
**LONDON GROVE TOWNSHIP MUNICIPAL AUTHORITY
(A COMPONENT UNIT OF LONDON GROVE TOWNSHIP)
WEST GROVE, PENNSYLVANIA**

BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

LONDON GROVE TOWNSHIP MUNICIPAL AUTHORITY
(A Component Unit of London Grove Township)
LONDON GROVE, PENNSYLVANIA

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INDEPENDENT AUDITOR'S REPORT

June 28, 2023

To the Authority Board
London Grove Township Municipal Authority
West Grove, Pennsylvania

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the London Grove Township Municipal Authority (the Authority), a component unit of London Grove Township, 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 present fairly, in all material respects, the financial position of the Authority as of December 31, 2022 and 2021, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

The Authority's 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,

To the Authority Board
London Grove Township Municipal Authority

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 one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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 and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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.

To the Authority Board
London Grove Township Municipal Authority

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 10 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, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2023, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Barbacane, Thornton & Company LLP
BARBACANE, THORNTON & COMPANY LLP

LONDON GROVE TOWNSHIP MUNICIPAL AUTHORITY
(A Component Unit of London Grove Township)

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

This discussion and analysis of the London Grove Township Municipal Authority (the Authority) of West Grove, Pennsylvania, provides an overview of the Authority's performance for the year ended December 31, 2022. Please read it in conjunction with the Authority's financial statements, which begin on page 11.

FINANCIAL HIGHLIGHTS

- The assets of the Authority exceeded its liabilities at the close of the calendar year by \$26,616,216.
- The assets included cash and cash equivalents of \$3,097,106 (excluding developer deposits), which were available to meet the Authority's obligation to citizens and creditors and for spending at the Authority's discretion.
- Effective January 1, 2021, the Authority entered into an agreement with London Grove Township (the Township) for the Township to assume the water and sewer operations, and the Authority will operate as a rental/financing authority without employees.
- Operating revenues increased by 6% when compared to the prior year.

USING THIS ANNUAL REPORT

This annual report consists of two parts: management's discussion and analysis and the basic financial statements. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Statements

The financial statements report information about the Authority using full accrual accounting methods as utilized by similar business activities in the private sector. These statements offer both short-term and long-term financial information about its activities.

The statement of net position includes all of the Authority's assets and deferred outflows of resources and liabilities and deferred inflows of resources and provides information about the nature and amounts of investments in resources (assets and deferred outflows of resources) and obligations (liabilities and deferred inflows of resources). It also provides the basis for 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 Authority's profitability and creditworthiness. The

LONDON GROVE TOWNSHIP MUNICIPAL AUTHORITY
(A Component Unit of London Grove Township)

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)

statement of cash flows provides information about the Authority's cash receipts and cash payments during the reporting period. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and capital and related financing activities; and provides answers to such questions as, "From where did cash come," "For what was cash used," and "What was the change in cash balance during the reporting period?"

FINANCIAL ANALYSIS OF THE AUTHORITY

One of the most important questions asked about the Authority's finances is, "Is the Authority better or worse off as a result of the year's activities?" The statement of net position and the statement of revenues, expenses, and changes in net position report information about the Authority's activities in a way that will help to answer this question. These two statements report the net position of the Authority and changes in it. The reader can think of the Authority's net position (the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources) as one way to measure financial health or financial position. Over time, increases or decreases in the Authority's net position is one indicator of whether its financial health is improving or deteriorating. However, the reader also will need to consider other nonfinancial factors such as changes in economic conditions, population growth, and new or changed legislation.

The Authority's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$26,616,216 at the close of 2022. Our analysis focuses on the net position (Table 1) and the changes in net position (Table 2) of the Authority.

