

LOWER POTTS GROVE TOWNSHIP AUTHORITY

ANNUAL FINANCIAL REPORT

Years Ended December 31, 2022 and 2021

Barbara Atkins
certified public accountant
relationships. service. integrity

LOWER POTTS GROVE TOWNSHIP AUTHORITY

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INDEPENDENT AUDITOR'S REPORT

To the Board of the Authority
Lower Pottsgrove Township Authority
Pottstown, Pennsylvania

Opinion

We have audited the accompanying financial statements of Lower Pottsgrove Township Authority (the Authority), a component unit of Lower Pottsgrove 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 financial statements referred to above present fairly, in all material respects, the financial position of Lower Pottsgrove Township Authority, component unit of Lower Pottsgrove Township, as of December 31, 2022 and 2021, and the changes in 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 audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Lower Pottsgrove Township Authority, component unit of Lower Pottsgrove Township, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

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 generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

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

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

Required Supplementary Information

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

Barbara A. Hines CPA

Bechtelsville, Pennsylvania

July 25, 2023

**LOWER POTTS GROVE TOWNSHIP AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2022
(Unaudited)**

This Management Discussion and Analysis (MD&A) is a brief overview of the financial condition of Lower Pottsgrove Township Authority (the Authority), a component unit of Lower Pottsgrove Township, as of December 31, 2022. We have attempted to provide this information in a format easily read and understood by the public. We encourage readers to consider the information presented here in conjunction with additional information that can be found in the Authority's basic financial statements included in this report.

REPORTING

For 2022, the Authority billed 3,939 Lower Pottsgrove Township customers quarterly at \$136 per Equivalent Dwelling Unit (EDU). Each residential EDU represents 200 gallons of sewage capacity per day. Each commercial EDU represents 300 gallons of sewage capacity per day.

FINANCIAL HIGHLIGHTS FOR 2022

- The sewer rate for 2022 was \$136 per quarter per EDU.
- \$12 of each EDU billed per quarter goes towards a capital account for future improvements (The \$12 is included in the \$136 charge).
- The Remediation Contribution Fee applies to new Residential and Commercial connections to help fund continuing Inflow & Infiltration (I&I) issues.
- The total Residential Tap Fee and Remediation Fee for 2022 was \$5,493 per EDU. This includes \$2,493 for the Tap Fee and \$3,000 for the Remediation Contribution Fee per EDU. The Commercial Tap and Remediation Fee for 2022 was \$5,720 per EDU which includes \$2,720 for the Tap Fee and \$3,000 for the Remediation Contribution Fee. In addition, there is a \$250 Connection Fee for each property that connects to the sewer system.
- The Authority continued its I&I program with contracted and Township personnel. Lateral cameras were utilized to internally inspect several residential laterals that were previously identified as suspect sources of I&I. Sewer mains throughout the Township were televised to identify sources of I&I, and pipes were repaired, as necessary. Property inspections were continued to identify potential sources of I&I, including sump pump connections into the sanitary sewer system, downspouts, and surface runoff into sewer vents. Illegal connections were removed when warranted. Additionally, the Authority is under contract with an I&I contractor and used approximately \$279,780 of its funds in 2022 for I&I investigation and remediation work.
- The Authority continues to repair/replace mechanical equipment at its pump stations on an as needed basis. The Authority funds its proportionate share of necessary capital improvement projects at the Pottstown Borough Authority (PBA) Wastewater Treatment Plant.

**LOWER POTTS GROVE TOWNSHIP AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2022
(Unaudited)**

FINANCIAL HIGHLIGHTS FOR 2022 (Continued)

- Improvements were completed on Sunnyside Avenue at a total cost of \$414,409.
- The Authority has a Corrective Action Plan (CAP) and Connection Management Agreement (CMP) in conjunction with Pennsylvania Department of Environmental Protection (PA DEP) to resolve capacity issues within the conveyance system. The Authority has received 325 new EDU connections to the sewer system by PA DEP and continues to implement its CAP/CMP
- The Authority had a total of \$5,222,000 outstanding debt on December 31, 2022.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The Authority is a governmental entity engaged in business-type activities. The financial statements are prepared using Proprietary Fund (Enterprise Fund) accounting that uses the same basis of accounting as private-sector business enterprises. Under this method of accounting, an economic resources measurement focus and an accrual basis of accounting are used. Revenues are recognized when earned and expenditures are recognized when incurred.

The Statements of Net Position presents information on all the Authority's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or weakening.

The Statements of Revenues, Expenses and Changes in Net Position report the operating revenues and expenses and nonoperating revenues and expenses of the Authority for the year with the difference, the net income or (loss), being combined with any capital grants to determine the net change in assets for the year. That change combined with the net position at the end of the previous year total to the net position at the end of the current fiscal year.

