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

**BASIC FINANCIAL STATEMENTS**

**DECEMBER 31, 2020 AND 2019**

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

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## INDEPENDENT AUDITOR'S REPORT

June 2, 2021

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

### Report on the Financial Statements

We have audited the accompanying 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, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

To the Authority Board  
London Grove Township Municipal Authority

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### Basis for Qualified Opinion

As disclosed in note 5 to the financial statements, the Authority's net pension liability and related deferrals as of December 31, 2020 have been recorded using a measurement date of December 31, 2018, the most current available information. However, accounting principles generally accepted in the United States of America require the use of a measurement date no more than twelve months prior to the financial statement date. The effects on the financial statements are not able June 2, 2021.

#### Qualified Opinion

In our opinion, except for the effects, if any, of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the net position of the Authority as of December 31, 2020 and 2019, and changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### Other Matters

##### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 10; schedule of changes in net pension liability (asset), related ratios, and investment returns on page 28; and schedule of employer contributions and notes to required supplementary information on page 29 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.

To the Authority Board  
London Grove Township Municipal Authority

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 2, 2021, 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 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 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, 2020. Please read it in conjunction with the Authority's financial statements, which begin on page 11.

**FINANCIAL HIGHLIGHTS**

- The assets and deferred outflows of resources of the Authority exceeded its liabilities and deferred inflows of resources at the close of the calendar year by \$28,611,401.
- The assets included cash and cash equivalents of \$3,375,010 (excluding developer deposits), which were available to meet the Authority's obligation to citizens and creditors and for spending at the Authority's discretion.
- Operating revenues remained relatively stable with no significant increases from the prior year.
- In 2015, the Authority implemented GASB Statement No. 68, "Accounting and Financial Reporting for Pensions," and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68," which generally requires state and local governments whose employers are provided with defined benefit pensions through an agent multiple employer public retirement system, such as PMRS, to account for and report annual pension cost and outstanding pension obligations. The total net pension liability reported at December 31, 2020 was \$24,766.

**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

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

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

(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 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 \$28,611,401 at the close of 2020. Our analysis focuses on the net position (Table 1) and the changes in net position (Table 2) of the Authority.

*Table 1*

<b>LONDON GROVE TOWNSHIP MUNICIPAL AUTHORITY'S NET POSITION DECEMBER 31, 2020, 2019, AND 2018</b>			
	2020	2019	2018
Assets:			
Current assets	\$ 3,916,735	\$ 3,622,833	\$ 3,328,082
Noncurrent assets	30,231,835	30,993,092	31,667,668
Total Assets	34,148,570	34,615,925	34,995,750
Deferred outflows of resources	155,413	155,413	161,705

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

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

*Table 1*

<b>LONDON GROVE TOWNSHIP MUNICIPAL AUTHORITY'S NET POSITION DECEMBER 31, 2020, 2019, AND 2018</b>			
	2020	2019	2018
(cont'd)			
Notes payable	5,417,000	5,595,000	5,767,000
Other liabilities	239,299	219,373	140,011
Total Liabilities	5,656,299	5,814,373	5,907,011
Deferred inflows of resources	36,283	36,283	107,351
Net Position:			
Net investment in capital assets	24,814,835	25,398,092	25,832,367
Unrestricted	3,796,566	3,522,590	3,310,726
Total Net Position	\$ 28,611,401	\$ 28,920,682	\$ 29,143,093

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 remaining balance of unrestricted net position, \$3,796,566 at December 31, 2020, 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 \$309,281 during the current year. This decrease represents the degree to which expenses have outstripped similar increases in ongoing revenues.

The Authority's operating revenues and expenses remained relatively stable with revenues increasing less than one percent and expenses increasing four percent from the prior year levels.

Table 2 shows the changes in net position for the years ended December 31, 2020, 2019, and 2018.

