		
Collections on loan receivables	16,815	5,322
Issuance of new debt	2,461,622	13,667,330
Repayment of long-term debt	(737,276)	(13,690,102)
Capital contributions	2,603,890	689,067
Escrow cash received	-	5,833
Escrow cash paid	(3,454)	(22,554)
Acquisition and construction of capital assets	(2,487,381)	(1,080,434)
Proceeds from sale of capital assets	-	239,892
Bond interest paid	(277,668)	(644,729)
Net cash provided by (used in) capital and related financing activities	<u>1,576,548</u>	<u>(830,375)</u>
Net increase (decrease) in cash and cash equivalents	1,981,310	260,577
Cash and cash equivalents, beginning of year	<u>1,237,327</u>	<u>976,750</u>
Cash and cash equivalents, end of year	<u>\$ 3,218,637</u>	<u>\$ 1,237,327</u>
Cash and cash equivalents	\$ 3,218,607	\$ 1,233,843
Cash and cash equivalents - restricted	30	3,484
	<u>\$ 3,218,637</u>	<u>\$ 1,237,327</u>
Reconciliation of net income (loss) to net cash provided by (used in) operating activities:		
Operating loss	\$ (256,765)	\$ (185,517)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	951,022	881,873
Changes in assets and liabilities:		
Accounts receivable and other receivables	26,233	16,996
Prepaid	-	6,600
Accounts payable and accrued expenses	(318,361)	352,377
Security deposits	(25)	(1,400)
Net cash provided by (used in) operating activities	<u>\$ 402,104</u>	<u>\$ 1,070,929</u>

See independent auditors' report and accompanying notes to financial statements

FRANCONIA SEWER AUTHORITY
(A Component Unit of Franconia Township)
Notes to Financial Statements
December 31, 2020 and 2019

NOTE 1. Summary of Significant Accounting Policies

Reporting Entity: Franconia Sewer Authority (the Authority), a component unit of Franconia Township, was incorporated in accordance with the provisions of the Commonwealth of Pennsylvania's Municipal Authorities Act. The Authority was created to finance, develop, and operate sewer activities for the residents of Franconia Township (the Township). For purposes of defining the scope of the financial reporting entity, the Authority is considered a component unit of the Township as its governing board is appointed by the Township. The Township guarantees much of its debt and its activities and the relationship to the Township are considered significant in determining the reporting entity. Accordingly, the Authority's financial activity is included in the Township's financial statements under generally accepted accounting principles.

Basis of Accounting: The accompanying financial statements have been prepared on the accrual basis of accounting, whereby revenues are recognized when earned and expenditures are recognized when incurred.

Cash and Cash Equivalents: The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with maturities within three months or less from date of acquisition.

Trade Accounts Receivable: Trade receivables consist of retail sewer line and treatment charges to users. Trade receivables are shown net of an allowance for uncollectible amounts. Trade receivables, in excess of 90 days past due, are evaluated for collectability and an allowance is established based on the best available information and in an amount that management deems adequate. Trade receivables are written off when deemed uncollectible and any subsequent recoveries are recorded when received. At December 31, 2020 and 2019, there was no allowance for doubtful accounts as all overdue balances may be secured by filing a lien on the customer's real property and would be collected before any property transfers.

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

Unbilled revenues consist of balances owed by Authority customers for services provided for the years ended December 31, 2020 and 2019, which were billed the following year.

When an expense is incurred for purposes for which there are both restricted and unrestricted net position available, it is the Authority's policy to apply those expenses to restricted net position to the extent that such are available and then to unrestricted net position.

FRANCONIA SEWER AUTHORITY
(A Component Unit of Franconia Township)
Notes to Financial Statements
December 31, 2020 and 2019

NOTE 1. Summary of Significant Accounting Policies (Continued)

Capital Assets: Capital assets, which include property, plant, equipment, and sewer system assets, are defined by the Authority as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects when constructed.