The Statements of Cash Flows report cash and cash equivalents activities for the year resulting from operating activities, capital and related financing activities and investing activities. The net result of these activities added to the beginning of the year cash balance total to the cash and cash equivalent balance at the end of the current year.

The Notes to the Basic Financial Statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the Authority's financial condition.

The Management's Discussion and Analysis is intended to explain the significant changes in financial position and the difference in operation between current and prior years.

**LOWER POTTS GROVE TOWNSHIP AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2022
(Unaudited)**

FINANCIAL STATEMENTS

The following tables reflect the overall financial condition of the Authority as of the last three (3) years ended December 31, 2022, 2021 and 2020, respectively.

CONDENSED STATEMENTS OF NET POSITION

	2022	2021	2020
Assets			
Current Assets	\$ 6,820,021	\$ 6,725,307	\$ 6,283,870
Capital Assets	<u>5,774,048</u>	<u>5,812,676</u>	<u>5,922,563</u>
Total Assets	<u>12,594,069</u>	<u>12,537,983</u>	<u>12,206,433</u>
Deferred Outflows of Resources	<u>(237,924)</u>	<u>140,210</u>	<u>90,301</u>
Total Assets & Deferred Outflows of Resources	<u>\$ 12,356,145</u>	<u>\$ 12,678,193</u>	<u>\$ 12,296,734</u>
Liabilities			
Current Liabilities	\$ 860,442	\$ 645,741	1,297,055
Long-Term Portion of Debt	4,622,000	5,222,000	5,808,000
Net Pension Liability	<u>171,934</u>	<u>(69,635)</u>	<u>79,990</u>
Total Liabilities	<u>5,654,376</u>	<u>5,798,106</u>	<u>7,185,045</u>
Deferred Inflows of Resources	<u>7,274</u>	<u>(60,063)</u>	<u>3,979</u>
Net Position			
Net Invested in Capital Assets	569,698	24,603	(480,641)
Unrestricted Net Assets	<u>6,124,797</u>	<u>6,915,547</u>	<u>5,588,351</u>
Total Net Position	<u>6,694,495</u>	<u>6,940,150</u>	<u>5,107,710</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 12,356,145</u>	<u>\$ 12,678,193</u>	<u>\$ 12,296,734</u>

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	2022	2021	2020
Operating Revenues/(Expenses)			
Charges for Services	\$ 3,003,950	\$ 4,036,144	\$ 3,370,031
Operating Expenses	<u>(2,500,561)</u>	<u>(2,323,965)</u>	<u>(2,624,337)</u>
Operating Income	<u>503,389</u>	<u>1,712,179</u>	<u>745,694</u>
Nonoperating Revenues (Expenses)	<u>(749,044)</u>	<u>120,261</u>	<u>341,867</u>
Change in Net Position	(245,655)	1,832,440	1,087,561
Net Position at Beginning of Year	<u>6,940,150</u>	<u>5,107,710</u>	<u>4,020,149</u>
Net Position at End of Year	<u>\$ 6,694,495</u>	<u>\$ 6,940,150</u>	<u>\$ 5,107,710</u>

**LOWER POTTS GROVE TOWNSHIP AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2022
(Unaudited)**

FINANCIAL OUTLOOK FOR 2023

- The quarterly sewer rent rates for 2023 will remain at \$136 per quarter per EDU. \$12 of each EDU billed per quarter goes towards a capital account for future improvements.
- The Authority has a Corrective Action Plan (CAP) and Connection Management Plan (CMP) in conjunction with PA DEP to resolve capacity issues within the conveyance system. The Authority continues to implement its CAP/CMP and issues semi-annual status reports to the PA DEP.
- The Authority is completing an intensive I&I identification program throughout the Township in an effort to reduce I&I entering the sewer system. The Authority has budgeted \$350,000 of its funds in 2023 for I&I investigation and remediation work. \$715,000 has been budgeted for Phase 1 of the Cedar Hill Replacement Line Project. In addition, the Authority has requested a permit from the PA DEP to increase the hydraulic pumping capacity of the Sanatoga Pump Station in anticipation of future development. The Authority has reached an agreement with a developer to have the work completed upon issuance of the Water Quality Permit.
- The Authority needs to stabilize the streambank alongside the Sanatoga Lake Pump Station. Over the years the bank has eroded so badly that the Authority is afraid this could impact operations at the pump station. The Authority received three (3) quotes ranging from \$88,485 to \$114,000 to cut down the trees on the bank and install R7-8 Rock with a liner on the streambank. The rock will stabilize the bank and avoid any further eroding in the future. In order to perform this work, the Authority received GP-3 permit from the Pennsylvania Department of Environmental Protection.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This report is designed to provide readers with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Authority's Manager at 2199 Buchert Road, Pottstown, PA 19464 or by telephone at 610-323-0436.