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

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

*Table 2*

<b>LONDON GROVE TOWNSHIP MUNICIPAL AUTHORITY'S CHANGES IN NET POSITION FOR THE YEARS ENDED DECEMBER 31, 2020, 2019, AND 2018</b>			
	2020	2019	2018
<b>REVENUES</b>			
Program revenues:			
Charges for services	\$ 2,355,035	\$ 2,343,457	\$ 2,286,184
Interest	29,696	37,839	15,344
Total Revenues	2,384,731	2,381,296	2,301,528
<b>EXPENSES</b>			
Operating expenses	1,719,804	1,623,227	1,616,532
Interest on bonds	141,203	149,169	142,306
Depreciation expense	833,005	831,311	826,088
Total Expenses	2,694,012	2,603,707	2,584,926
<b>CHANGE IN NET POSITION</b>	(309,281)	(222,411)	(283,398)
<b>NET POSITION, JANUARY 1</b>	28,920,682	29,143,093	29,426,491
<b>NET POSITION, DECEMBER 31</b>	\$ 28,611,401	\$ 28,920,682	\$ 29,143,093

London Grove Township incorporated the Authority in 1968 for the sole purpose of providing the residents of London Grove 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 London Grove 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 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.

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

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

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 London Grove Township's residents.

The Authority received dedication of its first sewer facility in December of 2002. The LGTMA 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 London Grove 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 LGTMA 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 LGTMA WWTP #1, a lagoon treatment and spray irrigation disposal facility operating under Sewerage Permit No. 1596414.

The customer base for WWTP #1 as of December 31, 2020 was comprised of 874 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 LGTMA 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 LGTMA WWTP #2 took place on July 1, 2013.

The London Grove Township Municipal Authority Wastewater Treatment Plant No. 2, ("LGTMA 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.

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

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

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

The customer base for WWTP #2 as of December 31, 2020 was comprised of 205 residential connections and 183 non-residential connections.

The Authority provides drinking water to its residents in London Grove 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, 2020 amounted to \$30,231,835 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 \$761,257.

**Table 3**

<b>LONDON GROVE TOWNSHIP MUNICIPAL AUTHORITY'S CAPITAL ASSETS DECEMBER 31, 2020, 2019, AND 2018</b>			
	2020	2019	2018
Buildings and improvements	\$ 14,201,660	\$ 14,173,354	\$ 14,173,354
Equipment	529,732	493,277	414,199
Land	5,296,668	5,296,668	5,296,668
Infrastructure	19,884,085	19,731,140	19,731,140
Construction-in-progress	-	145,958	-
Total Capital Assets	39,912,145	39,840,397	39,615,361
Less Accumulated Depreciation	(9,680,310)	(8,847,305)	(8,015,994)
Capital Assets, Net of Depreciation	<u>\$ 30,231,835</u>	<u>\$ 30,993,092</u>	<u>\$ 31,599,367</u>

The Authority's capital assets increased in the amount of \$71,748 during the current year. This increase is primarily due to additions in buildings and improvements totaling \$28,305, additions to infrastructure of \$6,988 as well as additions in equipment of \$36,455.

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (cont'd)**

***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, 2020, 2019, and 2018, the Authority had \$5,417,000, \$5,595,000, and \$5,767,000, 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 MUNICIPAL TOWNSHIP AUTHORITY**  
**(A Component Unit of London Grove Township)**  
**STATEMENTS OF NET POSITION**  
**DECEMBER 31, 2020 AND 2020**

