

NORTH COVENTRY WATER AUTHORITY
(A Component Unit of North Coventry Township)

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

Years Ended June 30, 2024 and 2023

TABLE OF CONTENTS

	Pages
ORGANIZATION	1
INDEPENDENT AUDITOR'S REPORT	2 - 4
BASIC FINANCIAL STATEMENTS	
Statements of Net Position.....	5 - 6
Statements of Revenues, Expenses, and Changes in Net Position	7
Statements of Cash Flows.....	8 - 9
Notes to Basic Financial Statements.....	10 - 23
SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule.....	24

NORTH COVENTRY WATER AUTHORITY

ORGANIZATION

June 30, 2024

MEMBERS OF THE BOARD:

Dennis Hullmann	Chairman
Mike Gammon	Vice Chairman
Barry Boettlin	Secretary
Timothy D. Forester, CPA	Treasurer
Linda Knox	Assistant Secretary
Ken Bickel	Assistant Treasurer
Keith Learn	Chairman Pro-Tem

SOLICITOR:

Gregory W. Philips, Esquire
Yergey·Daylor·Allebach·Scheffey·Picardi
1129 High Street
PO Box 776
Pottstown, PA 19464

ENGINEER:

Josh James
Spotts, Stevens & McCoy, Inc.
PO Box 6307
Wyomissing, PA 19610-0307

GENERAL MANAGER:

John Cooney
North Coventry Municipal Authority
1485 East Schuylkill Road
Pottstown, PA 19464

INDEPENDENT AUDITOR'S REPORT

**To the Members of the Board
North Coventry Water Authority
Pottstown, Pennsylvania**

Opinion

We have audited the accompanying financial statements of the North Coventry Water Authority (the "Authority"), a component unit of North Coventry Township, as of and for the years ended June 30, 2024 and 2023, 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 the North Coventry Water Authority as of June 30, 2024 and 2023, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the North Coventry Water Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

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 for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with 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 the North Coventry Water Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the North Coventry Water 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

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the North Coventry Water Authority's basic financial statements. The accompanying budgetary comparison schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Herbein + Company, Inc.

Reading, Pennsylvania
December 17, 2024

NORTH COVENTRY WATER AUTHORITY

STATEMENTS OF NET POSITION

	June 30	
	2024	2023
ASSETS		
CURRENT ASSETS		
Cash	\$ 358,481	\$ 329,859
Restricted cash - developer's escrow	42,964	49,979
Accounts receivable, net of allowance of \$15,355 - 2024 and 2023	245,335	215,083
Due from North Coventry Township - hydrant billings	8,740	8,740
Inventory	7,745	7,745
Other current assets	17,793	17,760
TOTAL CURRENT ASSETS	681,058	629,166
NONCURRENT ASSETS		
Capital assets not being depreciated:		
Land	100,507	100,507
Construction in process	12,562	78,013
Capital assets being depreciated:		
Water distribution system	6,695,463	6,695,463
Equipment	348,554	286,936
Less accumulated depreciation	(2,689,235)	(2,488,245)
Right-to-use lease asset, net of accumulated amortization	533,636	721,977
Capital assets, net	5,001,487	5,394,651
Other asset - liened receivables	17,821	25,784
TOTAL NONCURRENT ASSETS	5,019,308	5,420,435
TOTAL ASSETS	\$ 5,700,366	\$ 6,049,601

See accompanying notes.

NORTH COVENTRY WATER AUTHORITY
STATEMENTS OF NET POSITION - CONTINUED

June 30

	2024	2023
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 41,188	\$ 46,772
Due to North Coventry Municipal Authority	2,370	2,370
Due to developers	42,964	49,979
Payroll and related taxes withheld	1,189	1,123
Other current liabilities	1,539	6,476
Note payable, current	131,000	127,000
Lease payable, current	192,000	183,000
	412,250	416,720
NONCURRENT LIABILITIES		
Note payable	-	131,000
Lease payable	411,394	603,254
	411,394	734,254
	TOTAL LIABILITIES	
	823,644	1,150,974
NET POSITION		
Net investment in capital assets	4,267,093	4,350,397
Unrestricted net position:		
Unrestricted - board designated for capital projects	50,000	220,000
Unrestricted	559,629	328,230
	4,876,722	4,898,627
	TOTAL NET POSITION	
	4,876,722	4,898,627
TOTAL LIABILITIES AND NET POSITION		
	\$ 5,700,366	\$ 6,049,601

See accompanying notes.