LOWER POTTS GROVER TOWNSHIP AUTHORITY
STATEMENTS OF NET POSITION
December 31, 2022 and 2021

	2022	2021
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current Assets		
Cash	\$ 5,699,150	\$ 5,535,808
Trade Receivables	1,091,464	1,053,053
Due from Local Municipalities	29,407	136,446
Total Current Assets	6,820,021	6,725,307
Noncurrent Assets		
Capital Assets, Net	5,774,048	5,812,676
Total Assets	12,594,069	12,537,983
Deferred Outflows of Resources		
Deferred Amount on Refunding of Debt	17,650	19,927
Deferred Outflows Related to Pension Activities	(255,574)	120,283
Total Deferred Outflows of Resources	(237,924)	140,210
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 12,356,145	\$ 12,678,193
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Current Liabilities		
Current Portion of Note Payable	\$ 600,000	\$ 586,000
Accounts Payable & Accrued Expenses	115,707	57,071
Due to Local Municipalities	131,004	0
Other Payables	11,330	0
Accrued Interest Payable	2,401	2,670
Total Current Liabilities	860,442	645,741
Noncurrent Liabilities		
Note Payable, Net of Current Portion	4,622,000	5,222,000
Net Pension Liability	171,934	(69,635)
Total Noncurrent Liabilities	4,793,934	5,152,365
Total Liabilities	5,654,376	5,798,106
Deferred Inflows of Resources		
Deferred Inflows Related to Pension Activities	7,274	(60,063)
Total Liabilities and Deferred Inflows of Resources	5,661,650	5,738,043
Net Position		
Net Invested in Capital Assets	569,698	24,603
Unrestricted	6,124,797	6,915,547
Total Net Position	6,694,495	6,940,150
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 12,356,145	\$ 12,678,193

See Accompanying Notes to the Basic Financial Statements.

LOWER POTTS GROVE TOWNSHIP AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended December 31, 2022 and 2021

	2022	2021
OPERATING REVENUE		
User Charges	\$ 2,959,498	\$ 2,944,569
Connection Fees	40,852	1,091,575
Refund of Prior Year Expenditures	3,600	0
TOTAL OPERATING REVENUES	<u>3,003,950</u>	<u>4,036,144</u>
OPERATING EXPENSES		
Salaries, Wages & Payroll Taxes	326,356	315,960
Employee Benefits	147,445	156,190
Professional Fees	97,780	73,049
Maintenance & Repairs	399,406	422,421
Electric	81,892	62,316
Collection Expenses	33,205	31,420
General Expenses including Insurance	80,864	73,714
Depreciation	454,425	449,294
Management Fees	120,000	120,000
Plant Operations	759,188	619,601
TOTAL OPERATING EXPENSES	<u>2,500,561</u>	<u>2,323,965</u>
OPERATING INCOME	<u>503,389</u>	<u>1,712,179</u>
NONOPERATING REVENUES (EXPENSES)		
Interest Income	71,621	3,944
Interest Expense	(133,625)	(147,259)
Amortization of Refunding of Debt	(2,277)	(2,277)
Pension Actuarial Adjustments	(684,763)	265,853
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(749,044)</u>	<u>120,261</u>
CHANGE IN NET POSITION	(245,655)	1,832,440
NET POSITION AT BEGINNING OF YEAR	<u>6,940,150</u>	<u>5,107,710</u>
NET POSITION AT END OF YEAR	<u>\$ 6,694,495</u>	<u>\$ 6,940,150</u>

See Accompanying Notes to the Basic Financial Statements.

LOWER POTTS GROVE TOWNSHIP AUTHORITY
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 2,961,939	\$ 4,083,730
Cash Payments to Suppliers for Goods & Services	(1,262,587)	(2,111,863)
Cash Payments to Employees for Services	(471,940)	(471,130)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,227,412</u>	<u>1,500,737</u>
CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES		
Acquisition & Construction of Capital Assets	(415,797)	(339,407)
Cash Paid for Debt Payments	(586,000)	(573,000)
Interest Paid on Debt Obligations	(133,894)	(147,523)
NET CASH (USED) IN CAPITAL & RELATED FINANCING ACTIVITIES	<u>(1,135,691)</u>	<u>(1,059,930)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	<u>71,621</u>	<u>3,944</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>71,621</u>	<u>3,944</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	163,342	444,751
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>5,535,808</u>	<u>5,091,057</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 5,699,150</u></u>	<u><u>\$ 5,535,808</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income	\$ 503,389	\$ 1,712,179
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities - Depreciation	454,425	449,294
Changes in Assets and Liabilities		
(Increase)/Decrease in Trade Receivables	(38,411)	47,586
(Increase)/Decrease in Local Municipalities Receivable	107,039	(44,272)
Increase/(Decrease) in Accounts Payable & Accrued Expenses	58,636	(297,976)
Increase/(Decrease) in Liabilities Due to Local Municipalities	131,004	(366,074)
Increase/(Decrease) in Other Payables	11,330	0
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 1,227,412</u></u>	<u><u>\$ 1,500,737</u></u>

See Accompanying Notes to the Basic Financial Statements.