	2020	2019
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 3,375,010	\$ 1,085,967
Investments	-	1,978,077
Developer deposits - cash	55,451	79,390
Prepaid expenses	-	4,958
Interest receivable	19	1,015
Accounts receivable	486,255	473,426
Total Current Assets	3,916,735	3,622,833
Noncurrent Assets:		
Collection system - infrastructure	19,884,085	19,731,140
Buildings and improvements	14,201,660	14,173,354
Equipment	529,732	493,277
Total Capital Assets	34,615,477	34,397,771
Accumulated depreciation	(9,680,310)	(8,847,305)
Construction-in-progress	-	145,958
Land	5,296,668	5,296,668
Total Noncurrent Assets	30,231,835	30,993,092
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred charges related to pension items	155,413	155,413
	155,413	155,413
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 34,303,983</b>	<b>\$ 34,771,338</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>		
Current Liabilities:		
Accounts payable	\$ 54,162	\$ 110,043
Accrued liabilities	104,920	5,174
Developer deposits	55,451	79,390
Current maturities of notes payable	187,000	178,000
Total Current Liabilities	401,533	372,607
Noncurrent Liabilities:		
Notes payable	5,230,000	5,417,000
Net pension liability	24,766	24,766
Total Noncurrent Liabilities	5,254,766	5,441,766
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred charges related to pension items	36,283	36,283
	36,283	36,283
<b>NET POSITION</b>		
Net investment in capital assets	24,814,835	25,398,092
Unrestricted	3,796,566	3,522,590
Total Net Position	28,611,401	28,920,682
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<b>\$ 34,303,983</b>	<b>\$ 34,771,338</b>

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, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
OPERATING REVENUES:		
Sale of services/user charges	\$ 2,355,035	\$ 2,343,457
TOTAL OPERATING REVENUES	<u>2,355,035</u>	<u>2,343,457</u>
OPERATING EXPENSES:		
Depreciation	833,005	831,311
Other operating expenses	1,719,804	1,623,227
TOTAL OPERATING EXPENSES	<u>2,552,809</u>	<u>2,454,538</u>
OPERATING LOSS	<u>(197,774)</u>	<u>(111,081)</u>
NONOPERATING REVENUES (EXPENSES):		
Interest income	29,696	37,839
Interest expense and related fees	(141,203)	(149,169)
TOTAL NONOPERATING EXPENSES	<u>(111,507)</u>	<u>(111,330)</u>
CHANGE IN NET POSITION	(309,281)	(222,411)
NET POSITION, BEGINNING OF YEAR	<u>28,920,682</u>	<u>29,143,093</u>
NET POSITION, END OF YEAR	<u>\$ 28,611,401</u>	<u>\$ 28,920,682</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, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Received from customers	\$ 2,342,206	\$2,314,345
Paid to employees for services	(342,857)	(301,008)
Paid to suppliers for goods and services	<u>(1,328,124)</u>	<u>(1,242,931)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>671,225</u>	<u>770,406</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment sale (purchase)	1,978,077	(361,879)
Investment income	<u>30,692</u>	<u>37,925</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>2,008,769</u>	<u>(323,954)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
(Release) collection of developer deposits	(23,939)	3,599
Acquisition and construction of capital assets	(71,748)	(225,036)
Debt retired	(178,000)	(172,000)
Interest paid and related fees	<u>(141,203)</u>	<u>(149,169)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(414,890)</u>	<u>(542,606)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,265,104	(96,154)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,165,357</u>	<u>1,261,511</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 3,430,461</u>	<u>\$ 1,165,357</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	\$ (197,774)	\$ (111,081)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	833,005	831,311
Changes in assets and liabilities:		
Increase in accounts receivable	(12,829)	(24,154)
Decrease (Increase) in prepaid expenses	4,958	(4,958)
Decrease in net pension asset	-	68,301
Decrease in deferred outflows related to pension items	-	6,292
Decrease in deferred inflows related to pension items	-	(71,068)
Increase in net pension liability	-	24,766
Increase (Decrease) in accrued expenses	99,746	(1,767)
(Decrease) Increase in accounts payable	<u>(55,881)</u>	<u>52,764</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 671,225</u>	<u>\$ 770,406</u>
Developer deposits - cash	\$ 55,451	\$ 79,390
Cash and cash equivalents	<u>3,375,010</u>	<u>1,085,967</u>
	<u>\$ 3,430,461</u>	<u>\$ 1,165,357</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

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)

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.