Table 1

LONDON GROVE TOWNSHIP MUNICIPAL AUTHORITY'S NET POSITION DECEMBER 31, 2022, 2021, AND 2020			
	2022	2021	2020
Assets:			
Current assets	\$ 3,148,400	\$ 2,899,272	\$ 3,916,735
Capital assets	28,558,110	29,394,973	30,231,835
Total Assets	31,706,510	32,294,245	34,148,570
Deferred outflows of resources	-	-	155,413

LONDON GROVE TOWNSHIP MUNICIPAL AUTHORITY
(A Component Unit of London Grove Township)

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)

Table 1

LONDON GROVE TOWNSHIP MUNICIPAL AUTHORITY'S NET POSITION DECEMBER 31, 2022, 2021, AND 2020			
(cont'd)	<u>2022</u>	<u>2021</u>	<u>2020</u>
Liabilities:			
Notes payable	5,039,000	5,230,000	5,417,000
Other liabilities	<u>51,294</u>	<u>51,294</u>	<u>239,299</u>
Total Liabilities	<u>5,090,294</u>	<u>5,281,294</u>	<u>5,656,299</u>
Deferred inflows of resources	<u>-</u>	<u>-</u>	<u>36,283</u>
Net Position:			
Net investment in capital assets	23,519,110	24,164,973	24,814,835
Unrestricted	2,305,472	2,131,861	3,796,566
Restricted	<u>791,634</u>	<u>716,117</u>	<u>-</u>
Total Net Position	<u>\$ 26,616,216</u>	<u>\$ 27,012,951</u>	<u>\$ 28,611,401</u>

The largest portion of the Authority's net position reflects its investment in capital assets (land, buildings, equipment, infrastructure, wastewater treatment plant, ground level water storage facility, and booster pumping station), less any related debt used to acquire those assets that is still outstanding. The majority of the outstanding debt of the Authority was incurred for land acquisition for the purpose of the expansion to the Wastewater Treatment Plant. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The Authority's restricted net position balance increased by \$75,517 in 2022. The restricted funds relate to unspent tapping fees that are reserved for capital additions in the prior year. The remaining balance of unrestricted net position, \$2,305,472 at December 31, 2022, may be used to meet the Authority's operating expenses.

At the end of the current fiscal year, the Authority is able to report a positive balance in net position.

The net position of the Authority decreased by \$396,735 during the current year.

LONDON GROVE TOWNSHIP MUNICIPAL AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)

Table 2 shows the changes in net position for the years ended December 31, 2022, 2021, and 2020.

Table 2

LONDON GROVE TOWNSHIP MUNICIPAL AUTHORITY'S CHANGES IN NET POSITION FOR THE YEARS ENDED DECEMBER 31, 2022, 2021, AND 2020			
	2022	2021	2020
REVENUES			
Program revenues:			
Charges for services	\$ 585,479	\$ 552,827	\$ 2,355,035
Interest	261	1,197	29,696
Total Revenues	585,740	554,024	2,384,731
EXPENSES			
Operating expenses	15,850	1,180,777	1,719,804
Interest on bonds	129,762	134,834	141,203
Depreciation expense	836,863	836,863	833,005
Total Expenses	982,475	2,152,474	2,694,012
CHANGE IN NET POSITION	(396,735)	(1,598,450)	(309,281)
NET POSITION, JANUARY 1	27,012,951	28,611,401	28,920,682
NET POSITION, DECEMBER 31	\$ 26,616,216	\$ 27,012,951	\$ 28,611,401

The Township incorporated the Authority in 1968 for the sole purpose of providing the residents of the Township with public water and sewer. Revenues for the Authority include water and sewer fees and tapping fees.

SUMMARY OF ORGANIZATION AND BUSINESS

The Authority was incorporated in March 1968. The incorporation was in compliance with the requirements of the Act of May 2, 1945, P. L. 382, as amended, known as the "Municipality Authorities Act of 1945." In the Township, the primary purpose of the Authority is to provide public water and sewer to residents within the areas designated to receive these services. Every authority incorporated under this chapter shall be for the purposes of financing working capital; acquiring, holding, constructing, financing, improving, maintaining and operating, owning or leasing projects of

LONDON GROVE TOWNSHIP MUNICIPAL AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)

waterworks, water supply works, water distribution systems, sewers, sewer systems or parts thereof; and sewage treatment works, including works for treating and disposing of industrial waste. The Authority's utmost goal is to provide the best possible service to its residents served by public water and sewer. We are proud to be a Lagoon Treatment/Spray Irrigation Township and will continue to strive for environmental excellence. The disposal of wastewater through groundwater recharge is innovative, and its significance to future generations immeasurable. The Authority recognizes the importance of groundwater recharge and stream preservation and its magnitude of impact to the future of the Township's residents.