LOWER POTTS GROVE TOWNSHIP AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2022 and 2021

Note #1 - Organization and Nature of Activities

Lower Pottsgrove Township Authority (the Authority) is a separate legal entity created by Lower Pottsgrove Township (the Township) to construct, expand, and operate a sewer system in the Township (Sewer Fund). In addition, the Authority may issue debt to finance the construction and expansion of the sewer system.

Note #2 - Summary of Significant Accounting Policies

The financial statements of the Authority have been prepared in accordance with generally accepted accounting principles (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 more significant accounting policies used by the Authority are described below.

Reporting Entity

The financial statements present the Authority as a business-type activity in accordance with Governmental Accounting Standards Board *Statement No. 34*. The Authority establishes sewer rates, collects sanitary sewer revenues, repairs and maintains sewer mains, lateral and manholes, employs personnel for the maintenance and administration of the sewer activities, and sends out sewer bills.

Basis of Accounting

The financial statements are prepared on the accrual basis of accounting, whereby revenues are recognized when earned and expenditures are recognized when incurred.

Revenue Recognition

The Authority distinguishes between operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services relating to the Authority's ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and investments include time deposits with a maturity of less than 90 days after the date of the statements of net position and investments in state investment pools.

Investments

The Authority is permitted to invest its funds in the Local Government Unit Debt Act and the Municipality Authorities Act. Authorized types of investments include: U.S. Treasury Bills; short-term obligations of the U.S. Government and Federal Agencies; insured savings, checking accounts and certificates of deposit in banks, savings, loan associations and credit unions; General Obligation Bonds of the Federal Government, the Commonwealth of Pennsylvania or any State Agency, or any PA political subdivision; and shares of mutual funds whose investments are restricted to the above categories. Certificates of deposit are carried at their adjusted cost basis net of any original issue discount and premiums. Any amortization of the original issue discount or premium is recognized as a gain (loss) at the time the certificate of deposit matures.

The Authority has adopted GASB Statements No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, No. 72, *Fair Value Measurement and Application* and No. 79 *Certain External Investment Pools and Pool Participants*. In accordance with these Statements, investments in marketable securities are reported at their fair values. Investments in qualifying external investment pools are reported at amortized cost basis.

LOWER POTTS GROVE TOWNSHIP AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2022 and 2021
(Continued)

Note #2 - Summary of Significant Accounting Policies (Continued)

Restricted Cash & Investments

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Trade Receivables

Trade receivables are recorded at face amount for sewer rental fees due from customers. No allowance for doubtful accounts has been recorded based on the Authority's past experience, the ability to file a lien against the property and a review of current receivables.

Capital Assets

Capital assets are defined by the Authority as acquisitions of property and equipment, as well as expenditures for repairs, maintenance, renewals, and betterments that substantially prolong the useful lives of capital assets, costing \$4,000 or more. Capital assets are stated at cost, and depreciated using the straight-line method over the following useful lives:

Force Main	40 years
Sewer Expansion, Infrastructure & Pump Stations	5-40 years
Equipment	5-15 years
Vehicles	5 years
Water Pump Station	30 years
Purchased Capacity	30 years

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

The Authority has two items that qualify for reporting in this category. The first item relates to pensions and is the result of changes in plan assumptions and the net difference between projected and actual earnings on pension plan investments. The second item is the deferred amount on refunding, net of accumulated amortization. A deferred amount on refunding results from the difference in the carrying value of refunded debt and the reacquisition price of the new debt. This amount is deferred and amortized over the shorter of the life of the refunded debt or the new refunding debt. \$32,925 is being amortized over 173.50 months (See Note #5). Total amortization expense is \$2,277 for 2022 and 2021. Accumulated amortization totals \$15,275 and \$12,998 on December 31, 2022 and 2021.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

The Authority has one item that qualifies for reporting in this category. The deferred inflow of resources relates to pensions and is the result of differences between expected and actual experience of the pension plan.

LOWER POTTS GROVE TOWNSHIP AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2022 and 2021
(Continued)

Note #2 - Summary of Significant Accounting Policies (Continued)

Net Position

Net position is classified into three categories, as applicable, as follows:

- *Net Invested in Capital Assets* consists of capital assets, net of accumulated depreciation and debt incurred for the acquisition of capital assets.
- *Restricted* consists of amounts that have externally imposed restrictions on how the funds can be spent.
- *Unrestricted* net position are amounts that do not meet the definitions of "Invested in Capital Assets" or "Restricted" and are available for Authority operations.

Classification of Revenues

The Authority has classified its revenues as either operating or nonoperating revenues according to the following criteria:

- *Operating Revenues* include activities that have the characteristics of resulting from ongoing principal operations of the Authority. Operating revenues consist primarily of charges for services and connection fees.
- *Nonoperating Revenues* include activities that have the characteristics of revenues relating to financing and investing type activities.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain 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.