- **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.

Investments

Investments are recorded at fair value.

In establishing the fair value of investments, the Authority uses the following hierarchy. The lowest level of valuation available is used for all investments.

*Level 1* – Valuations based on quoted market prices in active markets for identical assets or liabilities that the entity has the ability to access.

*Level 2* – Valuations based on quoted prices of similar products in active markets or identical products in markets that are not active or for which all significant inputs are observable, directly or indirectly.

*Level 3* – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

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)

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.

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.

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.

LONDON GROVE TOWNSHIP MUNICIPAL AUTHORITY  
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NOTES TO FINANCIAL STATEMENTS

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

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 December 31, 2020, the carrying amount of the Authority's deposits was \$3,430,461 and the bank balance was \$3,507,393. Of the bank balance, \$500,000 was covered by federal depository insurance, and \$3,007,393 was subject to custodial credit risk because it was fully collateralized by the banks holding the funds but not in the Authority's name. At December 31, 2019, the carrying amount of the Authority's deposits was \$1,165,357 and the bank balance was \$1,177,321. Of the bank balance, \$500,000 was covered by federal depository insurance, and \$677,321 was subject to custodial credit risk because it was fully collateralized by the banks holding the funds but not in the Authority's name.

*Investments*

The Pennsylvania Municipal Authorities Act authorizes the Authority to invest in U.S. Treasury bills, short-term obligations of the federal government, deposits in savings accounts or time deposits of institutions that are insured by the Federal Deposit Insurance Corporation ("FDIC"), obligations of the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America or the Commonwealth of Pennsylvania, shares of an investment company registered under the Investment Company Act of 1940 whose shares are registered under the Securities Act of 1933 if the only investments of that company are authorized investments for Authority funds, and certificates of deposit purchased from institutions insured by the FDIC.

LONDON GROVE TOWNSHIP MUNICIPAL AUTHORITY  
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NOTES TO FINANCIAL STATEMENTS

NOTE 2 DEPOSITS (cont'd)

As of December 31, 2020, the Authority did not hold any investments. As of December 31, 2019, the Authority had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Level 2</u>	<u>Less Than One Year</u>
Certificates of deposit	<u>\$ 1,978,077</u>	<u>\$ 1,978,077</u>	<u>\$ 1,978,077</u>

The Authority's Level 2 investments in certificates of deposit are valued based on the value at which the investment could be redeemed as of the report date.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. As of December 31, 2020, and 2019, none of the Authority's investments were subject to custodial credit risk.

NOTE 3 CAPITAL ASSETS

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

	2020			Balance 12/31/20
	Balance 01/01/20	Additions	Deletions	
Collection system - infrastructure	\$19,731,140	\$ 152,945	\$ -	\$19,884,085
Buildings and building improvements	14,173,354	28,306	-	14,201,660
Equipment	493,277	36,455	-	529,732
	<u>34,397,771</u>	<u>217,706</u>	<u>-</u>	<u>34,615,477</u>
Accumulated depreciation	(8,847,305)	(833,005)	-	(9,680,310)
Land	5,296,668	-	-	5,296,668
Construction-in-progress	145,958	-	(145,958)	-
<b>NET CAPITAL ASSETS</b>	<u><b>\$30,993,092</b></u>	<u><b>\$(615,299)</b></u>	<u><b>\$(145,958)</b></u>	<u><b>\$30,231,835</b></u>

LONDON GROVE TOWNSHIP MUNICIPAL AUTHORITY  
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NOTES TO FINANCIAL STATEMENTS

NOTE 3 CAPITAL ASSETS (cont'd)

	2019			
	Balance 01/01/19	Additions	Deletions	Balance 12/31/19
Collection system - infrastructure	\$19,731,140	\$ -	\$ -	\$19,731,140
Buildings and building improvements	14,173,354	-	-	14,173,354
Equipment	414,199	79,078	-	493,277
	34,318,693	79,078	-	34,397,771
Accumulated depreciation	(8,015,994)	(831,311)	-	(8,847,305)
Land	5,296,668	-	-	5,296,668
Construction-in-progress	-	145,958	-	145,958
	\$31,599,367	\$(606,275)	\$ -	\$30,993,092
NET CAPITAL ASSETS	\$31,599,367	\$(606,275)	\$ -	\$30,993,092

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 percent to 3.385 percent.