NORTH COVENTRY WATER AUTHORITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	Year Ended June 30	
	2024	2023
OPERATING REVENUES		
Water fees	\$ 1,000,105	\$ 972,930
Inspection and service fees	13,933	3,420
Rental income	32,501	31,554
	1,046,539	1,007,904
OPERATING AND ADMINISTRATIVE EXPENSES		
Water purchases	370,933	377,947
Depreciation and amortization	389,331	366,381
Administrative fees	83,496	81,000
Repairs and maintenance - system and equipment	55,808	52,364
Legal fees	11,225	8,324
Operating supplies	12,867	13,763
Engineering fees	55,527	18,252
Salaries and payroll taxes	8,492	8,087
Office expense	7,240	5,183
Utilities	13,630	13,315
Accounting fees	13,700	10,850
Insurance	7,741	6,698
Bank charges	300	300
Fire hydrant maintenance - repair and replacement	8,508	2,821
Computer expense	3,980	4,064
Miscellaneous expense	5,291	7,483
	1,048,069	976,832
TOTAL OPERATING AND ADMINISTRATIVE EXPENSES		
	(1,530)	31,072
OPERATING INCOME (LOSS)		
NONOPERATING REVENUES (EXPENSES)		
Tapping fees	6,800	6,800
Interest income	12,393	787
Grant income	-	175,000
Interest expense	(39,568)	(36,344)
	(20,375)	146,243
TOTAL NONOPERATING REVENUES (EXPENSES)		
	(21,905)	177,315
CHANGE IN NET POSITION		
NET POSITION - BEGINNING OF YEAR	4,898,627	4,721,312
NET POSITION - END OF YEAR	\$ 4,876,722	\$ 4,898,627

See accompanying notes.

NORTH COVENTRY WATER AUTHORITY

STATEMENTS OF CASH FLOWS

Year Ended June 30

2024 2023

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers and users	\$ 1,024,217	\$ 1,029,417
Payments to suppliers for goods and services	(650,489)	(600,828)
Payments to employees for services	(8,426)	(8,056)

NET CASH PROVIDED BY OPERATING ACTIVITIES 365,302 420,533

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State sources	-	175,000
Change in developer's escrow	(7,015)	3,274

NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES (7,015) 178,274

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Tapping fees	6,800	6,800
Acquisition of capital assets	(6,445)	(753,983)
Interest expense	(39,568)	(36,344)
Repayment of note payable	(127,000)	(123,000)
Repayment of lease payable	(182,860)	(174,631)

NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES (349,073) (1,081,158)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest income	12,393	787

NET INCREASE (DECREASE) IN CASH 21,607 (481,564)

CASH AT BEGINNING OF YEAR

379,838 861,402

CASH AT END OF YEAR \$ 401,445 \$ 379,838

RECONCILIATION OF CASH AT END OF YEAR TO STATEMENTS OF NET POSITION

Cash	\$ 358,481	\$ 329,859
Restricted cash - developer's escrow	42,964	49,979

\$ 401,445 \$ 379,838

NORTH COVENTRY WATER AUTHORITY
STATEMENTS OF CASH FLOWS - CONTINUED

	Year Ended June 30	
	2024	2023
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (1,530)	\$ 31,072
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	389,331	366,381
Disposal of construction in process	10,278	-
Change in assets and liabilities:		
Accounts receivable (including related parties)	(22,289)	21,013
Other current assets	(33)	500
Accounts payable (including related parties)	(5,584)	(4,940)
Payroll and related taxes withheld	66	31
Other current liabilities	(4,937)	6,476
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 365,302	\$ 420,533

NORTH COVENTRY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2024 and 2023

The North Coventry Water Authority (the "Authority"), a component unit of North Coventry Township, is a government entity created pursuant to an ordinance of the Township of North Coventry, Chester County, under an Act of the General Assembly of the Commonwealth of Pennsylvania, approved May 2, 1945, P.L. 382 as amended and supplemented, known as the "Municipality Authorities Act of 1945." The certificate of incorporation of the Authority was issued by the Secretary of the Commonwealth of Pennsylvania on December 30, 1998.