Date of Management's Review

Management has evaluated subsequent events through July 25, 2023, the date on which the financial statements were available to be issued.

Note #3 - Cash and Investments

Cash

Bank balances are categorized to give an indication of the level of risk assumed by the Authority at year-end.

- *Category 1* - Insured or collateralized with securities held by the Township or its agent in the Township's name.
- *Category 2* - Collateralized with securities held by the pledging financial institution's trust department or agent in the Township's name.
- *Category 3* - Uncollateralized.

On December 31, 2022, the carrying amount of the Authority's bank deposits was \$5,699,150 and the bank balance was \$5,789,401, of which \$750,000 (*Category 1*) was directly covered by depository insurance. The remaining deposits, totaling \$1,291,513, were collateralized with Pennsylvania Act No. 72 of 1971, which requires that financial institutions secure cash deposits of local governments by pledging a pool of assets, as defined by the Act, to cover all public funds deposited in excess of depository insurance amounts. \$3,724,887 is covered by an Irrevocable Standby Letter of Credit up to \$7,500,000 and \$23,001 is on deposit in an Xpress Bill Pay Service account.

LOWER POTTS GROVE TOWNSHIP AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2022 and 2021
(Continued)

Note #3 - Cash and Investments (Continued)

Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair market value of an investment. The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits the investment of governmental funds as described above. The Authority's investment policy does not further limit its investment choices. As of December 31, 2022, the Authority did not have any investments.

Concentration of Credit Risk

This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. As of December 31, 2022, the Authority did not have any investments.

Note #4 - Capital Assets

	2022			
	Balance Beginning	Additions	Deletions	Balance Ending
Force Main	\$ 2,107,150	\$ 0	\$ 0	\$ 2,107,150
Sewer Expansion, Infrastructure & Pump Stations	28,890,670	374,575	0	29,265,245
Equipment	1,157,610	41,222	(5,000)	1,193,832
Vehicles	79,873	0	0	79,873
Water Pump Station	448,000	0	0	448,000
Purchased Capacity	<u>1,605,000</u>	<u>0</u>	<u>0</u>	<u>1,605,000</u>
Total Capital Assets	34,288,303	415,797	(5,000)	34,699,100
Less: Accumulated Depreciation	<u>(28,475,627)</u>	<u>(454,425)</u>	<u>5,000</u>	<u>(28,925,052)</u>
Total Capital Assets, Net	<u>\$ 5,812,676</u>	<u>\$ (38,628)</u>	<u>\$ 0</u>	<u>\$ 5,774,048</u>

Additions include: \$41,222 equipment at Porter Road Pump Station; and \$374,575 Sunnyside Avenue Sanitary Sewer Improvements.

	2021			
	Balance Beginning	Additions	Deletions	Balance Ending
Force Main	\$ 2,107,150	\$ 0	\$ 0	\$ 2,107,150
Sewer Expansion, Infrastructure & Pump Stations	28,596,747	293,923	0	28,890,670
Equipment	1,112,126	45,484	0	1,157,610
Vehicles	79,873	0	0	79,873
Water Pump Station	448,000	0	0	448,000
Purchased Capacity	<u>1,605,000</u>	<u>0</u>	<u>0</u>	<u>1,605,000</u>
Total Capital Assets	33,948,896	339,407	0	34,288,303
Less: Accumulated Depreciation	<u>(28,026,333)</u>	<u>(449,294)</u>	<u>0</u>	<u>(28,475,627)</u>
Total Capital Assets, Net	<u>\$ 5,922,563</u>	<u>\$ (109,887)</u>	<u>\$ 0</u>	<u>\$ 5,812,676</u>

LOWER POTTS GROVE TOWNSHIP AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2022 and 2021
(Continued)

Note #4 - Capital Assets (Continued)

In 2021, additions include: \$12,916 pump control panel at Sanatoga Pump Station; \$5,415 shed and \$32,568 equipment at Porter Road Pump Station; and \$288,508 Woodland Drive Sanitary Sewer Improvements.

Note #5 - Notes Payable

	Outstanding 2021	(Reductions)	Outstanding 2022
Sewer Revenue Note, Series of 2016	<u>\$ 5,808,000</u>	<u>(586,000)</u>	<u>\$ 5,222,000</u>

On April 15, 2016, the Authority borrowed \$7.456 million from the Delaware Valley Regional Finance Authority as a Guaranteed Sewer Revenue Note with a fixed interest rate not to exceed 2.365%. The note proceeds were used to: (1) repay a portion of the principal amount of the Authority's Guaranteed Sewer Revenue Bond, Series 2011, in the aggregate amount of \$7,400,000; (2) pay the costs of issuing the note; and (3) fund the costs of certain capital projects.