A schedule of changes in bonded debt is as follows:

	2020				
	Outstanding 01/01/20	Additions	Retirements	Outstanding 12/31/20	Amounts Due in One Year
Sewer Revenue Notes	\$ 5,595,000	\$ -	\$ 178,000	\$ 5,417,000	\$ 187,000
	\$ 5,595,000	\$ -	\$ 178,000	\$ 5,417,000	\$ 187,000
	2019				
	Outstanding 01/01/19	Additions	Retirements	Outstanding 12/31/19	Amounts Due in One Year
Sewer Revenue Notes	\$ 5,767,000	\$ -	\$ 172,000	\$ 5,595,000	\$ 178,000
	\$ 5,767,000	\$ -	\$ 172,000	\$ 5,595,000	\$ 178,000

LONDON GROVE TOWNSHIP MUNICIPAL AUTHORITY  
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NOTES TO FINANCIAL STATEMENTS

NOTE 4 SEWER REVENUE NOTES (cont'd)

Sewer Revenue Notes mature as follows:

December 31,	Series of 2011		Total
	Principal	Interest	
2021	\$ 187,000	\$ 137,341	\$ 324,341
2022	191,000	127,758	318,758
2023	198,000	122,738	320,738
2024	204,000	117,565	321,565
2025	208,000	112,292	320,292
2026 - 2030	1,134,000	476,753	1,610,753
2031 - 2035	1,327,000	319,382	1,646,382
2036 - 2040	1,609,000	130,268	1,739,268
2041	359,000	-	359,000
Totals	<u>\$ 5,417,000</u>	<u>\$ 1,544,097</u>	<u>\$ 6,961,097</u>

*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	\$ 862,000	Fixed	2.000%	\$141,621
GO Notes b	2011	2032	881,000	Fixed	2.715%	144,742
GO Notes c	2011	2032	878,000	Fixed	3.385%	144,249
GO Notes d	2011	2041	1,500,000	Fixed	1.990%	246,440
GO Notes e	2011	2041	1,296,000	Fixed	2.825%	212,924
			<u>\$5,417,000</u>			<u>\$889,976</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 percent. If the Authority elects a fixed rate, the rate, with terms and conditions selected by the Authority, would

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NOTES TO FINANCIAL STATEMENTS

NOTE 4 SEWER REVENUE NOTES (cont'd)

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, 2020, 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 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 DVRFA 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, 2020 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

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NOTES TO FINANCIAL STATEMENTS

NOTE 4 SEWER REVENUE NOTES (cont'd)

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 PENSION PLAN

Plan Description

The Authority's pension plan, established in 2013, is a single-employer defined benefit pension plan controlled by the provisions of Resolution No. 2013-04 adopted pursuant to Act 15 of 1974. The plan participates in the Pennsylvania Municipal Retirement System ("PMRS"), which is an agent multiple-employer public retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Comprehensive Annual Financial Report ("CAFR"). The CAFR is available on the PMRS Website. A copy can be obtained by contacting the PMRS accounting office.

The plan provides retirement, disability, and death benefits to plan members and their beneficiaries. Cost-of-living allowances are provided at the discretion of the plan.

Act 205 requires that annual contributions be based upon the plan's Minimum Municipal Obligation ("MMO"). The MMO is based upon the plan's biennial actuarial valuation. The Authority's 2020 MMO contribution totaled \$16,739. In accordance with the plan's governing ordinance or resolution as applicable, members are required to contribute 3.00 percent to the compensation plan.

