

**MONTGOMERY TOWNSHIP
MUNICIPAL SEWER AUTHORITY
(A Component Unit of
Montgomery Township, Pennsylvania)**

**FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

YEAR ENDED DECEMBER 31, 2021

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Independent Auditors' Report

To the Members of the Board
Montgomery Township Municipal Sewer Authority
Montgomeryville, Pennsylvania

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the business-type activities and the aggregate remaining fund information of Montgomery Township Municipal Sewer Authority (a component unit of Montgomery Township, Montgomery County, Pennsylvania (Authority), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of the Authority, as of December 31, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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.

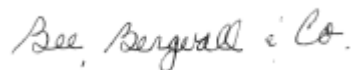
We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The Schedules of Charges for Sewer Services and Schedules of Administration Expenses, Maintenance, Operations and Contractual Services, and Lease Rental and Treatment Charges are presented for purposes of additional analysis and are 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 audit 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 Schedules of Charges for Sewer Services and Schedules of Administration Expenses, Maintenance, Operations and Contractual Services, and Lease Rental and Treatment Charges is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited the Authority's 2020 financial statements, and in our report dated April 9, 2021, we expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, is derived from those audited financial statements. The prior year summarized comparative information contained in this report has been restated for that period. Our unmodified opinion in not changed as a result of this matter.



Bee, Bergvall and Company, P.C.
Certified Public Accountants

Warrington, PA
April 4, 2022

MONTGOMERY TOWNSHIP MUNICIPAL SEWER AUTHORITY

Management's Discussion and Analysis

December 31, 2021

The following discussion and analysis of the activities and financial performance of the Montgomery Township Municipal Sewer Authority (the "Authority") is intended to compare current-year results for the fiscal year ended December 31, 2021 with the prior year, placing emphasis on the current year. Please consider the information presented here in conjunction with the accompanying financial statements and related footnotes.

During the first quarter of 2020, the world was impacted by the SARS-COV-2 virus known as COVID-19. This was the first pandemic the US had experienced since the 1918 flu pandemic over 100 years prior. Governor Wolf of Pennsylvania ordered a mandatory shut down of all non-essential businesses in March of 2020. Essential businesses, such as wastewater, were able to remain open but with limited staff and were required to adhere to strict distancing measures between staff members. Throughout the course of 2020 and through 2021, the restrictions were relaxed and tightened several times as the world searched for answers. The financial impact of this was severe. During the first quarter of 2021, vaccines were made available to the public to try to combat the effects of the virus. The viral cases continued to ebb and flow similarly to 2020 while the severity of its impact appeared to reduce. Montgomery Township residents were fortunately impacted less than residents of other counties and states given the strong financial position of the residents and their government. There was a financial impact to the Authority in 2020 that rebounded well in 2021 as shown in these statements.

The Montgomery Township Municipal Sewer Authority is a component of the Montgomery Township. The Authority was established in 1963 to be a self-supporting entity to serve the residents of the Montgomery Township.

Authority Activities and Highlights

- The net position decreased by \$551,132 for the year ended December 31, 2021.

Total Assets decreased by \$570,442 and Total Liabilities decreased by \$19,310. Total Accumulated Depreciation increased to \$33,929,856 accounting for the majority of the decrease in net position. The Authority's operating revenues, which consist of sewer rental income, auxiliary waste charges and other miscellaneous fees increased slightly. Sewer rental income rebounded from the decrease during the Covid-19 lockdown. Operating Expenses (before depreciation) decreased by \$50,835 mainly from a reduction in Covid-10 safety expenses. Non-Operating Revenue was significantly decreased resulting from a decrease in Tapping Fees and Investment Income.

Overview of the Financial Statements

Montgomery Township Municipal Sewer Authority's basic financial statements include a statement of net position, statement of revenues, expenses, and changes in net position, statement of cash flows, and notes to the financial statements. This report also includes other supplementary information in addition to the basic financial statements.

MONTGOMERY TOWNSHIP MUNICIPAL SEWER AUTHORITY

Management's Discussion and Analysis

December 31, 2021

The Authority's financial statements are prepared on an accrual basis in accordance with accounting principles generally accepted in the United States of America promulgated by the Governmental Accounting Standards Board (GASB).

Statement of Net Position

The Statement of Net Position presents the financial position of the Authority. It provides information on 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 deteriorating.

Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows

The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Revenues are recognized when earned, not when they are received. Expenses are recognized when incurred, not when they are paid. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Statement of Cash Flows

The Statement of Cash Flows presents information on the effect changes in assets and liabilities have on cash during the course of the fiscal year.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 14 through 23 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information as listed in the table of contents.