The Authority received dedication of its first sewer facility in December 2002. The London Grove Township Municipal Authority Wastewater Treatment Plant No. 1 (LGTM WWTP #1, alternatively known as the Inniscrone Wastewater Treatment Plant) was built by a developer who financed the construction and was then paid back in full through a Reimbursement Agreement as allowed under the Municipality Authorities Act. The Authority owns, maintains, and operates public water and sewer infrastructure within the borders of the Township. All sewer and water revenues of the Authority are pledged for the payment of operating expenses of these systems.

The original treatment plant was constructed to serve a total of 1,080 customers, of which 500 were for the developer who financed construction of the first wastewater treatment plant, and 580 were allocated to the Authority for its use. When new developments are constructed and/or the service is extended to existing homes, developers and residents are charged tapping fees to connect to the system. Tapping fee revenue can be used to pay down debt or pay for capital projects. The last of the original connections for the LGTM WWTP #1 were sold on June 30, 2005.

The Authority provides public wastewater service to all parcels so served in London Grove Township. The majority of Authority sewage customers are served by the LGTM WWTP #1, a lagoon treatment and spray irrigation disposal facility operating under Sewerage Permit No. 1596414.

The customer base for the LGTM WWTP #1 as of December 31, 2022 was comprised of 861 residential connections.

The Authority received an H2O PA Grant in July 2009 in the amount of \$5,000,000. This grant funded a large portion of the cost of the construction of the London Grove Township Municipal Authority Wastewater Treatment Plant No. 2 (LGTM WWTP #2). The grant had a significant effect on the financial picture of the Authority for the first phase of the new wastewater treatment plant. Construction of this plant commenced in the fall of 2010 and was completed in 2013. The formal dedication of the LGTM WWTP #2 took place on July 1, 2013.

The LGTM WWTP #2 located in London Grove Township, Chester County, Pennsylvania, is a lagoon treatment/spray irrigation facility designed to treat an average daily flow of 143,355 gallons per day and a permitted average daily flow of 95,570 gallons. The facility consists of an aerated treatment lagoon, divided into two cells.

LONDON GROVE TOWNSHIP MUNICIPAL AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)

The new treatment plant is permitted under Sewerage Permit No. 1508411 and began accepting sewage flows on September 23, 2013.

The customer base for the LGTMA WWTP #2 as of December 31, 2022 was comprised of 191 residential connections and 179 non-residential connections.

The Authority provides drinking water to its residents in the Township. The water is treated and pumped to our customers from the Chester Water Authority Octoraro Treatment Plant, which produces an average of 30 million gallons per day.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Authority's investment in capital assets as of December 31, 2022 amounted to \$28,558,110, net of accumulated depreciation. This investment in capital assets includes land, buildings and improvements, the wastewater treatment plant, pumping stations, sewer interceptors and force mains, machinery and equipment, the water storage facility, and construction-in-progress. The total decrease, net of depreciation in the Authority's net investment in capital assets for the current fiscal year was \$836,863.

Table 3

LONDON GROVE TOWNSHIP MUNICIPAL AUTHORITY'S CAPITAL ASSETS DECEMBER 31, 2022, 2021, AND 2020			
	2021	2021	2020
Buildings and improvements	\$ 14,201,660	\$ 14,201,660	\$ 14,201,660
Equipment	529,732	529,732	529,732
Land	5,296,668	5,296,668	5,296,668
Infrastructure	19,884,085	19,884,085	19,884,085
Total Capital Assets	39,912,145	39,912,145	39,912,145
Less Accumulated Depreciation	(11,354,035)	(10,517,172)	(9,680,310)
Capital Assets, Net of Depreciation	\$ 28,558,110	\$ 29,394,973	\$ 30,231,835

LONDON GROVE TOWNSHIP MUNICIPAL AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)

Additional information about the Authority's capital assets is presented in Note 3 to the financial statements.