The plan may be eligible to receive an allocation of state aid from the General Municipal Pension System State Aid Program, which must be used for pension funding. Any funding requirements established by the MMO in excess of employee contributions and state aid must be paid by the municipality in accordance with Act 205.

Administrative costs, including the investment manager, custodial trustee, and actuarial services, are charged to the plan and funded through investment earnings.

Plan Membership

Actuarial Valuation Report Form 205, filed with the Public Employee Retirement Commission and dated as of January 1, 2019, the most recent actuarial valuation, disclosed that pension plan membership consisted of the following:

Active employees	5
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LONDON GROVE TOWNSHIP MUNICIPAL AUTHORITY  
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NOTES TO FINANCIAL STATEMENTS

NOTE 5 PENSION PLAN (cont'd)

Discount Rate

The discount rate used to measure the total pension liability is 5.25 percent. The projection of cash flows used to determine the discount rate assumes that the employer will continue the historical and legally required practice of contributing to the plan based on an actuarially determined contribution, reflecting a payment equal to annual normal cost, the expected administrative expenses, and an amount necessary to amortize the remaining unfunded actuarial liability as a level dollar amount over a closed period. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Rate of Return

The long-term expected rate of return on pension plan investments was determined using the building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The pension plan's policy in regard to the allocation of invested plan assets is established and may be amended by the PMRS Board of Directors. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension.

A schedule of plan investments by asset class, target allocations, and long-term expected real rate of return is as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equities (large capitalized firms)	25%	4.6%
Domestic equities (small capitalized firms)	15%	7.3%
International equities (international developed markets)	15%	3.5%
International equities (emerging markets)	10%	8.3%
Real estate	20%	5.4%
Fixed income	15%	1.1%
	<u>100%</u>	<u>4.8%</u>

LONDON GROVE TOWNSHIP MUNICIPAL AUTHORITY  
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NOTES TO FINANCIAL STATEMENTS

NOTE 5 PENSION PLAN (cont'd)

The above was the PMRS Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of December 31, 2018.

Net Pension Liability

The Authority's net pension liability has been measured as of December 31, 2018. The total pension liability was determined by an actuarial valuation as of December 31, 2018, calculated based on the discount rate and actuarial assumptions. There have been no significant changes between the valuation date and the fiscal year end. The net pension liability is \$24,766, measured as the difference between the total pension liability of \$651,818 and the fiduciary net position of \$627,052.

The Authority's change in total pension liability, plan fiduciary net position, and net pension liability for the year ended December 31, 2018 were as follows:

	Total Pension Liability (A)	Plan Fiduciary Net Position (B)	Net Pension Liability (Asset) (A) - (B)
Balances as of December 31, 2017	\$ 575,522	\$ 643,823	\$ (68,301)
Changes for the year:			
Service cost	29,140	-	29,140
Interest on total pension liability	31,718	-	31,718
Change of benefits	2,178	-	2,178
Differences between expected and actual experience	14,278	-	14,278
Employer contributions	-	19,533	(19,533)
PMRS contributions	-	120	(120)
Member contributions	-	8,632	(8,632)
PMRS investment income	-	32,442	(32,442)
Market value investment income	-	(74,932)	74,932
Benefit payments	(1,018)	(1,018)	-
PMRS admin expenses	-	(100)	100
Additional admin expenses	-	(1,448)	1,448
Net changes	<u>76,296</u>	<u>(16,771)</u>	<u>93,067</u>
Balances as of December 31, 2018	<u>\$ 651,818</u>	<u>\$ 627,052</u>	<u>\$ 24,766</u>

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

NOTES TO FINANCIAL STATEMENTS

NOTE 5 PENSION PLAN (cont'd)