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Plant and Sewer Collection System	20-50 years
Fixtures and Equipment	3-10 years

Participation Rights: The Authority entered into an agreement with the Sewer Authority of Telford Borough under which the Authority purchased capacity for an upfront payment of \$1,532,350. This amount has been capitalized and is being amortized as the capacity is utilized, as determined by the Authority's engineer. At December 31, 2020 and 2019, the Authority has approximately 75,400 and 82,100 gallons per day remaining of its purchased capacity of approximately 581,000 gallons per day.

Dedicated Infrastructure: Upon formal approval by the Authority's Board of Directors, the Authority accepts the sewer infrastructure of completed developments within the Township. These transfers are reported in the Authority's financial statements as capital assets and capital contributions in the year of the transfer. The infrastructure is depreciated over its useful life as determined by the Authority.

Compensated Absences: Vacation time is granted to employees based on the length of service. An employee is paid for any unused vacation time at the beginning of the following calendar year. The accrued vacation liability for the years ended December 31, 2020 and 2019 was \$4,328 and \$3,982 respectively.

Long-term Obligations: In the financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method, when applicable. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed as incurred.

FRANCONIA SEWER AUTHORITY
(A Component Unit of Franconia Township)
Notes to Financial Statements
December 31, 2020 and 2019

NOTE 1. Summary of Significant Accounting Policies (Continued)

Net Position: Net position includes the various net earnings from operating and nonoperating revenues, expenses and contributions of capital. Net position is classified in the following three components: invested in capital assets, net of related liabilities; restricted for capital activity and debt services; and unrestricted net position. Net investment in capital assets, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted represents cash and investments established for debt repayment under terms of the debt trust indenture. Unrestricted are amounts that do not meet the definitions above and are available for the Authority operations.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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

Deferred Outflows/Inflows of Resources: In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Authority has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the statement of net position. The deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Authority has no items that qualify for reporting in this category.

Subsequent Events: The Authority has evaluated events and transactions for potential recognition or disclosure in the financial statements through the date of this report, which is the date the statements were available for release. No items were determined by management that requires recognition or disclosure in the financial statements.

FRANCONIA SEWER AUTHORITY
(A Component Unit of Franconia Township)
Notes to Financial Statements
December 31, 2020 and 2019

NOTE 1. Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements

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

NOTE 2. Budgets and Budgetary Accounting

Annual budgets are adopted on the cash basis of accounting.

The Authority follows these procedures in establishing the budget:

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

FRANCONIA SEWER AUTHORITY
(A Component Unit of Franconia Township)
Notes to Financial Statements
December 31, 2020 and 2019

NOTE 3. Cash and Investments

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

Custodial Credit Risk - Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority's policy is to require their banking institution to provide a letter stating that they follow the Commonwealth of Pennsylvania Act 72, where all funds in excess of federal depository insurance limits held by the bank are collateralized in public funds secured on a pooled basis. At year-end, the carrying amount of deposits was \$3,218,637 and the bank balance was \$3,583,118. Of the bank balance, \$500,000 was covered by depository insurance. Any balances exceeding depository insurance are exposed to custodial credit risk because it is uninsured and collateralized with securities held by the pledging institution's trust department or agent, but not in the Authority's name.

Custodial Credit Risk - Investments. For an investment, this is the risk that, in the event of a failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The risks of default are eliminated due to the constraints imposed upon allowable investment instruments through state limitations as discussed above.

Interest Rate Risk. This is the risk that changes in interest rates will adversely affect the fair market value of an investment. The Authority has an investment policy which limits investment maturities to within five years of the date of such investment as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits the investment of governmental funds as described above. The Authority does not have a formal investment policy for credit risk.

FRANCONIA SEWER AUTHORITY
 (A Component Unit of Franconia Township)
Notes to Financial Statements
December 31, 2020 and 2019

NOTE 3. Cash and Investments (Continued)

Concentration of Credit Risk. This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The concentration of credit risk in investments of external investment pools is not required to be disclosed.