Long-term Debt

In January 2011, the Authority issued the Guaranteed Sewer Revenue Notes Series of 2011, totaling \$6,750,000 for the purpose of funding the construction of the wastewater treatment plant. At December 31, 2022, 2021, and 2020, the Authority had \$5,039,000, \$5,230,000, and \$5,417,000, respectively, in bonds and notes outstanding.

Additional information about the Authority's long-term debt can be found in Note 4 to the financial statements.

NEXT YEAR'S PROJECTS

- The Authority has no planned major construction projects in the near future.

REQUESTS FOR INFORMATION

This financial report was designed to provide a general overview of the London Grove Township Municipal Authority's finances for all those with an interest. Questions concerning any of the information provided herein or requests for additional financial information should be addressed to: Authority Manager, London Grove Township Municipal Authority, 372 Rose Hill Road, West Grove, PA 19390.

LONDON GROVE TOWNSHIP MUNICIPAL AUTHORITY
(A Component Unit of London Grove Township)
STATEMENTS OF NET POSITION
DECEMBER 31, 2022 AND 2021

	2022	2021
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 3,097,106	\$ 2,847,978
Developer deposits - cash	51,294	51,294
Total Current Assets	3,148,400	2,899,272
Noncurrent Assets:		
Capital assets:		
Collection system - infrastructure	19,884,085	19,884,085
Buildings and improvements	14,201,660	14,201,660
Equipment	529,732	529,732
Total Capital Assets	34,615,477	34,615,477
Accumulated depreciation	(11,354,035)	(10,517,172)
Land	5,296,668	5,296,668
Total Noncurrent Assets	28,558,110	29,394,973
TOTAL ASSETS	\$ 31,706,510	\$ 32,294,245
LIABILITIES		
AND NET POSITION		
Current Liabilities:		
Developer deposits	\$ 51,294	\$ 51,294
Current maturities of notes payable	198,000	191,000
Total Current Liabilities	249,294	242,294
Noncurrent Liabilities:		
Notes payable	4,841,000	5,039,000
Total Noncurrent Liabilities	4,841,000	5,039,000
NET POSITION		
Net investment in capital assets	23,519,110	24,164,973
Unrestricted	2,305,472	2,131,861
Restricted - unspent tapping fees	791,634	716,117
Total Net Position	26,616,216	27,012,951
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 31,706,510	\$ 32,294,245

The accompanying notes are an integral part of these financial statements.

LONDON GROVE TOWNSHIP MUNICIPAL AUTHORITY
(A Component Unit of London Grove 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:		
Sale of services/user charges	\$ 585,479	\$ 552,827
TOTAL OPERATING REVENUES	<u>585,479</u>	<u>552,827</u>
OPERATING EXPENSES:		
Depreciation	836,863	836,863
Other operating expenses	15,850	1,180,777
TOTAL OPERATING EXPENSES	<u>852,713</u>	<u>2,017,640</u>
OPERATING LOSS	<u>(267,234)</u>	<u>(1,464,813)</u>
NONOPERATING REVENUES (EXPENSES):		
Interest income	261	1,197
Interest expense and related fees	(129,762)	(134,834)
TOTAL NONOPERATING EXPENSES	<u>(129,501)</u>	<u>(133,637)</u>
CHANGE IN NET POSITION	(396,735)	(1,598,450)
NET POSITION, BEGINNING OF YEAR	<u>27,012,951</u>	<u>28,611,401</u>
NET POSITION, END OF YEAR	<u>\$ 26,616,216</u>	<u>\$ 27,012,951</u>

The accompanying notes are an integral part of these financial statements.