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the net pension liability (asset) of the Authority calculated using the discount rate 5.25 percent, as well as what the net pension liability would be if it were calculated using the discount rate that is one percentage point lower (4.25 percent) or one percentage point higher (6.25 percent) than the current rate:

	1% Decrease 4.25%	Current Discount Rate 5.25%	1% Increase 6.25%
Net Pension Liability (Asset)	\$ 113,832	\$ 24,766	\$ (51,873)

Pension Expense and Deferred Outflows of Resources Related to Pension

The Authority recognized net pension expense of \$16,739 and \$28,291 for the years ended December 31, 2020 and 2019, respectively. At December 31, 2020, the Authority reported deferred inflows and outflows of resources related to pensions from the following sources:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Difference between expected and actual experience	\$ 25,086	\$ 106,526
Net difference between projected and actual earnings on pension plan investments	-	19,810
Change in assumptions	11,197	12,059
Contributions subsequent to the measurement date	-	17,018
	\$ 36,283	\$ 155,413

An amount of \$17,018, reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended December 31, 2021.

Other amounts reported as deferred inflows of resources and deferred outflows of resources related to pensions will be recognized in pension expense as follows:

LONDON GROVE TOWNSHIP MUNICIPAL AUTHORITY  
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NOTES TO FINANCIAL STATEMENTS

NOTE 5 PENSION PLAN (cont'd)

Year Ending December 31,

2021	\$	21,555
2022		13,668
2023		18,439
2024		31,268
2025		16,276
Thereafter		906
		\$ 102,112

Actuarial Methods and Significant Assumptions

Actuarial assumptions:

Investment rate of return	5.25%
Discount rate	5.25%
Projected salary increases	Age related scale with merit and inflation component
Cost of living adjustments	3.00% for those eligible for a COLA
Pre-retirement mortality	Males - RP 2000 with one-year setback; Females - RP 2000 with five-year set back
Post-retirement mortality	Sex distinct RP 2000 combined healthy mortality

NOTE 6 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.

NOTE 7 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.

LONDON GROVE TOWNSHIP MUNICIPAL AUTHORITY  
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NOTES TO FINANCIAL STATEMENTS

NOTE 8 CAPITAL IMPROVEMENTS COMMITMENTS

The Authority has incurred costs totaling \$0 and \$145,958 for project costs that are not under a formal contract as of December 31, 2020 and December 31, 2019, respectively.

NOTE 9 UNCERTAINTIES

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which are likely to negatively impact the Authority's income in 2021. Other financial impact could occur though such potential impact is unknown at this time.

NOTE 10 SUBSEQUENT EVENTS

The Authority has evaluated all subsequent events through June 2, 2021, the date the financial statements were available to be issued.

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

**REQUIRED SUPPLEMENTARY INFORMATION**

**LONDON GROVE TOWNSHIP MUNICIPAL AUTHORITY**  
**(A Component Unit of London Grove Township)**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET), RELATED RATIOS, AND INVESTMENT RETURNS**