The reacquisition price exceeded the net carrying amount of the old debt by \$32,925. This amount is being amortized over the life of the note and is included in the deferred outflows of resources on the statement of net position. The refunding also resulted in an economic gain of \$991,456 and a reduction of \$1,174,517 in future debt service payments.

Aggregate debt service requirements of the Guaranteed Sewer Revenue Note, Series 2016, are as follows:

	Principal	Interest	Total Debt Service
Year Ending December 31,			
2023	\$ 600,000	\$ 123,500	\$ 723,500
2024	615,000	109,310	724,310
2025	629,000	94,766	723,766
2026	644,000	79,890	723,890
2027	660,000	64,659	724,659
2028 & Thereafter	<u>2,074,000</u>	<u>98,880</u>	<u>2,172,880</u>
	<u>\$ 5,222,000</u>	<u>\$ 571,005</u>	<u>\$ 5,793,005</u>

The Guaranteed Sewer Revenue Notes are secured by a guarantee agreement with Lower Pottsgrove Township, as guarantor, and Delaware Valley Regional Finance Authority.

Total interest paid in 2022 and 2021 was \$133,625 and \$147,259, respectively.

Note #6 - Management Fees

Effective November 1, 1991, the Authority entered into a management agreement with Lower Pottsgrove Township to manage the day-to-day operations of the sewer system to include repairs, maintenance, and administration. The management agreement expired December 31, 1998, with annual renewals thereafter. Management fees were \$120,000 in 2022 and 2021.

LOWER POTTS GROVE TOWNSHIP AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2022 and 2021
(Continued)

Note #7 - Plant Operations

The Authority purchases sewer plant operations from a local municipality, Pottstown Borough Authority (PBA). The cost is determined by PBA on an annual basis. The Authority remits a quarterly payment based upon an estimate of the cost as determined by PBA. After year-end, PBA and the Authority determine the actual cost attributed to the Authority, and, if appropriate, PBA retroactively invoices the Authority, or the Authority receives a credit against the next estimated invoices as generated by PBA.

The cost of plant operations was \$759,188 and \$619,601 in 2022 and 2021, respectively.

	2022	2021
Total Quarterly Payments	\$ 628,184	\$ 800,244
Annual Retroactive Adjustment	<u>131,004</u>	<u>(180,643)</u>
Total Plant Operation Costs	<u>\$ 759,188</u>	<u>\$ 619,601</u>

As part of the operating agreement, the Authority is also periodically required to make a capital contribution to the local municipality to cover the Authority's share of capital projects at the wastewater treatment plant. The Authority made \$18,208 and \$0 capital contributions in 2022 and 2021, respectively.

Note #8 - Grants for Capital Improvements

In 2022 and 2021, the authority did not receive any grants.

Note #9 - Pension Plan

Defined Benefit Pension Plan

Plan Description, Contribution Information, and Funding Policies

Plan Description

Lower Pottsgrove Township administers the Non-Uniform Employees' Pension Plan which is a single employer defined benefit pension plan that provide retirement, disability and death benefits to plan members and their beneficiaries. Plan provisions are established by Township ordinance with the authority for contributions required by Act 205 of the Commonwealth of Pennsylvania.

Benefits

The Pension Plan provides for death benefits to plan members and their beneficiaries. All employees become members of the Plan the first of the month coincident with or next following date of hire. Under the provisions of the Township's Pension Plan, pension benefits vest at 100% after 5 years of credited service. Effective in 2006, an employee may retire at age 62 with 20 years of credited service and receive a monthly pension equal to 2.2% of the employee's final 36-month average salary times the number of years of service, not to exceed 55% of FAS. Prior to 2006, the grandfather formula is 50% of FAS. In addition, an increment (after age 65 and 10 years of service) of 2% of final 36-month average salary for each year of service beyond normal retirement date to a maximum increment of \$100 per month shall be paid for postponed retirements. Full-time employees contributed 2% of their pay towards the pension plan in 2022. The Township must provide annual contributions sufficient to satisfy the actuarially determined contribution requirements as mandated by state statutes.

LOWER POTTS GROVE TOWNSHIP AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2022 and 2021
(Continued)

Note #9 - Pension Plan (continued)

Defined Benefit Pension Plan (Continued)

Plan Descriptions, Contribution Information, and Funding Policies (Continued)

Plan Membership

On January 1, 2021, the latest Act 205 report, the pension plans' memberships (including the Township and the Authority) consisted of:

	Non-Uniformed
Active Member	13
Retired & Benefit Members	6
Vested Members	<u>9</u>
Total Membership	<u>28</u>

Basis of Accounting

The Pension Plan utilizes the accrual basis of accounting. The plan is part of the Township's financial reporting entity and is included in the Township's financial statements as a Fiduciary Fund. Employee and employer contributions are recognized when due as required by Act 205 of the Commonwealth. Benefits are recognized when due and payable in accordance with the terms of the plan.