LONDON GROVE TOWNSHIP MUNICIPAL AUTHORITY
(A Component Unit of London Grove 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:		
Received from customers	\$ 585,479	\$1,039,082
Paid to employees for services	-	(194,920)
Paid to suppliers for goods and services	(15,850)	(1,050,575)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>569,629</u>	<u>(206,413)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income	261	1,215
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>261</u>	<u>1,215</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Collection (release) of developer deposits	-	(4,157)
Debt retired	(191,000)	(187,000)
Interest paid and related fees	(129,762)	(134,834)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(320,762)</u>	<u>(325,991)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	249,128	(531,189)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,899,272</u>	<u>3,430,461</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 3,148,400</u>	<u>\$ 2,899,272</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (267,234)	\$ (1,464,813)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation	836,863	836,863
Changes in assets and liabilities:		
(Increase) Decrease in accounts receivable	-	486,255
(Increase) Decrease in deferred outflows related to pension items	-	155,413
Increase (Decrease) in deferred inflows related to pension items	-	(36,283)
Increase (Decrease) in net pension liability	-	(24,766)
Increase (Decrease) in accrued expenses	-	(104,920)
Increase (Decrease) in accounts payable	-	(54,162)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 569,629</u>	<u>\$ (206,413)</u>
Developer deposits - cash	\$ 51,294	\$ 51,294
Cash and cash equivalents	<u>3,097,106</u>	<u>2,847,978</u>
	<u>\$ 3,148,400</u>	<u>\$ 2,899,272</u>

The accompanying notes are an integral part of these financial statements.

LONDON GROVE TOWNSHIP MUNICIPAL AUTHORITY
(A Component Unit of London Grove Township)

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the London Grove Township Municipal Authority (the Authority) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by the Authority are described below.

Reporting Entity

The Authority was incorporated by London Grove Township, West Grove, Pennsylvania, for the purpose of constructing and maintaining a sewage collection system and treatment plant, and providing water and sewer services to residents of the Township. The Authority's personnel costs are paid based on a reimbursement agreement with London Grove Township and are included in other operating expenses on the statement of revenues, expenses, and changes in net position. The Authority is a component unit of the reporting entity for London Grove Township.

Measurement Focus and Basis of Accounting and Financial Statement Presentation

The term "measurement focus" is used to denote what is being measured and reported in the Authority's operating statement. The Authority is accounted for on the flow of economic resources measurement focus. The fundamental objective of this focus is to measure whether the Authority is better or worse off economically as a result of events and transactions of the period.

The term "basis of accounting" is used to determine when a transaction or event is recognized on the Authority's operating statement. The Authority uses the accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

The Authority adheres to the provisions of the *GASB Codification of Governmental Accounting and Financial Reporting Standards* (the Codification). The Codification established standards for external financial reporting for all state and local governmental entities, which includes a statement of net position; a statement of revenues, expenses, and changes in net position; and a statement of cash flows. It requires the classification of net position into three components – net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

- **Net investment in capital assets** – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

LONDON GROVE TOWNSHIP MUNICIPAL AUTHORITY
(A Component Unit of London Grove Township)

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

- **Restricted** – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. It is comprised of assets, net of related liabilities that are required to be set aside by revenue bond covenants for operations, maintenance, and renewal and replacements.
- **Unrestricted** – This component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets." Administrative expenses are paid with the use of unrestricted resources.

The accounting policies of the Authority conform to GAAP applicable to governmental units. The Authority complies with generally accepted accounting principles and applies the Codification.

Cash and Cash Equivalents

Cash deposits consist of demand and time deposits with financial institutions and are carried at cost. For purposes of the statement of cash flows, all cash deposits and highly liquid investments with an original maturity of three months or less when acquired are considered to be cash equivalents.

Developer Deposits

Developer deposits represent deposits held in cash and certificates of deposit made by contractors in relation to various construction projects. The Authority acts as an agent for these deposits and, accordingly, no revenue is recorded. Both assets and liabilities are recorded for the initial amount of deposit.

Revenues and Expenses

Revenues and expenses are distinguished between operating and nonoperating items. Operating revenues generally result from providing services in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are sewer and water fees from Township residents and tapping fees. Starting January 1, 2021, sewer and water fees are collected by the Township, and the Authority's services related revenues are limited to tapping fees.