The Authority acts in a custodial capacity with respect to monies deposited with it by developers and others. These monies are held by the Authority and used to pay legal, engineering, and other fees incurred on behalf of a specific project. Any unused deposits are returned to the developer upon completion of the project, except for an administrative handling fee. None of the monies received from or expended on behalf of the developers are recorded in the revenues or expenses of the Authority. At December 31, 2020 and 2019 the balances of these monies held in escrow were \$29 and \$3,484, respectively.

NOTE 4. Notes Receivable

The Authority offers property owners in its sewer project areas the opportunity to finance certain costs of the hook-up requirements. The notes range from \$5,125 to \$18,311, bear interest at 6% and are payable over 5 to 20 years. Total notes outstanding were \$77,494 and \$94,309 as of December 31, 2020 and 2019, respectively.

Aggregate maturities on notes receivable as of December 31, 2020 are as follows:

	<u>Principal</u>
2021	\$ 26,033
2022	6,580
2023	5,768
2024	6,128
2025	6,515
2026-2030	24,089
2031	<u>2,381</u>
	<u>\$ 77,494</u>

FRANCONIA SEWER AUTHORITY
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Notes to Financial Statements
December 31, 2020 and 2019

NOTE 5. Capital Assets

Capital asset activity for the years ended December 31, 2020 and 2019 was as follows:

	Balance December 31, <u>2019</u>	<u>Additions</u>	<u>Deletions</u>	Balance December 31, <u>2020</u>
Capital Assets not being depreciated				
Land	\$ 354,261	\$ -	\$ -	\$ 354,261
Construction in progress	<u>1,434,904</u>	<u>2,487,381</u>	<u>(3,587,474)</u>	<u>334,811</u>
Total Capital Assets not being depreciated	<u>1,789,165</u>	<u>2,487,381</u>	<u>(3,587,474)</u>	<u>689,072</u>
Capital Assets being depreciated				
Sewer system infrastructure				
Constructed	22,041,199	3,587,474	-	25,628,673
Dedicated	17,562,642	-	-	17,562,642
Participation rights	1,532,350	-	-	1,532,350
Fixtures and equipment	180,410	-	-	180,410
Accumulated depreciation	<u>(12,332,677)</u>	<u>(951,022)</u>	<u>-</u>	<u>(13,283,699)</u>
Total Capital Assets being depreciated, net	<u>28,983,924</u>	<u>2,636,452</u>	<u>-</u>	<u>31,620,376</u>
Total Capital Assets, net	<u>\$ 30,773,089</u>	<u>\$ 5,123,833</u>	<u>\$ (3,587,474)</u>	<u>\$ 32,309,448</u>
	Balance December 31, <u>2018</u>	<u>Additions</u>	<u>Deletions</u>	Balance December 31, <u>2019</u>
Capital Assets not being depreciated				
Land	\$ 652,012	\$ -	\$ (297,751)	\$ 354,261
Construction in progress	<u>907,276</u>	<u>1,080,434</u>	<u>(552,806)</u>	<u>1,434,904</u>
Total Capital Assets not being depreciated	<u>1,559,288</u>	<u>1,080,434</u>	<u>(850,557)</u>	<u>1,789,165</u>
Capital Assets being depreciated				
Sewer system infrastructure				
Constructed	21,488,393	552,806	-	22,041,199
Dedicated	17,562,642	-	-	17,562,642
Participation rights	1,532,350	-	-	1,532,350
Fixtures and equipment	180,410	-	-	180,410
Accumulated depreciation	<u>(11,450,804)</u>	<u>(881,873)</u>	<u>-</u>	<u>(12,332,677)</u>
Total Capital Assets being depreciated, net	<u>29,312,991</u>	<u>(329,067)</u>	<u>-</u>	<u>28,983,924</u>
Total Capital Assets, net	<u>\$ 30,872,279</u>	<u>\$ 751,367</u>	<u>\$ (850,557)</u>	<u>\$ 30,773,089</u>

FRANCONIA SEWER AUTHORITY
(A Component Unit of Franconia Township)
Notes to Financial Statements
December 31, 2020 and 2019

NOTE 6. Long Term Debt

Guaranteed Sewer Revenue Bonds, Series of 2019

The Authority issued \$12,945,000 in sewer revenue notes in 2019, to be used to redeem the Guaranteed Sewer Revenue Bonds, 2013 Series and Guaranteed Sewer Revenue Note, 2015 Series.

