

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

**FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

YEARS ENDED DECEMBER 31, 2022 and 2021

TABLE OF CONTENTS

Independent Auditors' Report	3-5
Management's Discussion and Analysis	6-12
Financial Statements:	
Statements of Net Position	13
Statements of Revenues, Expenses, and Changes in Net Position	14
Statements of Cash Flows	15
Notes to Financial Statements	16-25



936 Easton Rd., PO Box 754, Warrington, PA 18976 | 130 Almshouse Rd., Suite 201A, Richboro, PA 18954
215-343-2727 | www.bbco-cpa.com

INDEPENDENT AUDITORS' REPORT

Board of Directors
Franconia Sewer Authority
Telford, PA

Report on the Financial Statements

Opinions

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, 2022 and 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 accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of business type activities of the Authority, as of December 31, 2022 and 2021, and the respective changes in financial position, and, where applicable, 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 (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Township 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 about the 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.

Auditors' 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 auditors' 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 GAAS 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 GAAS, 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 Authority'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 the 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 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 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 15, 2023

FRANCONIA SEWER AUTHORITY
(A Component Unit of Franconia Township)
Management's Discussion and Analysis
December 31, 2022

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, 2022. 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 \$22,988,445 as of December 31, 2022, while its net position increased by \$1,100,920 for the year then ended. Current assets increased by \$477,800, while noncurrent assets, including restricted cash, sewer loans receivable, and net capital assets decreased by \$65,483. Current liabilities increased by \$110,337, while non-current liabilities decreased by \$833,835.

The Authority's operating revenues increased by \$176,443 in 2022 as a result of increased sewer rental income from continuing growth in new connections to its sewer collection system. Total operating expenses, including depreciation, increased by \$344,453 in 2022, due primarily to connection fee refunds paid out to new customers in the Morwood Phase I and II areas and increases in fees paid to Telford Borough Authority for the processing of effluent, professional fees rebilled to developers, wage and benefit costs, and depreciation expense.

The Authority received \$1,180,226 in capital contributions for line construction and capacity during 2022. These fees were down \$254,800 from the prior year primarily as a result of the prior year figures including amounts collected from residents tying to the new Morwood collection system, Phases 1 and 2.

There were no major construction projects completed in 2022 besides the Schoolhouse Road and Hillstone Development projects.

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, 2022

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, 2022

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, 2022, 2021, and 2020:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Assets			
Current Assets	\$ 5,030,254	\$ 4,552,454	\$ 4,050,359
Restricted Assets	147,939	35,127	30
Other Non Current Assets	29,130	40,936	52,276
Capital Assets, net	<u>32,059,667</u>	<u>32,226,156</u>	<u>32,309,448</u>
Total Assets	<u>\$ 37,266,990</u>	<u>\$ 36,854,673</u>	<u>\$ 36,412,113</u>
Deferred Outflows	<u>\$ 228,199</u>	<u>\$ 263,094</u>	<u>\$ 307,104</u>
Current and Other Liabilities			
Current Liabilities	\$ 1,275,534	\$ 1,165,197	\$ 1,021,517
Non Current Liabilities	<u>13,231,210</u>	<u>14,065,045</u>	<u>14,824,592</u>
Total Liabilities	<u>\$ 14,506,744</u>	<u>\$ 15,230,242</u>	<u>\$ 15,846,109</u>
Net Position			
Net Investment in Capital Assets	\$ 17,987,190	\$ 17,297,338	\$ 16,738,856
Unrestricted	<u>5,001,255</u>	<u>4,590,187</u>	<u>4,134,252</u>
Total Net Position	<u>\$ 22,988,445</u>	<u>\$ 21,887,525</u>	<u>\$ 20,873,108</u>

FRANCONIA SEWER AUTHORITY
(A Component Unit of Franconia Township)
Management's Discussion and Analysis
December 31, 2022

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 2021 to 2022 was again primarily attributable to various fees collected in connection with resident hookups to the Morwood collection system Phase II. It was also influenced by the accrual of PA H2O grant funds due to the Authority in connection with this project. The Authority's investment in capital assets decreased primarily as a result of depreciation expense exceeding new capital expenditures