Operating expenses include the costs associated with the engineering, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

LONDON GROVE TOWNSHIP MUNICIPAL AUTHORITY
(A Component Unit of London Grove Township)

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Use of Restricted/Unrestricted Net Position

When an expense is incurred for purposes for which both restricted and unrestricted net position is available, the Authority's policy is to apply restricted net position first.

Capital Assets

The Authority defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

Capital assets of the Authority are recorded at either their actual cost or estimated historical cost. Donated assets are valued at their estimated fair value on the date donated. Depreciation of all exhaustible capital assets is charged as an expense against their operations. Depreciation is computed using the straight-line method over estimated asset lives as follows:

Infrastructure	20 - 40 years
Buildings and improvements	10 - 40 years
Equipment	5 - 20 years

Major additions and betterments are capitalized while expenses for maintenance and repairs that do not add value to the asset or materially extend asset lives are charged to operations as incurred.

Long-term Obligations

Note issuance costs are expensed at the time of issuance.

Use of Estimates in the Preparation of Financial Statements

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

NOTE 2 DEPOSITS

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. The Authority does not have a policy for custodial credit risk on deposits. At

LONDON GROVE TOWNSHIP MUNICIPAL AUTHORITY
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NOTES TO FINANCIAL STATEMENTS

NOTE 2 DEPOSITS (cont'd)

December 31, 2022, the carrying amount of the Authority's deposits was \$1,140,520, and the bank balance was \$1,140,520. Of the bank balance, \$500,000 was covered by federal depository insurance, and \$640,520 was subject to custodial credit risk because it was fully collateralized by the banks holding the funds but not in the Authority's name. The Authority also holds cash equivalents in the form of certificates of deposit in the amount of \$2,007,880 which are collateralized by the bank holding the funds. At December 31, 2021, the carrying amount of the Authority's deposits was \$891,392, and the bank balance was \$904,754. Of the bank balance, \$398,982 was covered by federal depository insurance, and \$505,772 was subject to custodial credit risk because it was fully collateralized by the banks holding the funds but not in the Authority's name. The Authority also holds cash equivalents in the form of certificates of deposit in the amount of \$2,007,880 which are collateralized by the bank holding the funds.

NOTE 3 CAPITAL ASSETS

A summary of changes in the Authority's capital assets is as follows:

	2022			Balance 12/31/22
	Balance 01/01/22	Additions	Deletions	
Collection system - infrastructure	\$19,884,085	\$ -	\$ -	\$19,884,085
Buildings and building improvements	14,201,660	-	-	14,201,660
Equipment	529,732	-	-	529,732
	<u>34,615,477</u>	-	-	<u>34,615,477</u>
Accumulated depreciation	(10,517,172)	(836,863)	-	(11,354,035)
Land	5,296,668	-	-	5,296,668
NET CAPITAL ASSETS	<u><u>\$29,394,973</u></u>	<u><u>\$(836,863)</u></u>	<u><u>\$ -</u></u>	<u><u>\$28,558,110</u></u>

	2021			Balance 12/31/21
	Balance 01/01/21	Additions	Deletions	
Collection system - infrastructure	\$19,884,085	\$ -	\$ -	\$19,884,085
Buildings and building improvements	14,201,660	-	-	14,201,660
Equipment	529,732	-	-	529,732
	<u>34,615,477</u>	-	-	<u>34,615,477</u>
Accumulated depreciation	(9,680,310)	(836,862)	-	(10,517,172)
Land	5,296,668	-	-	5,296,668
NET CAPITAL ASSETS	<u><u>\$30,231,835</u></u>	<u><u>\$(836,862)</u></u>	<u><u>\$ -</u></u>	<u><u>\$29,394,973</u></u>

LONDON GROVE TOWNSHIP MUNICIPAL AUTHORITY
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NOTES TO FINANCIAL STATEMENTS

NOTE 4 SEWER REVENUE NOTES

On January 4, 2011, the Authority issued the Guaranteed Sewer Revenue Notes, Series of 2011 for the purpose of funding the construction of the wastewater treatment plant. These notes totaled \$6,750,000. The notes mature through June 25, 2041 with interest payable semi-annually at rates ranging from 1.990% to 3.385%.