The Authority was formed to develop a comprehensive plan for the supply and distribution of municipal water within North Coventry Township. The Authority provides water service to residential and commercial customers.

The governing body of the Authority is a board consisting of seven members, each of whom is appointed by the North Coventry Township board of supervisors.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of North Coventry Water Authority have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles. The more significant of these accounting principles are as follows:

A. Financial Reporting Entity

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the Authority and its component units, if applicable.

The Authority used guidance contained in generally accepted accounting principles to evaluate the possible inclusion of related entities (municipalities, boards, councils, fiduciary activities, etc.) within its reporting entity. Accounting principles generally accepted in the United States of America require that the reporting entity consists of the primary government and legally separate entities for which the primary government is financially accountable. In addition, the primary government may determine through the exercise of management's professional judgment that the inclusion of a legally separate entity that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity's financial statements from being misleading. In such instances, that legally separate entity should be included as a component unit if the nature and significance of their relationship with the primary government or other component units are such that the exclusion from the financial reporting entity would render the financial reporting entity's financial statements incomplete or misleading. In evaluating how to define the reporting entity, management has considered all potential component units.

NORTH COVENTRY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2024 and 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

A. Financial Reporting Entity - continued

Based on the foregoing criteria, the North Coventry Water Authority has determined it does not have any component units, but is itself a component unit of the Township of North Coventry. North Coventry Township appoints the Authority's board members and can significantly influence the activities of the Authority. These financial statements represent the activity of the North Coventry Water Authority only, and do not reflect any activity of the primary government.

B. Basis of Presentation

The Authority is a special purpose government and as such all activities are accounted for within a single proprietary (enterprise) fund and are classified as a business-type activity. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Operating and Nonoperating Revenues and Expenses

Operating revenues and expenses are distinguished from nonoperating items in the statements of revenues, expenses, and changes in net position. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for water usage. When calculating user fees charged to customers, the Authority includes a component for the repayments of principal on the Authority's outstanding debt. Operating expenses include the cost of purchasing water, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Connecting and tapping fees are not refundable and therefore recognizable as revenue upon collection. They are reported as nonoperating revenue on the statements of revenues, expenses, and changes in net position.

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

NORTH COVENTRY WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2024 and 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Measurement Focus and Basis of Accounting - continued

The Authority's proprietary activity is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Accordingly, all assets and all liabilities associated with operations are included on the statements of net position. Net position (i.e., total assets and deferred outflows of resources net of total liabilities and deferred inflows of resources) is segregated into net investment in capital assets, restricted, and unrestricted elements. Revenues are reported when earned and expenses are reported when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue when eligibility requirements are met.

D. Budgetary Accounting

The Authority adopts flexible annual operating and capital budgets. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. The current operating budget details the Authority's plans to earn and expend funds for charges incurred for operation, maintenance, certain interest and general functions, and other charges for the year. The capital budget details the plan to receive and expend cash basis capital contribution fees, special assessments, grants, borrowings, and certain revenues for capital projects.

All unexpended and unencumbered appropriations in the operating budget lapse at the end of the year. No appropriation for a capital project in the capital budget lapses until the purpose for which the funds were appropriated has been accomplished or abandoned.

E. Financial Position

1. Cash and Cash Equivalents

For purposes of reporting cash flows, the Authority considers all cash accounts, which are not subject to withdrawal restrictions or penalties, and all highly-liquid investments purchased with a maturity of three months or less to be cash and cash equivalents.

2. Restricted Developer's Escrow Cash

The restricted developer's escrow cash represents cash received by the Authority from developers to cover the Authority's cost of reviewing and approving development plans and as security deposits to ensure the related developments are completed in accordance with the approved plans.

NORTH COVENTRY WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2024 and 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Financial Position - continued

3. Investments

The Authority is permitted to invest in the following types of investments:

Obligations of (a) 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, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or (c) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation to the extent that such accounts are so insured and for any amounts above the insured maximum, provided that approved collateral as provided by law, therefore, shall be pledged by the depository.