Principal repayments on the 2019 bonds are due annually on June 25, which commenced June 25, 2020, and are scheduled in varying amounts into the year 2038. The interest rate is 1.897% and is payable monthly.

Guaranteed Sewer Revenue Bonds, Series of 2013

The Authority issued \$5,845,000 in general obligation bonds in 2013, to be used to refund a \$700,000 portion of the Authority's outstanding Sewer Revenue Bonds, Series of 2006, to refinance the Authority's outstanding TD Bank Line of Credit Note, to repay the Township for certain funds advanced to the Authority by the Township for capital improvements and to finance the costs of certain capital expenditures by the Authority. In conjunction with the issuance of the 2013 bonds, the Authority incurred a deferred charge on refunding of \$97,800, which has been recorded as a deferred outflow of resources and is being amortized as a component of interest expense over the life of the newly issued debt.

Principal repayments on the 2013 bonds are due annually on January 1, which commenced January 1, 2014, and are scheduled in varying amounts into the year 2038. Interest rates range from 0.700% to 3.625% and are payable semiannually on January 1 and July 1.

Guaranteed Sewer Revenue Note, Series of 2015

The Authority issued a \$9,042,376 general obligation note in 2015, to be used to advance refund the Authority's outstanding Sewer Revenue Bonds, Series of 2006, to refinance the Authority's 2011 Tax Exempt Promissory Note, to refinance a municipal lease purchase agreement, and to pay the costs and expenses of financing. In conjunction with the issuance of the 2015 note, the Authority incurred a deferred charge on refunding of \$441,393, which has been recorded as a deferred outflow of resources and is being amortized as a component of interest expense over the life of the newly issued debt.

Principal repayments on the 2015 note are due quarterly on January 1, April 1, July 1, and October 1, which commence on April 1, 2016, and are scheduled in varying amounts into the year 2036. Interest rates range from 2.84% to 7.50% and are payable quarterly on January 1, April 1, July 1, and October 1.

FRANCONIA SEWER AUTHORITY
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Notes to Financial Statements
December 31, 2020 and 2019

NOTE 6. Long Term Debt (Continued)

Note 2019

In May of 2019, the Authority secured funding in the amount of \$3.8 million to finance the cost of construction, improvement, and expansion of the sanitary sewer system. The Authority will draw down on the loan as payments are made for the construction. When the project is complete, the loan balance will be amortized over 240 months. The loan initially bears interest at a rate of 1.742% for the first 5 years and 2.178% for years 6 through maturity.

Note 2018

In 2018, the Authority entered into a note payable of \$366,522 with Telford Borough Authority for its proportionate share of the cost of the centrifuge project. The note bears interest at a rate of 2% per annum with principal and interest due in semiannual installments of \$38,662 through June 2023.

Changes in long term-debt for 2020 and 2019 are as follows:

	Balance December 31,			Balance December 31,		Amounts due within
	<u>2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>2020</u>	<u>2020</u>	<u>one year</u>
Note 2018	\$ 260,176	\$ -	\$ (72,505)	\$ 187,671	\$	73,937
Series 2019	12,945,000	-	(620,000)	12,325,000	-	631,000
Note 2019	722,330	2,461,622	(44,771)	3,139,181	-	150,144
Issuance discounts	(88,882)	-	7,622	(81,260)	-	-
Total bonds and notes payable	<u>\$ 13,838,624</u>	<u>\$ 2,461,622</u>	<u>\$ (729,654)</u>	<u>\$ 15,570,592</u>	<u>\$</u>	<u>\$ 855,081</u>