Funding Status and Progress

The amount shown as "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial accrued liability produced by the Entry Age Normal Actuarial Cost method. This method is used for plan funding and is allowed, in lieu of the standardized measure, for smaller municipalities. It is intended to help users assess the pension plans' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among PERS. The measure is independent of the actuarial funding method used to determine contributions to the PERS, discussed below. Administrative costs are financed through the plans' investment earnings.

Annual Pension Cost, Net Pension Obligation and Reserves

The employees' pension benefit obligation was determined as part of an actuarial valuation as of December 31, 2022. Significant actuarial assumptions used include (a) a rate of return on the investments of present and future assets of 7.00% per year compounded annually, and (b) projected salary increases of 4.00% per year compounded annually.

Rate of Return

For the year ended December 31, 2022, the annual money-weighted rate of return on plan investments, net of plan investment expense was (15.11%) for the pension plan.

Past Service Costs

There are no unfunded liabilities for past service costs.

Contributions Required

The pension plan funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate suitable assets to pay benefits when due. Level percentage of payroll employer contribution rates is determined using the entry age normal actuarial funding method as required by Pennsylvania Act 205. The pension plan also uses a method defined by Act 205 to amortize the unfunded liability over a defined period. Total contributions were \$47,061 and \$57,681 for the years ended December 31, 2022 and 2021, respectively.

LOWER POTTS GROVE TOWNSHIP AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2022 and 2021
(Continued)

Note #9 - Pension Plan (continued)

Defined Benefit Pension Plan (Continued)

Plan Descriptions, Contribution Information, and Funding Policies (Continued)

Deferred Outflows of Resources Related to Pensions

As of December 31, 2022, the Authority reported deferred outflows of resources related to pensions totaling (\$255,574). This includes the net difference between the projected and actual earnings on pension plan investments that was determined by an actuarial valuation as of December 31, 2022. The net difference between the projected and actual earnings on pension plan investments was (\$255,574). Deferred outflows also include the changes in assumptions since the last actuarial valuation. The changes in assumptions since the latest valuation performed on December 31, 2022 is \$0.

Deferred Inflows of Resources Related to Pensions

As of December 31, 2022, the Township reported deferred inflows of resources totaling \$7,274 which includes the difference between expected and actual experience that was determined by an actuarial valuation as of December 31, 2022.

Net Pension Liability

The Authority reported a liability of \$171,934 for its proportionate share of the net pension liability for the year ended December 31, 2022. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2022. The Authority's proportional share of the net pension liability was based on the Authority's share of the minimum municipal obligation relative to the total minimum municipal obligation. On December 31, 2022, the Authority's portion was 29.72% for Non-Uniform.

The following represents the proportionate share of the net pension liability of the Authority, calculated using the discount rate of 7.00%, as well as what the Authority's net pension would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	D I S C O U N T R A T E		
	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
29.72% Share of Net Pension Liability	\$ 323,049	\$ 171,934	\$ 43,398

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Lower Pottsgrove Township Annual Report.

Defined Contribution Plan

That Township established a policy that all non-uniform employees hired on or after February 1, 2021, will no longer be eligible to participate in the current Non-Uniformed Employees Defined Benefit Pension Plan but will be eligible to participate in the newly established Non-Uniformed Employees Defined Contribution Retirement Plan. Active participants are required to contribute 2% of their compensation. For the year ending December 31, 2022, the Authority contributed 6% of eligible employees' compensation totaling \$5,731.

LOWER POTTS GROVE TOWNSHIP AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2022 and 2021
(Continued)

Note #10 - Commitments and Contingencies

Compensated Absences

The cost of vacation and sick pay is recognized in the fund financial statements at the time the vacation and sick days are used by the employee or are paid at termination. The liability for these compensated absences is not recorded in these financial statements.

Vacation Pay - All full-time employees earn vacation days based on a sliding scale that corresponds with years-of-service ranging from 40 hours to 184 hours per year. The Authority requires that all vacation time be utilized during the year unless specific written approval is received to carry unused time to the subsequent year. Upon termination or retirement, employees are compensated for their unused vacation days. On December 31, 2022, the value of unused vacation days was \$929.

Sick Pay - All full-time employees are granted sick pay at the rate of eight days per calendar year after one year of service. Employees may accumulate up to 30 sick days. Employees hired before January 1, 2015, will be grandfathered under the previous policy of 60 days but once he/she falls below the 30-day threshold they will not be permitted to accumulate back up to 60 days. On December 31, 2022, the value of unused sick days totaled \$4,614. Accrued sick leave is cancelled upon termination of employment; accordingly, there is no liability for unused sick days on December 31, 2022.

Compensatory Hours/Time - Employees may request compensatory time off in lieu of overtime at the rate of 1 ½. Compensatory time off may be accumulated to a maximum of 40 hours and must be used by December 31 of each year. Any accrued, unused compensatory time remaining as of the last pay period in December will be included in the employee's final paycheck of the year.