Pennsylvania Act 10 of 2016 became effective May 25, 2016 and expanded the permitted investment types to include commercial paper, bankers' acceptances, negotiable certificates of deposit, and insured bank deposit reciprocals as long as certain safeguards related to credit quality and maturity are met.

Investments are valued at fair value in accordance with Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*, except for investments in external investment pools, which are valued at amortized costs if required criteria are met as outlined in Governmental Accounting Standards Board Statement No. 79, *Certain External Investment Pools and Pool Participants*.

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Investments are exposed to various risks such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the fair value of investments will occur in the near-term and that such changes could materially affect the amounts reported in the statements of net position.

As of June 30, 2024 and 2023, the Authority had no investments.

NORTH COVENTRY WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2024 and 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Financial Position - continued

4. Accounts Receivable

The Authority provides continuous services to its customers. Billings are provided to customers on a quarterly basis by bills dated the 15th day of January, April, July, and October of each year for the quarterly calendar period immediately preceding the date of the bill. Included in accounts receivable at June 30, 2024 and 2023 were unbilled fees of \$232,427 and \$208,597, respectively.

All accounts receivable are shown net of an allowance for uncollectibles, as applicable. Accounts receivable are evaluated for collectability and an allowance is established, as deemed necessary, based on the best information available and in an amount that management believes is adequate. Accounts receivable are written off when deemed uncollectable. Recoveries of accounts receivable previously written off are recorded when received. The Authority has set up an allowance for uncollectible accounts of \$15,355 at both June 30, 2024 and 2023.

5. Liened Receivables

Liened receivables are accounts that are in arrears which are included on the statements of net position as noncurrent assets. These customer accounts are secured by a lien placed on the customer's property. Although ultimately collectible, these receivables are not collectible in the current period.

6. Inventory

Inventory consists of meters, parts, and water in tanks. Inventory is valued at average cost.

NORTH COVENTRY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2024 and 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Financial Position - continued

7. Capital Assets, Depreciation, and Amortization

The Authority's capital assets with useful lives of more than one year are stated at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations, the government values these capital assets at the estimated acquisition value of the item at the date of its donation. Right-to-use lease assets are reported when a qualifying lease liability is incurred.

The Authority generally capitalizes assets with a cost of \$4,000 or more as purchase and construction outlays occur. Management has elected to include certain homogeneous asset categories with individual assets less than \$4,000 as composite groups for financial reporting purposes. Assets purchased or constructed with long-term debt may be capitalized regardless of the threshold established. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in nonoperating revenues (expenses).

Capital assets are depreciated/amortized using the straight-line method. Estimated useful lives for depreciable and amortizable assets are as follows:

Water distribution system	20 - 40 years
Equipment	5 - 7 years
Right-to-use lease asset	25 years

The Authority capitalizes as construction in process, the costs incurred related to the construction and pre-construction phase of buildings, water systems, and related equipment. These costs include engineering, legal fees, and direct contractor costs. The Authority's policy is to capitalize these costs to an appropriate capital asset account when the project is completed and placed in service. If the Authority's management elects to discontinue a project beyond the pre-construction phase, any costs incurred to that point are then expensed.

As developers complete developments and dedicate and convey the water system to the Authority, the value of the system is capitalized with a respective capital contribution recognized after nonoperating revenues and expenses in the statements of revenues, expenses, and changes in net position.

NORTH COVENTRY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2024 and 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Financial Position - continued

8. Valuation of Long-Lived Assets

Long-lived assets to be held and used are required to be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In general, any long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell. The Authority periodically evaluates the recoverability of its long-lived assets, including real estate and improvements and deferred costs, using objective methodologies. Such methodologies include evaluations based on cash flows generated by the underlying assets or other determinants of fair value. None of the Authority's long-lived assets were considered to be impaired as of June 30, 2024.

9. Leases

North Coventry Water Authority is a lessee for a noncancellable lease of a water distribution system. The Authority recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the statements of net position.

At the commencement of a lease, the Authority initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how the Authority determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The Authority uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the Authority generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Also included within the lease term are any qualifying lease renewals or early termination options that the Authority is reasonably certain to exercise or not exercise. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the Authority is reasonably certain to exercise.