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>2022</u>	<u>2021</u>	<u>2020</u>
Operating Revenues:			
Sewer Rental Income	\$ 3,109,662	\$ 2,947,337	\$ 2,867,365
Other Operating Income	<u>291,393</u>	<u>277,275</u>	<u>260,558</u>
Total Operating Revenues	<u>3,401,055</u>	<u>3,224,612</u>	<u>3,127,923</u>
 Operating Expenses	 <u>3,652,874</u>	 <u>3,308,421</u>	 <u>3,384,688</u>
 Operating Loss	 <u>(251,819)</u>	 <u>(83,809)</u>	 <u>(256,765)</u>
 Non-operating Revenue (Expenses)			
Investment Income	12,341	2,458	2,658
Interest Expense	(271,910)	(287,607)	(281,262)
Bond Issuance Expenses	(42,340)	(51,651)	(44,884)
Grant Income	474,422	-	-
Loss on Asset Sale	-	-	-
Capital Contribution	<u>1,180,226</u>	<u>1,435,026</u>	<u>2,603,890</u>
Total Non-operating Revenue (Expenses)	<u>1,352,739</u>	<u>1,098,226</u>	<u>2,280,402</u>
 Increase (Decrease) in Net Position	 1,100,920	 1,014,417	 2,023,637
 Net Position, Beginning	 <u>21,887,525</u>	 <u>20,873,108</u>	 <u>18,849,471</u>
 Net Position, Ending	 <u>\$22,988,445</u>	 <u>\$21,887,525</u>	 <u>\$20,873,108</u>

FRANCONIA SEWER AUTHORITY
(A Component Unit of Franconia Township)
Management's Discussion and Analysis
December 31, 2022

Statements of Revenues, Expenses, and Changes in Net Position (Continued)

As indicated above, the Authority's overall increase in net position totaled \$1,100,920 for 2022, which represents a \$86,503 increase from the figure reported for 2021. Sewer rental income increased 5.5% in 2022, primarily as a result of additional residential units coming into the system. Other operating revenues remained relatively the same as in 2021 as the sale of grinder pumps to residents tying into the Morwood collection system Phase II continued to be strong. Operating expenses increased by 13.5%, primarily due to connection fee refunds paid out to new customers in the Morwood Phase I and II areas and increases in fees paid to Telford Borough Authority for the processing of effluent, professional fees rebilled to developers, and wage and benefits costs. Capital contributions were down 18% as a result of residents tying to the new Morwood collection system Phase II in the prior year. The Authority's net position continues to be impacted by the level of its annual depreciation expense which increased by \$24,845 to \$967,393.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Authority's investment in capital assets as of December 31, 2022 totaled \$32,059,667 (net of accumulated depreciation). Capital asset values are summarized in the following table:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Land	\$ 354,761	\$ 354,761	\$ 354,261
Sewer Collection System	20,509,592	20,738,416	21,180,682
Dedicated Sewer System	9,480,407	9,829,764	10,179,122
Capacity Rights	133,696	171,975	213,798
Fixtures and Equipment	19,677	30,410	46,774
Construction in Progress	<u>1,561,534</u>	<u>1,100,830</u>	<u>334,811</u>
Capital Assets Net of Depreciation	<u>\$ 32,059,667</u>	<u>\$ 32,226,156</u>	<u>\$ 32,309,448</u>

Additional information on the Authority's capital assets can be found in Note 5 on page 22 of this report.

FRANCONIA SEWER AUTHORITY
(A Component Unit of Franconia Township)
Management’s Discussion and Analysis
December 31, 2022

Long-Term Liabilities

At the end of the current fiscal year, the Authority had outstanding long-term liabilities totaling \$14,072,477. Long-term liability balances are summarized in the following table:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Bonds and Notes Payable	<u>\$ 14,072,477</u>	<u>\$ 14,928,818</u>	<u>\$ 15,570,592</u>

The decrease in long-term liabilities was attributable to principal payments on the Authority’s various debt obligations during 2022.

Additional information on the Authority’s long-term liabilities can be found in Note 6 on pages 23-24 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 \$967,393 for the year ended December 31, 2022. The Authority earmarked \$252,000 to help offset the depreciation and prepare for future upgrades.

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 that may occur in late 2023 include public sewer extension in the High & Homestead area that would impact 45 properties, and Indian Creek / Schoolhouse Roads with 79 properties. It is more likely that these projects would not begin until 2024 or later. The 84-home development on Beck Road (Myers Tract) is now in the beginning stages of construction, with homes possibly ready for sale in late 2023. The 24-home development-Bayard Estates (also known as Bergey tract) and the 8-home Belton Manor project are still under construction. The short extensions at Mininger and Cowpath, Beck Road, and Mill at Hunsicker were completed in 2022 serving 10 existing households. Other possible projects for 2023 include an 11-home development called the Allebach tract and some minor extensions on Cowpath Road near Morwood, Lower Road near Schoolhouse, and Schoolhouse Road near Nyce.