Litigation

It is the opinion of management that there are no contingent liabilities due to any pending or threatened litigation claims, or assessment against the Authority.

Concentration by Geographic Location

The Authority is exposed to certain risks by operating a sewer system in Lower Pottsgrove Township, thus increasing exposure to a limited geographic region.

Note #11 - Stewardship, Compliance and Accountability

The Authority had no material violations of finance-related legal and contractual provisions.

Note #12 - Risk Management

The Authority is exposed to various risks of loss related to torts; theft of or damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. Significant losses are covered by commercial insurance for all areas for which the Authority retains risks of loss. There have been no significant reductions in insurance coverage.

REQUIRED SUPPLEMENTARY INFORMATION

LOWER POTTS GROVE TOWNSHIP AUTHORITY
BUDGETARY COMPARISON SCHEDULE
Year Ended December 31, 2022

	Original/ Final Budget	Actual	Favorable (Unfavorable) Variance
OPERATING REVENUE			
User Charges	\$ 2,972,500	\$ 2,959,498	\$ (13,002)
Connection Fees	150,000	40,852	(109,148)
Refund of Prior Year Expenditures	0	3,600	3,600
TOTAL OPERATING REVENUES	<u>3,122,500</u>	<u>3,003,950</u>	<u>(118,550)</u>
OPERATING EXPENSES			
Salaries, Wages & Payroll Taxes	335,467	326,356	(9,111)
Employee Benefits	166,160	147,445	(18,715)
Professional Fees	130,060	97,780	(32,280)
Maintenance & Repairs	1,165,000	399,406	(765,594)
Electric	68,000	81,892	13,892
Collection Expenses	25,000	33,205	8,205
General Expenses including Insurance	86,940	80,864	(6,076)
Depreciation	400,000	454,425	54,425
Management Fees	120,000	120,000	0
Plant Operations	700,000	759,188	59,188
TOTAL OPERATING EXPENSES	<u>3,196,627</u>	<u>2,500,561</u>	<u>(696,066)</u>
OPERATING INCOME (LOSS)	<u>(74,127)</u>	<u>503,389</u>	<u>577,516</u>
NONOPERATING REVENUES (EXPENSES)			
Interest Income	3,500	71,621	68,121
Interest Expense	(723,359)	(133,625)	589,734
Amortization of Refunding of Debt	0	(2,277)	(2,277)
Pension Actuarial Adjustments	(200,000)	(684,763)	(484,763)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(919,859)</u>	<u>(749,044)</u>	<u>170,815</u>
CHANGE IN NET POSITION	<u>\$ (993,986)</u>	<u>\$ (245,655)</u>	<u>\$ 748,331</u>

See Accompanying Notes to the Basic Financial Statements.

LOWER POTTS GROVE TOWNSHIP AUTHORITY
SCHEDULES OF PROPORTIONATE SHARE OF THE NET POSITION LIABILITY AND CONTRIBUTIONS
December 31, 2022

	2022	2021	2020	2019	2018	2017	2016	2015
Schedule of Authority's Proportionate Share of the Net Pension Liability								
Authority's Proportion of the Net Pension Liability	29.72%	31.16%	32.21%	32.44%	35.56%	35.56%	35.56%	35.56%
Authority's Share of the Net Pension Liability	\$ 171,934	\$ (69,635)	\$ 79,990	\$ 167,827	\$ 263,047	\$ 189,376	\$ 241,376	\$ 245,541
Authority's Covered Employee Payroll	\$ 302,387	\$ 271,588	\$ 260,056	\$ 268,791	\$ 276,999	\$ 267,753	\$ 251,946	\$ 296,793
Authority's Proportionate Share of the Net Position Liability as a % of Covered Payroll	56.86%	25.64%	30.76%	62.44%	94.96%	70.73%	96.03%	82.73%
Plan's Fiduciary Net Position as a % of the Total Pension Liability	87.32%	105.09%	94.18%	87.19%	53.77%	85.04%	79.88%	78.42%

Schedule of the Authority's Contributions								
Authority's Proportion of the Contributions	\$ 47,061	\$ 57,681	\$ 57,891	\$ 53,360	\$ 52,926	\$ 47,818	\$ 53,017	\$ 54,766
Less: Contributions Made by the Authority	(47,061)	(57,681)	(57,891)	(53,360)	(52,926)	(47,818)	(53,017)	(54,766)
Contribution (Excess)/Deficiency	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Authority's Covered Employee Payroll	\$ 302,387	\$ 271,588	\$ 260,056	\$ 268,791	\$ 276,999	\$ 267,753	\$ 251,946	\$ 296,793
Contribution as a % of Covered Employee Payroll	15.56%	21.24%	22.26%	19.85%	19.11%	17.86%	21.04%	18.45%

These schedule are intended to show information for ten years, all available information is displayed.