NORTH COVENTRY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2024 and 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Financial Position - continued

9. Leases - continued

The Authority monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with capital assets and lease liabilities are reported with noncurrent liabilities on the statements of net position.

10. Deferred Outflows/Inflows of Resources

In addition to assets, the statements 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(s) and so will not be recognized as an outflow of resources (expense) until then. The Authority presently does not have any items that qualify for reporting in this category.

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority presently does not have any items that qualify for reporting in this category.

11. Net Position

Net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources and is classified into three categories, as applicable, as follows:

- Net investment in capital assets consists of capital assets, net of accumulated depreciation/amortization and related debt. In addition, any deferred outflows of resources and/or deferred inflows of resources related to such capital assets or liabilities associated with the capital assets should be added to or deducted from the overall net investment in capital assets.
- Restricted net position is an amount that has externally imposed restrictions on how the funds can be spent.
- Unrestricted net position is an amount that does not meet the definitions of “net investment in capital assets” or “restricted” and is available for Authority operations.

NORTH COVENTRY WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2024 and 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Financial Position - continued

12. Net Position Flow Assumptions

Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the Authority's policy to consider restricted resources to have been depleted before unrestricted resources are applied.

F. Use of Estimates

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

NOTE 2 - CASH

The Authority's cash consists of the following at June 30:

	<u>2024</u>	<u>2023</u>
Deposits	\$ 358,481	\$ 329,859
Restricted deposits	<u>42,964</u>	<u>49,979</u>
	<u>\$ 401,445</u>	<u>\$ 379,838</u>

Cash

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 to it. The Authority does have a policy for custodial credit risk and complies with the Commonwealth of Pennsylvania's regulations for municipal authorities. As of June 30, 2024 and 2023, the carrying amount of the Authority's deposits was \$401,445 and \$379,838, respectively, and the bank balance was \$407,031 and \$383,248, respectively. Of the bank balance at June 30, 2024 and 2023, \$250,000 was covered by federal depository insurance, and \$157,031 and \$133,248, respectively, was covered by collateralization requirements in accordance with Act 72 of the 1971 Session of the Pennsylvania General Assembly.

NORTH COVENTRY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2024 and 2023

NOTE 3 - CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2024 were as follows:

	Balance July 1, 2023	Additions	Deletions (Reclass)	Balance June 30, 2024
Capital assets not being depreciated:				
Land	\$ 100,507	\$ -	\$ -	\$ 100,507
Construction in process	78,013	6,445	(71,896)	12,562
Total not being depreciated	<u>178,520</u>	<u>6,445</u>	<u>(71,896)</u>	<u>113,069</u>
Capital assets being depreciated:				
Water distribution system	6,695,463	-	-	6,695,463
Equipment	286,936	-	61,618	348,554
Total being depreciated	<u>6,982,399</u>	<u>-</u>	<u>61,618</u>	<u>7,044,017</u>
Less accumulated depreciation:				
Water distribution system	2,218,851	184,164	-	2,403,015
Equipment	269,394	16,826	-	286,220
Total accumulated depreciation	<u>2,488,245</u>	<u>200,990</u>	<u>-</u>	<u>2,689,235</u>
Total capital assets being depreciated, net	4,494,154	(200,990)	61,618	4,354,782
Right-to-use lease asset:				
Water distribution system	1,287,000	-	-	1,287,000
Less accumulated amortization:				
Water distribution system	565,023	188,341	-	753,364
Total right-to-use lease asset, net	<u>721,977</u>	<u>(188,341)</u>	<u>-</u>	<u>533,636</u>
Total capital assets, net	<u>\$ 5,394,651</u>	<u>\$ (382,886)</u>	<u>\$ (10,278)</u>	<u>\$ 5,001,487</u>

NORTH COVENTRY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2024 and 2023

NOTE 3 - CAPITAL ASSETS - CONTINUED

Capital asset balances and activity for the year ended June 30, 2023 were as follows:

	Balance July 1, 2022	Additions	Deletions (Reclass)	Balance June 30, 2023
Capital assets not being depreciated:				
Land	\$ 100,507	\$ -	\$ -	\$ 100,507
Construction in process	151,775	753,983	(827,745)	78,013
Total not being depreciated	<u>252,282</u>	<u>753,983</u>	<u>(827,745)</u>	<u>178,520</u>
Capital assets being depreciated:				
Water distribution system	5,867,718	-	827,745	6,695,463
Equipment	286,936	-	-	286,936
Total being depreciated	<u>6,154,654</u>	<u>-</u>	<u>827,745</u>	<u>6,982,399</u>
Less accumulated depreciation:				
Water distribution system	2,051,326	167,525	-	2,218,851
Equipment	258,879	10,515	-	269,394
Total accumulated depreciation	<u>2,310,205</u>	<u>178,040</u>	<u>-</u>	<u>2,488,245</u>
Total capital assets being depreciated, net	3,844,449	(178,040)	827,745	4,494,154
Right-to-use lease asset:				
Water distribution system	1,287,000	-	-	1,287,000
Less accumulated amortization:				
Water distribution system	376,682	188,341	-	565,023
Total right-to-use lease asset, net	<u>910,318</u>	<u>(188,341)</u>	<u>-</u>	<u>721,977</u>
Total capital assets, net	<u>\$ 5,007,049</u>	<u>\$ 387,602</u>	<u>\$ -</u>	<u>\$ 5,394,651</u>

NOTE 4 - DUE FROM/DUE TO NORTH COVENTRY TOWNSHIP

The amount due from North Coventry Township for unpaid hydrant fees at June 30, 2024 and 2023 was \$8,740.

NORTH COVENTRY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2024 and 2023

NOTE 5 - NOTE PAYABLE

The Authority's note payable is a direct borrowing and consisted of the following at June 30:

	2024	2023
In December 2002, a \$2,000,000 Guaranteed Water Revenue Note, Series of 2002 was issued. Interest is calculated at a variable rate with maximum interest allowed of 15% (actual interest rate is 4.43% at June 30, 2024 plus a monthly finance charge and 4.77% at June 30, 2023). This note may be prepaid without penalty. The Authority has irrevocably pledged all water revenues derived from the ownership and/or operation of the water facilities as the collateral for this debt. In addition, the note is guaranteed by the full faith, credit, and taxing power of North Coventry Township.	\$ 131,000	\$ 258,000
Less amount classified as current	(131,000)	(127,000)
	\$ -	\$ 131,000

The Authority's note payable transactions consisted of the following for the years ended June 30, 2024 and 2023:

Outstanding Balance July 1, 2022	Repayments	Outstanding Balance June 30, 2023	Repayments	Outstanding Balance June 30, 2024
\$ 381,000	\$ (123,000)	\$ 258,000	\$ (127,000)	\$ 131,000

Principal and interest payments are scheduled as follows for the years ending June 30:

	Principal	Interest*
2025	\$ 131,000	\$ 2,899
	\$ 131,000	\$ 2,899

*Interest is calculated at the interest rate in effect at June 30, 2024 (4.43%).

NORTH COVENTRY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2024 and 2023

NOTE 6 - LEASE PAYABLE

The Authority has entered into a 25-year lease agreement, effective April 1, 2002, with North Coventry Township (primary government) for the operation of the water distribution system. The lease agreement is for the Authority's portion of the outstanding principal on the Guaranteed Water Revenue Note, Series of 2001 held by the Township. Interest on the lease is 0.83% and is payable with principal annually. The lease is guaranteed by the water revenues generated by customer service fees.

The Authority's lease obligation transactions consisted of the following for the years ended June 30, 2024 and 2023:

Outstanding Balance July 1, 2022	Repayments	Outstanding Balance June 30, 2023	Repayments	Outstanding Balance June 30, 2024
\$ 960,885	\$ (174,631)	\$ 786,254	\$ (182,860)	\$ 603,394

The Authority's lease obligation matures as follows for the years ending June 30:

	Principal	Interest	Total Payments
2025	\$ 192,000	\$ 5,005	\$ 197,005
2026	201,000	3,411	204,411
2027	210,394	1,743	212,137
Total	\$ 603,394	\$ 10,159	\$ 613,553

NOTE 7 - OPERATING AGREEMENT DUE TO/FROM NORTH COVENTRY MUNICIPAL AUTHORITY

North Coventry Water Authority has an agreement with North Coventry Municipal Authority (NCMA) to execute substantially all of the operational and administrative aspects of the operation of the water system. During the years ended June 30, 2024 and 2023, \$83,496 and \$81,000, respectively, of administrative fee expenses were recognized under the terms of this agreement, with a balance due to NCMA at June 30, 2024 and 2023 of \$2,370.