A schedule of changes in bonded debt is as follows:

		2022				
		Outstanding 01/01/22	Additions	Retirements	Outstanding 12/31/22	Amounts Due in One Year
Sewer Revenue Notes		\$ 5,230,000	\$ -	\$ 191,000	\$ 5,039,000	\$ 198,000
		\$ 5,230,000	\$ -	\$ 191,000	\$ 5,039,000	\$ 198,000
		2021				
		Outstanding 01/01/21	Additions	Retirements	Outstanding 12/31/21	Amounts Due in One Year
Sewer Revenue Notes		\$ 5,417,000	\$ -	\$ 187,000	\$ 5,230,000	\$ 191,000
		\$ 5,417,000	\$ -	\$ 187,000	\$ 5,230,000	\$ 191,000

Sewer Revenue Notes mature as follows:

December 31,	Series of 2011		Total
	Principal	Interest	
2023	\$ 198,000	\$ 122,199	\$ 320,199
2024	204,000	117,050	321,050
2025	208,000	111,799	319,799
2026	215,000	106,372	321,372
2027	220,000	100,819	320,819
2028-2032	1,198,000	415,012	1,613,012
2033-2037	1,434,000	246,998	1,680,998
2038-2041	1,362,000	53,136	1,415,136
Totals	\$ 5,039,000	\$ 1,273,385	\$ 6,312,385

LONDON GROVE TOWNSHIP MUNICIPAL AUTHORITY
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NOTES TO FINANCIAL STATEMENTS

NOTE 4 SEWER REVENUE NOTES (cont'd)

Interest Rate Management: The Authority has notes outstanding with the Delaware Valley Regional Finance Authority (DVRFA), as described below. The DVRFA has issued bonds to provide funds for these loans and has entered into interest rate swap agreements with Bank of America (BANA), Barclay's Bank PLC, Citibank N.A., and PNC Bank. The objective is to reduce the costs of participants in the DVRFA Loan Program and to enhance the ability of participants to manage their interest rate risks. The interest rate swaps serve as hedges against swings in the cash flows that would be required to repay outstanding debt.

Terms: The significant terms of the interest rate swap were as follows:

Description	Date of Issue	Maturity Date	Principal Outstanding	Type of Note	Rate in Effect at Year End	Market Value
GO Notes a	2011	2032	\$ 733,000	Fixed	2.000%	\$ 21,016
GO Notes b	2011	2032	752,000	Fixed	2.715%	21,561
GO Notes c	2011	2032	758,000	Fixed	3.385%	21,733
GO Notes d	2011	2041	1,500,000	Fixed	1.990%	43,007
GO Notes v	2011	2041	1,296,000	Fixed	2.825%	37,158
			<u>\$5,039,000</u>			<u>\$144,475</u>

Interest Rate Risk: The Authority has the option under the loan agreements to pay a variable rate of interest or a fixed rate. If the Authority elects the variable rate, the interest rate, based upon the Securities Industry and Financial Markets Association Municipal Swap Index (the Municipal Swap Index), adjusts weekly with a maximum interest rate of 15%. If the Authority elects a fixed rate, the rate, with terms and conditions selected by the Authority, would be set based upon the fixed rate swap market at that time with a new confirm executed by DVRFA under the DVRFA Swap Agreement. The Authority has the option to convert all or a portion of the variable rate notes to a fixed rate at any time to mitigate the exposure to changes in interest rates.

Basis Risk: The Authority does not have a basis risk.

Credit Risk: The Authority is exposed to credit risk on the swaps only when their fair values are negative or liabilities. At December 31, 2022, the swap had a positive fair value, and the maximum amount of loss due to credit risk is zero. The long-term unsecured senior debt ratings of DVRFA are currently A1 and A+ by Moody's and Standards & Poor's, respectively.