FRANCONIA SEWER AUTHORITY
(A Component Unit of Franconia Township)
Management's Discussion and Analysis
December 31, 2022

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
2021	3,720	3,633	\$ 170.00	61	26	\$ 198.00	8.70
2022	3,722	3,635	\$ 170.00	61	26	\$ 198.00	8.70

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, 2022 and 2021

	<u>ASSETS</u>	
	<u>2022</u>	<u>2021</u>
Current Assets		
Cash and cash equivalents	\$ 4,029,965	\$ 3,749,603
Accounts receivable	804,232	767,656
Other receivable	160,959	952
Notes receivable, current portion	27,748	26,893
Prepaid expenses	7,350	7,350
Total Current Assets	<u>5,030,254</u>	<u>4,552,454</u>
Non-Current Assets		
Restricted cash and cash equivalents	147,939	35,127
Notes receivable, less current portion	29,130	40,936
Property, plant and equipment		
Land	354,761	354,761
Construction in progress	1,561,534	1,100,830
Sewer system infrastructure		
Constructed	26,061,610	25,721,410
Dedicated	17,562,642	17,562,642
Participation rights	1,532,350	1,532,350
Fixtures and equipment	180,410	180,410
Accumulated depreciation	(15,193,640)	(14,226,247)
Total Property, Plant and Equipment	<u>32,059,667</u>	<u>32,226,156</u>
Total Non-Current Assets	<u>32,236,736</u>	<u>32,302,219</u>
TOTAL ASSETS	<u>37,266,990</u>	<u>36,854,673</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Unamortized deferred loss on bond refunding	<u>228,199</u>	<u>263,094</u>
TOTAL DEFERRED OUTFLOWS	<u>228,199</u>	<u>263,094</u>
<u>LIABILITIES</u>		
Current Liabilities		
Current portion of long term debt	841,267	863,773
Accounts payable	1,463	-
Accrued expenses	280,438	261,659
Interest payable	4,427	4,638
Escrow Liability	147,939	35,127
Total Current Liabilities	<u>1,275,534</u>	<u>1,165,197</u>
Non-Current Liabilities		
Bonds payable, net of current portion	<u>13,231,210</u>	<u>14,065,045</u>
Total Non-Current Liabilities	<u>13,231,210</u>	<u>14,065,045</u>
TOTAL LIABILITIES	<u>14,506,744</u>	<u>15,230,242</u>
<u>NET POSITION</u>		
Net investment in capital assets	17,987,190	17,297,338
Unrestricted	<u>5,001,255</u>	<u>4,590,187</u>
TOTAL NET POSITION	<u>\$ 22,988,445</u>	<u>\$ 21,887,525</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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Operating revenues		
Sewer service	\$ 3,109,662	\$ 2,947,337
Conveyance and inspection fees	61,425	49,400
Other	<u>229,968</u>	<u>227,875</u>
Total operating revenues	<u>3,401,055</u>	<u>3,224,612</u>
Operating expenses		
Capacity, EDU and treatment costs	1,613,844	1,571,650
Engineering services	31,761	36,703
Professional fees	111,821	75,368
Personnel services, salaries and benefits	391,488	371,328
Operating, office supplies and expenses	58,047	43,659
Rent	27,000	27,000
Repairs and maintenance	74,999	53,401
Utilities	79,906	84,035
Other Township provided services	101,344	99,975
Other	<u>195,271</u>	<u>2,754</u>
Total operating expenses	<u>2,685,481</u>	<u>2,365,873</u>
Operating income before depreciation	715,574	858,739
Depreciation	<u>967,393</u>	<u>942,548</u>
Operating loss	(251,819)	(83,809)
Nonoperating revenues (expenses)		
Investment income	12,341	2,458
Interest expense	(271,910)	(287,607)
Amortization of bond defeasance	(42,340)	(51,651)
Grant income	<u>474,422</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>172,513</u>	<u>(336,800)</u>
Loss before contributed capital	(79,306)	(420,609)
Capital contributions		
Line construction fees	636,204	796,804
Capacity fees	<u>544,022</u>	<u>638,222</u>
Total capital contributions	<u>1,180,226</u>	<u>1,435,026</u>
Change in net position	1,100,920	1,014,417
Net position, beginning of year	<u>21,887,525</u>	<u>20,873,108</u>
Net position, end of year	<u>\$ 22,988,445</u>	<u>\$ 21,887,525</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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Cash received from customers	\$ 3,204,472	\$ 3,262,538
Cash paid to suppliers of goods and services	(2,172,448)	(1,912,202)
Cash paid for salaries and benefits	(391,447)	(370,317)
Cash paid for administrative support	<u>(101,344)</u>	<u>(99,975)</u>
Net cash provided by (used in) operating activities	<u>539,233</u>	<u>880,044</u>
Cash flows from investing activities:		
Interest and dividends received	12,341	2,458
Grant income received	<u>474,422</u>	<u>-</u>
Net cash provided by (used in) investing activities	<u>486,763</u>	<u>2,458</u>
Cash flows from capital and related financing activities:		
Collections on loan receivables	10,951	9,665
Issuance of new debt	-	205,775
Repayment of long-term debt	(863,772)	(855,189)
Capital contributions	1,180,226	1,435,026
Escrow cash received	(33,801)	35,096
Escrow cash paid	146,599	-
Acquisition and construction of capital assets	(800,904)	(859,256)
Bond interest paid	<u>(272,121)</u>	<u>(287,526)</u>
Net cash provided by (used in) capital and related financing activities	<u>(632,822)</u>	<u>(316,409)</u>
Net increase (decrease) in cash and cash equivalents	393,174	566,093
Cash and cash equivalents, beginning of year	<u>3,784,730</u>	<u>3,218,637</u>
Cash and cash equivalents, end of year	<u>\$ 4,177,904</u>	<u>\$ 3,784,730</u>
Cash and cash equivalents	\$ 4,029,965	\$ 3,749,603
Cash and cash equivalents - restricted	<u>147,939</u>	<u>35,127</u>
	<u>\$ 4,177,904</u>	<u>\$ 3,784,730</u>
Reconciliation of net income (loss) to net cash provided by (used in) operating activities:		
Operating loss	\$ (251,819)	\$ (83,809)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	967,393	942,548
Changes in assets and liabilities:		
Accounts receivable and other receivables	(196,583)	37,926
Prepaid expenses	-	(7,350)
Accounts payable and accrued expenses	20,242	(9,271)
Security deposits	<u>-</u>	<u>-</u>
Net cash provided by (used in) operating activities	<u>\$ 539,233</u>	<u>\$ 880,044</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, 2022 and 2021