MONTGOMERY TOWNSHIP MUNICIPAL SEWER AUTHORITY

Management's Discussion and Analysis

December 31, 2021

Financial Analysis

Net Position

As noted earlier, net position may serve over time as a useful indicator of an Authority's financial position. In the case of Montgomery Township Municipal Sewer Authority, assets exceeded liabilities by \$40,876,858 at the close of the most recent fiscal year.

The following table summarizes the financial position of the Authority as of December 31, 2021 and 2020 (restated):

	<u>2021</u>	<u>Restated</u> <u>2020</u>
<u>Total Assets</u>		
Current Assets	\$ 11,636,941	\$ 11,840,450
Noncurrent Assets	3,000,000	2,249,703
Capital Assets, Net	<u>26,780,081</u>	<u>27,897,311</u>
Total Assets	<u>41,417,022</u>	<u>41,987,464</u>
<u>Current and Other Liabilities</u>		
Current Liabilities	498,267	506,056
Long Term Debt	<u>41,897</u>	<u>53,418</u>
Total Liabilities	<u>540,164</u>	<u>559,474</u>
<u>Net Position</u>		
Net Investment in Capital Assets	26,780,081	27,897,311
Unrestricted	<u>14,096,777</u>	<u>13,530,679</u>
Total Net Position	<u>\$ 40,876,858</u>	<u>\$ 41,427,990</u>

The Authority's net position presented in the table reflects a net investment in capital assets (Wastewater Treatment Plant, sewage collection/conveyance system, and equipment) of \$26,780,081 and unrestricted net position of \$14,096,777.

There were some changes in 2021 in total assets and total liabilities. Current Liabilities decreased by \$19,310 mainly due to changes in escrows for several new development and redevelopment projects in the Township that began in 2020 and are still in progress. Current Assets and Noncurrent Assets increased by a combined total of \$570,442 resulting primarily from increased long term investments in the Authority's laddered CD program.

MONTGOMERY TOWNSHIP MUNICIPAL SEWER AUTHORITY

Management's Discussion and Analysis

December 31, 2021

Changes in Net Position

The Authority operates as a component unit of Montgomery Township. The Authority's primary source of revenue is sewer rental fees. These fees are charged to all residential and commercial users of the sewer systems. Operating expenses primarily include wages and benefits, utilities, debt service, and other costs associated with the operation and maintenance of the treatment plant and sewer system.

The following table summarizes the statement of revenues, expenses and changes in net position of the Authority for the fiscal years 2021 and 2020:

	<u>2021</u>	<u>Restated</u> <u>2020</u>
<u>Operating Revenues</u>		
Sewer rentals	\$ 5,579,878	\$ 5,514,798
Penalties and interest	56,091	1,713
Auxiliary waste charges	184,847	213,850
Miscellaneous	<u>119,693</u>	<u>78,123</u>
Total Operating Revenues	<u>5,940,509</u>	<u>5,808,484</u>
<u>Operating Expenses</u>		
Salaries, payroll taxes and benefits	1,115,280	1,173,904
Administration	667,648	652,588
Maintenance, operations and contractual services	1,326,325	1,333,391
Lease rental and treatment charges	1,583,614	1,583,819
Depreciation expense	<u>2,218,363</u>	<u>2,393,153</u>
Total Operating Expenses	<u>6,911,230</u>	<u>7,136,855</u>
Operating Income (Loss)	(970,721)	(1,328,371)
Non Operating Revenues (Expenses), Net	140,490	346,137
Capital Contributions and Grants	<u>279,099</u>	<u>114,887</u>
Change in Net Position	(551,132)	(867,347)
Net Position, Beginning of the Year	<u>41,427,990</u>	<u>42,295,337</u>
Net Position, End of the Year	<u>\$ 40,876,858</u>	<u>\$ 41,427,990</u>

Capital Acquisitions

The Authority's investment in capital assets includes land, buildings, and equipment. Capital acquisitions are recorded at cost. Acquisitions are funded by available reserves and debt.

MONTGOMERY TOWNSHIP MUNICIPAL SEWER AUTHORITY

Management's Discussion and Analysis

December 31, 2021

Montgomery Township Municipal Sewer Authority's investment in capital assets as of December 31, 2021 and 2020, net of accumulated depreciation, was as follows:

	<u>2021</u>	<u>Restated</u> <u>2020</u>
Land	\$ 673,095	\$ 673,095
Construction in Progress	150,065	453,693
Wastewater Treatment Plant	25,028,995	25,688,270
Equipment	<u>927,926</u>	<u>1,082,253</u>
Total	<u>\$ 26,780,081</u>	<u>\$ 27,897,311</u>

The Authority made major investments in new capital assets during the past five years. Those projects have completed and have now entered the maintenance phase. As a result of the pandemic and government required restrictions, very few capital projects were initiated during 2020 which then creates an increase in projects for 2021 which have not yet completed. The upcoming years of 2022 through 2026 have major capital improvements and replacements scheduled as well. The Authority will continue with its strong record of investing in proper maintenance and repair of existing facilities allowing them to continue effectively past their expected life span. Each year the infrastructure is evaluated for continued use or replacement and is scheduled for replacement a few years in advance of when the cost of continued use exceeds a reasonable value for the current asset.