NCMA collects both water and sewer fees and deposits the fees in a clearing account until reconciled between the two entities. There was no balance due to or from NCMA at June 30, 2024 and 2023 for clearing account deposits.

NORTH COVENTRY WATER AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2024 and 2023

NOTE 8 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, 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 risk of loss. There were no reductions in insurance coverage for the years ended June 30, 2024 and 2023, and settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE 9 - NEW ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) has issued the following standards which have not yet been implemented:

- Statement No. 101, *Compensated Absences* - The primary objective of this statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. This statement is effective for the Authority's fiscal year ending June 30, 2025.
- Statement No. 102, *Certain Risk Disclosures* - The primary objective of this statement is to provide users of government financial statements with essential information about risks related to government's vulnerabilities due to certain concentrations or constraints. This statement is effective for the Authority's fiscal year ending June 30, 2025.
- Statement No. 103, *Financial Reporting Model Improvements* - The primary objective of this statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This statement is effective for the Authority's fiscal year ending June 30, 2026.
- Statement No. 104, *Disclosure of Certain Capital Assets* - The primary objective of this statement is to provide users of government financial statements with essential information about certain types of capital assets. This statement is effective for the Authority's fiscal year ending June 30, 2026.

The Authority has not yet completed the analysis necessary to determine the financial statement impact of these new pronouncements.

SUPPLEMENTARY INFORMATION

NORTH COVENTRY WATER AUTHORITY

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2024

	<u>Budget *</u>	<u>Actual</u>	<u>Variance</u>
OPERATING REVENUES			
Water fees	\$ 972,436	\$ 1,000,105	\$ 27,669
Inspection and service fees	4,000	13,933	9,933
Rental income	31,500	32,501	1,001
TOTAL OPERATING REVENUES	<u>1,007,936</u>	<u>1,046,539</u>	<u>38,603</u>
OPERATING AND ADMINISTRATIVE EXPENSES			
Water purchases	357,150	370,933	(13,783)
Depreciation and amortization/debt service	310,000	389,331	(79,331)
Administrative fees	85,000	83,496	1,504
Repairs and maintenance - system and equipment	48,000	55,808	(7,808)
Legal fees	21,500	11,225	10,275
Operating supplies	13,500	12,867	633
Engineering fees	25,000	55,527	(30,527)
Salaries and payroll taxes	11,000	8,492	2,508
Office expense	8,000	7,240	760
Utilities	15,000	13,630	1,370
Accounting fees	12,250	13,700	(1,450)
Insurance	8,500	7,741	759
Bank charges	600	300	300
Fire hydrant maintenance - repair and replacement	10,000	8,508	1,492
Computer expense	5,000	3,980	1,020
Miscellaneous expense	8,500	5,291	3,209
TOTAL OPERATING AND ADMINISTRATIVE EXPENSES	<u>939,000</u>	<u>1,048,069</u>	<u>(109,069)</u>
OPERATING INCOME (LOSS)	<u>68,936</u>	<u>(1,530)</u>	<u>(70,466)</u>
NONOPERATING REVENUES (EXPENSES)			
Tapping fees	-	6,800	6,800
Interest income	500	12,393	11,893
Interest expense	(50,000)	(39,568)	10,432
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(49,500)</u>	<u>(20,375)</u>	<u>29,125</u>
CHANGE IN NET POSITION	<u>\$ 19,436</u>	<u>(21,905)</u>	<u>\$ (41,341)</u>
NET POSITION - BEGINNING OF YEAR		<u>4,898,627</u>	
NET POSITION - END OF YEAR		<u>\$ 4,876,722</u>	

* Original and final budget are the same.