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, 2022 and 2021, 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, 2022 and 2021, 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, 2022 and 2021

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, 2022 and 2021, the Authority has approximately 47,150 and 60,650 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, 2022 and 2021 was \$1,676 and \$3,289, 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, 2022 and 2021

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 require recognition or disclosure in the financial statements.

FRANCONIA SEWER AUTHORITY
(A Component Unit of Franconia Township)
Notes to Financial Statements
December 31, 2022 and 2021

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 was adopted in 2022 and had no impact on the Authority’s financial statements.

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.

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.

FRANCONIA SEWER AUTHORITY
(A Component Unit of Franconia Township)
Notes to Financial Statements
December 31, 2022 and 2021

NOTE 3. Cash and Investments (Continued)

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 \$4,177,904 and the bank balance was \$4,283,847. At December 31, 2021, the carrying amount of deposits was \$3,784,730 and the bank balance was \$3,829,148. Of the bank balance, \$500,000 was covered by depository insurance for both December 31, 2022 and 2021. 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.

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.

FRANCONIA SEWER AUTHORITY
 (A Component Unit of Franconia Township)
Notes to Financial Statements
December 31, 2022 and 2021

NOTE 3. Cash and Investments (continued)

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, 2022 and 2021 the balances of these monies held in escrow were \$147,939 and \$35,127, 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 \$56,878 and \$67,829 as of December 31, 2022 and 2021, respectively.

Aggregate maturities on notes receivable as of December 31, 2022 are as follows:

	<u>Principal</u>
2023	\$ 27,748
2024	4,801
2025	5,107
2026	5,509
2027	5,772
2028-2031	<u>7,941</u>
	<u>\$ 56,878</u>

FRANCONIA SEWER AUTHORITY
(A Component Unit of Franconia Township)
Notes to Financial Statements
December 31, 2022 and 2021

NOTE 5. Capital Assets

Capital asset activity for the years ended December 31, 2022 and 2021 was as follows:

	Balance December 31, <u>2021</u>	<u>Additions</u>	<u>Deletions</u>	Balance December 31, <u>2022</u>
Capital Assets not being depreciated				
Land	\$ 354,761	\$ -	\$ -	\$ 354,761
Construction in progress	<u>1,100,830</u>	<u>800,904</u>	<u>(340,200)</u>	<u>1,561,534</u>
Total Capital Assets not being depreciated	<u>1,455,591</u>	<u>800,904</u>	<u>(340,200)</u>	<u>1,916,295</u>
Capital Assets being depreciated				
Sewer system infrastructure				
Constructed	25,721,410	340,200	-	26,061,610
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>(14,226,247)</u>	<u>(967,393)</u>	<u>-</u>	<u>(15,193,640)</u>
Total Capital Assets being depreciated, net	<u>30,770,565</u>	<u>(627,193)</u>	<u>-</u>	<u>30,143,372</u>
Total Capital Assets, net	<u>\$ 32,226,156</u>	<u>\$ 173,711</u>	<u>\$ (340,200)</u>	<u>\$ 32,059,667</u>

	Balance December 31, <u>2020</u>	<u>Additions</u>	<u>Deletions</u>	Balance December 31, <u>2021</u>
Capital Assets not being depreciated				
Land	\$ 354,261	\$ 500	\$ -	\$ 354,761
Construction in progress	<u>334,811</u>	<u>858,756</u>	<u>(92,737)</u>	<u>1,100,830</u>
Total Capital Assets not being depreciated	<u>689,072</u>	<u>859,256</u>	<u>(92,737)</u>	<u>1,455,591</u>
Capital Assets being depreciated				
Sewer system infrastructure				
Constructed	25,628,673	92,737	-	25,721,410
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>(942,548)</u>	<u>-</u>	<u>(14,226,247)</u>
Total Capital Assets being depreciated, net	<u>31,620,376</u>	<u>(849,811)</u>	<u>-</u>	<u>30,770,565</u>
Total Capital Assets, net	<u>\$ 32,309,448</u>	<u>\$ 9,445</u>	<u>\$ (92,737)</u>	<u>\$ 32,226,156</u>

FRANCONIA SEWER AUTHORITY
(A Component Unit of Franconia Township)
Notes to Financial Statements
December 31, 2022 and 2021

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.

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 loan balance is 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 2022 and 2021 are as follows:

	Balance December 31, <u>2021</u>	<u>Additions</u>	<u>Deletions</u>	Balance December 31, <u>2022</u>	Amounts due within <u>one year</u>
Note 2018	\$ 113,716	\$ -	\$ (75,423)	\$ 38,293	\$ 38,293
Series 2019	11,694,000	-	(643,000)	11,051,000	655,000
Note 2019	3,194,722	-	(145,349)	3,049,373	147,974
Issuance discounts	<u>(73,620)</u>	<u>-</u>	<u>7,431</u>	<u>(66,189)</u>	<u>-</u>
Total bonds and notes payable	<u>\$ 14,928,818</u>	<u>\$ -</u>	<u>\$ (856,341)</u>	<u>\$ 14,072,477</u>	<u>\$ 841,267</u>

	Balance December 31, <u>2020</u>	<u>Additions</u>	<u>Deletions</u>	Balance December 31, <u>2021</u>	Amounts due within <u>one year</u>
Note 2018	\$ 187,671	\$ -	\$ (73,955)	\$ 113,716	\$ 75,424
Series 2019	12,325,000	-	(631,000)	11,694,000	643,000
Note 2019	3,139,181	205,775	(150,234)	3,194,722	145,349
Issuance discounts	<u>(81,260)</u>	<u>-</u>	<u>7,640</u>	<u>(73,620)</u>	<u>-</u>
Total bonds and notes payable	<u>\$ 15,570,592</u>	<u>\$ 205,775</u>	<u>\$ (847,549)</u>	<u>\$ 14,928,818</u>	<u>\$ 863,773</u>

FRANCONIA SEWER AUTHORITY
(A Component Unit of Franconia Township)
Notes to Financial Statements
December 31, 2022 and 2021

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 \$271,910 and \$287,607 for the years ended December 31, 2022 and 2021, respectively.

Aggregate maturities on long term debt as of December 31, 2022 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	844,078	226,749	1,070,827
2027	860,401	210,279	1,070,680
2028-2032	4,554,474	793,102	5,347,576
2033-2037	4,498,240	330,945	4,829,185
2038-2040	889,844	23,589	913,433
	<u>\$ 14,138,666</u>	<u>\$ 2,327,295</u>	<u>\$ 16,465,961</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 \$513,661 and \$494,661 for these services during the 2022 and 2021 years, respectively. The Authority paid the Township \$543,023 and \$517,462 during 2022 and 2021, 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
December 31, 2022 and 2021

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.

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, 2022 and 2021 is \$204,604 and \$82,528, respectively.

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