Termination Risk: The Authority is obligated to pay any termination payment associated with the portion of the DVRFA Swap Agreement allocable to the applicable note. A termination payment may be incurred due to the termination of all or a portion of the DVRFA Swap Agreement with

LONDON GROVE TOWNSHIP MUNICIPAL AUTHORITY
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NOTES TO FINANCIAL STATEMENTS

NOTE 4 SEWER REVENUE NOTES (cont'd)

the mutual consent of DVRFA, BANA, Barclay's Bank PLC, Citibank N.A., PNC Bank, and the Authority. These termination payments could be triggered in the event of (i) a payment default by the Authority under the Loan Agreement; (ii) a payment default by DVRFA, BANA, Barclay's Bank PLC, Citibank N.A., or PNC Bank under the DVRF A Swap Agreement; (iii) the occurrence of events that may precipitate a payment default by DVRFA, BANA, Barclay's Bank PLC, Citibank N.A., or PNC Bank; or (iv) the downgrading of the long-term, unsecured, senior debt ratings of BANA, Barclay's Bank PLC, Citibank N.A., PNC Bank, or DVRFA.

In all instances of termination, except a payment default on a note converted to a fixed rate, DVRFA would seek to replace the DVRFA Swap Agreement with a new interest rate swap agreement with similar terms and conditions. The amount of the termination payment is determined by the market value of the DVRFA Swap Agreement; therefore, the cost or income of the replacement swap should offset the cost or income from the termination payment.

DVRFA may not be able to secure the replacement interest rate swap if the swap market is not functioning normally or if DVRFA does not have access to the swap market. If DVRFA was obligated to make a payment and sufficient funds were not available, DVRFA could assess each borrower its allocable share of the termination payment.

The estimated termination payment (i.e., the market value) for the DVRFA Swap Agreement allocable to the Authority debt as of December 31, 2022 is shown in the table on page 19. In the event of a termination payment, DVRFA would assess the net loss, if any, to the Authority. Any net gain on the termination payment allocable to variable rate notes would be retained by DVRFA.

Rollover Risk: This is the risk that the derivative does not last as long as the associated debt is outstanding. There is rollover risk on the interest rate swaps only to the extent that the swaps may be terminated prior to the maturity of the debt, as described above. Absent a termination event, the swap is scheduled to mature at the same time as the related debt.

Market Access Risk: The Authority does not have this risk.

NOTE 5 RISK MANAGEMENT

The Authority has purchased commercial insurance policies for various risks of loss related to torts; theft, damage, or destruction of assets; errors or omissions; injuries to employees; or acts of God. Payments of premiums for these policies are recorded as expenses of the Authority by the primary government. Insurance settlements have not exceeded insurance coverage in any of the past three years. There were no significant reductions in coverage compared to the prior year.

LONDON GROVE TOWNSHIP MUNICIPAL AUTHORITY
(A Component Unit of London Grove Township)

NOTES TO FINANCIAL STATEMENTS

NOTE 6 CONTINGENT LIABILITIES

The Authority is subject to various disputes and legal proceedings which arise in the normal course of its operations. In the opinion of management, the amount of ultimate liability with respect to these activities will not be material to the Authority's financial condition.

NOTE 7 RELATED PARTY AGREEMENT

Effective fiscal year 2021, the Authority and London Grove Township have entered into an agreement for the Township to assume the water and sewer operations, and the Authority will operate as a rental/financing authority without employees. Under the terms of the agreement, the Township has established a sewer reserve and covenants to pay rents to the Authority at an amount to be determined annually based on the amount necessary for the Authority to pay its administrative expenses and debt service costs.

NOTE 8 SUBSEQUENT EVENTS

The Authority has evaluated all subsequent events through June 28, 2023, the date the financial statements were available to be issued.

**LONDON GROVE TOWNSHIP MUNICIPAL AUTHORITY
(A Component Unit of London Grove Township)**

OTHER REPORT



INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

June 28, 2023

To the Authority Board
London Grove Township Municipal Authority
West Grove, Pennsylvania

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the statements of net position, revenues, expenses and changes in net position, and cash flows of the London Grove Township Municipal Authority (the Authority), West Grove, Pennsylvania, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the basic financial statements, and have issued our report thereon dated June 28, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

To the Authority Board
London Grove Township Municipal Authority

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


BARBACANE, THORNTON & COMPANY LLP