**REQUIRED SUPPLEMENTARY INFORMATION**

	2018	2017	2016	2015	2014
<b>TOTAL PENSION LIABILITY</b>					
Service cost	\$ 29,140	\$ 26,251	\$ 34,457	\$ 30,276	\$ 29,455
Interest on total pension liability	31,718	28,709	33,699	36,699	23,699
Change in benefits	2,178	-	-	-	-
Differences between expected and actual experience	14,278	-	(35,838)	-	187,096
Changes of assumptions	-	-	17,228	(18,665)	-
Transfers	-	(45)	(211,562)	-	(4,181)
Benefit payments	(1,018)	-	-	(5,257)	-
Net change in total pension liability	<u>76,296</u>	<u>54,915</u>	<u>(162,016)</u>	<u>43,053</u>	<u>236,069</u>
Total pension liability, beginning	575,522	520,607	682,623	639,570	403,501
Total pension liability, ending (a)	<u>\$ 651,818</u>	<u>\$ 575,522</u>	<u>\$ 520,607</u>	<u>\$ 682,623</u>	<u>\$ 639,570</u>
<b>FIDUCIARY NET POSITION</b>					
Contributions - employer	\$ 19,533	\$ 17,692	\$ 22,041	\$ 21,227	\$ 19,202
Contributions - PMRS assessment	120	120	120	120	-
Contributions - member	8,632	7,901	9,185	8,814	8,592
PMRS investment income	32,442	29,588	35,855	35,425	30,926
Market value investment income	(74,932)	64,143	23,837	(39,421)	(80,197)
Transfers	-	(45)	(211,562)	-	-
Benefit payments, including refunds of employee contributions	(1,018)	-	-	(5,257)	-
PMRS administrative expense	(100)	(100)	(100)	(120)	-
Additional administrative expense	(1,448)	(1,361)	(1,757)	(1,477)	(1,337)
Net change in fiduciary net position	<u>(16,771)</u>	<u>117,938</u>	<u>(122,381)</u>	<u>19,311</u>	<u>(22,814)</u>
Fiduciary net position, beginning	643,823	525,885	648,266	628,955	651,769
Fiduciary net position, ending (b)	<u>\$ 627,052</u>	<u>\$ 643,823</u>	<u>\$ 525,885</u>	<u>\$ 648,266</u>	<u>\$ 628,955</u>
Net pension liability (asset) [(a) - (b)]	<u>\$ 24,766</u>	<u>\$ (68,301)</u>	<u>\$ (5,278)</u>	<u>\$ 34,357</u>	<u>\$ 10,615</u>
Plan fiduciary net position as a percentage of the total pension liability	96.20%	111.87%	101.01%	94.97%	98.34%
Covered payroll	\$ 292,345	\$ 263,363	\$ 306,183	\$ 293,809	\$ 291,678
Net pension liability (asset) as a percentage of covered payroll	8.47%	-25.93%	-1.72%	11.69%	3.64%
Annual money-weighted return, net of investment expenses	-4.57%	17.84%	8.23%	-0.27%	5.20%

**Note on Cumulative Information**

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

**LONDON GROVE TOWNSHIP MUNICIPAL AUTHORITY**  
**(A Component Unit of London Grove Township)**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

**REQUIRED SUPPLEMENTARY INFORMATION**

Fiscal Year Ended December 31,	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contribution as a Percentage of Covered Payroll
2019	\$ 17,018	\$ 17,018	\$ -	\$ 302,613	5.62%
2018	19,533	19,533	-	292,345	6.68%
2017	17,692	17,692	-	263,363	6.72%
2016	22,041	22,041	-	354,310	6.22%
2015	21,227	21,227	-	293,809	7.22%
2014	19,202	19,202	-	291,678	6.58%

**Note on Cumulative Information**

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**Actuarial Methods and Significant Assumptions**

Valuation date	December 31, 2018
Actuarial cost method	Entry Age Normal (GASB Statement No. 67 version)
Amortization method	Level Dollar Based upon the Amortization Periods in Act 205
Asset valuation method	Based upon the municipal reserves
Actuarial assumptions:	
Discount rate	5.25%
Inflation	3.00%
Projected salary increases	Age Related Scale with Merit and Inflation Component
Cost of living adjustments	3.00% (for those eligible for a COLA)
Pre-retirement mortality	Males - RP 2000 with one-year set back, Females - RP 2000 with five-year set back
Post-retirement mortality	Sex distinct RP-2000 Combined Healthy Mortality

**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 2, 2021

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, 2020, and the related notes to the financial statements, which collectively comprise the basic financial statements, and have issued our report thereon dated June 2, 2021. Our auditor's opinion was modified due to the use of a reporting date for the Authority's net pension liability which was outside the period prescribed by accounting principles generally accepted in the United States of America.

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") to determine the audit 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 may exist that have not been 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 determination of financial statement amounts. 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