	Balance December 31,			Balance December 31,		Amounts due within
	<u>2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>2019</u>	<u>2019</u>	<u>one year</u>
Series 2013	\$ 5,820,000	\$ -	\$ (5,820,000)	\$ -	\$	-
Series 2015	7,799,049	-	(7,799,049)	-	-	-
Note 2018	331,260	-	(71,084)	260,176	-	72,480
Series 2019	-	12,945,000	-	12,945,000	-	620,000
Note 2019	-	722,330	-	722,330	-	53,620
Issuance discounts	(96,516)	-	7,634	(88,882)	-	-
Total bonds and notes payable	<u>\$ 13,853,793</u>	<u>\$ 13,667,330</u>	<u>\$ (13,682,499)</u>	<u>\$ 13,838,624</u>	<u>\$</u>	<u>\$ 746,100</u>

FRANCONIA SEWER AUTHORITY
(A Component Unit of Franconia Township)
Notes to Financial Statements
December 31, 2020 and 2019

NOTE 6. Long Term Debt (Continued)

The above bonded debt is secured by the receipts and revenues of the Authority.

The Authority incurred interest costs of \$281,262 and \$496,137 for the years ended December 31, 2020 and 2019, respectively.

Aggregate maturities on long term debt as of December 31, 2020 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 855,081	\$ 293,620	\$ 1,148,701
2022	863,773	278,232	1,142,005
2023	841,267	261,965	1,103,232
2024	818,498	246,559	1,065,057
2025	831,864	234,107	1,065,971
2026-2030	4,384,362	965,880	5,350,242
2031-2035	4,825,092	483,425	5,308,517
2036-2040	2,231,915	47,843	2,279,758
	<u>\$ 15,651,852</u>	<u>\$ 2,811,631</u>	<u>\$ 18,463,483</u>

NOTE 7. Related Party Transactions

As previously noted, the Authority is a component unit of the Township. The Township provides managerial, secretarial and public works services (payroll, benefits and pension) along with office space, computer services and supplies. The Authority budgeted to reimburse the Township \$490,440 and \$459,878 for these services during the 2020 and 2019 years, respectively. The Authority paid the Township \$491,921 and \$452,401 during 2020 and 2019, respectively, which included certain services from the prior year, as well as reimbursements for certain sewer-related expenditures made by the Township.

The Authority has some business dealings with certain commercial organizations associated with some of its officers and members of the Board of Directors. These dealings have been made in the ordinary course of business on substantially the same terms as all the Authority's transactions.

NOTE 8. Commitments and Contingencies

Agreements with Other Sewer Authorities: The Authority has operating agreements with the sewer authorities of Telford and Souderton Boroughs and Lower Salford and Hatfield Townships for sewage treatment. The Authority is charged according to metered flow at rates based on operating and certain other costs of the various authorities.

FRANCONIA SEWER AUTHORITY
(A Component Unit of Franconia Township)
Notes to Financial Statements
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NOTE 9. Risk Management and Contingencies

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Authority carries commercial insurance.

In the normal course of business, there are various relatively minor claims and suits pending against the Authority, none of which materially affect the financial position of the Authority. At the present time, there are no unasserted claims or significant litigation matters pending.

In 2020, a global pandemic due to the spread of the COVID-19 coronavirus caused the United States government to declare a national emergency. As a result, economic uncertainties have arisen that could negatively impact the Authority's finances including investment income. The potential impact is unknown at this time.

NOTE 10. Defined Benefit Pension Plan

Franconia Sewer Authority leases its employees from Franconia Township and they participate in the Franconia Township Non-Uniformed Employees' Pension Plan. The Township administers the Non-Uniformed Employees' Pension Plan, a single-employer defined benefit pension plan that provides pensions for all regular, full-time non-uniformed employees. The plan is part of the Township's financial reporting entity and is included in the Township's financial statements as a Pension Trust Fund. The plan does not issue separate, stand-alone financial statements.

Based on covered payroll, the Authority's share of the net pension liability as of December 31, 2020 and 2019 is \$115,829 and \$132,879, respectively.

For further information on the plan and its current funding status, refer to the Township of Franconia Financial Statements.