Debt Administration

As of December 31, 2021, the Authority had no loans outstanding. The Long-Term Debt consisted of compensated absences accrued and due to employees.

Additional information on the Authority's long-term liabilities can be found in Note 4 to the financial statements. The Authority's debt is essentially secured by the sewer receipts and revenues.

Economic Factors and Next Year's Budgets and Rates

The Montgomery Township Sewer Authority operates the public sanitary sewer system within Montgomery Township. The system includes the Eureka Wastewater Treatment Plant (2.4 MGD Average Daily Flow) located at 1485 Lower State Road in North Wales, Pennsylvania, as well as, sewage collection/conveyance systems comprised of more than 100 miles of sewer lines, six pumping stations, a Load Shaver System, and six metering pits throughout Montgomery Township. In addition to the plant, the Authority also sends sewage to five other municipal authorities for off-site treatment of sanitary sewage. The capacity available to the Authority from each of these municipal authorities is based on inter-governmental agreements.

MONTGOMERY TOWNSHIP MUNICIPAL SEWER AUTHORITY

Management's Discussion and Analysis

December 31, 2021

The Montgomery Township Municipal Sewer Authority continues to focus its efforts on increasing efficiencies through modernization of the system and a move towards technology to continue improving its financial condition. Through these continued efforts and maximization of efficiencies, the Authority will observe its ninth year at the same sewer rates for both residential and commercial customers.

Planning for the future, the Authority Board is committed to elevating the various processes and departments at the Authority in an effort to continually reach for the gold standard of its industry. As for future capital projects, the Authority has prepared and routinely updates a Five Year Capital Improvement Plan (CIP) pertaining to its public sanitary sewer system. The purpose of the aforementioned CIP is to properly plan and implements necessary repairs/improvements to the system which are required to maintain high quality service and comply with all applicable regulatory agency requirements. In conjunction with the CIP, the Authority will be undertaking improvements to the wastewater treatment plant and the sanitary sewage collection/conveyance system. During this year and for several future years, the Authority is budgeting for revisions to its governing documents including the Act 537 Plan, increasing protection against cybersecurity and modernizing workflows through Knowledge Management Initiatives.

The Authority has a 30.66% ownership in the Hatfield Township Municipal Authority (HTMA) Wastewater Treatment Plant. There were \$54,536 of MTMSA's portion of capital improvements made to HTMA in 2021 for pumps and trucks.

At the time of this report, the world is enduring the COVID-19 pandemic, but its effects are minimizing, and many things are beginning to return to pre-Covid norms. The United States has launched a successful vaccination campaign and subsequent booster shots. While the economic impact to the country has been significant, the impact to the Authority's direct constituents has been manageable. The Authority Board adopted several policies granting temporary relief from late fees, water shut-offs, etc. to assist customers in need in 2020. Those policies have all been lifted as of second quarter 2021. The Authority continues to communicate various local assistance programs to residents in need. The 2022 budget was adopted with an aggressive approach towards capital projects and upgraded infrastructure with a emphasis in technology and cyber security. The Authority has a strong economic foundation and is confident it will continue to provide top of the line services to its constituents with minimal price changes at this time.

The Authority has taken a leadership role in its industry in the Commonwealth in the role of public health. It continues to test the wastewater for Covid-19 copies and analyze the trends against county and state caseloads. Additionally, the Authority has been selected and is participating in the National Wastewater Surveillance System (NWSS) through the CDC.

MONTGOMERY TOWNSHIP MUNICIPAL SEWER AUTHORITY

Management's Discussion and Analysis

December 31, 2021

Contacting the Authority's Financial Management

This financial report is designed to provide our customers, creditors and funding agencies with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If there are any questions about this report or if additional financial information is required, please contact the Authority's staff at Montgomery Township Municipal Sewer Authority, 1001 Stump Road, Montgomeryville, PA 18936.

MONTGOMERY TOWNSHIP MUNICIPAL SEWER AUTHORITY
(A Component Unit of Montgomery Township, Pennsylvania)

Statements of Net Position

December 31, 2021 and 2020

ASSETS	<u>2021</u>	<u>Restated 2020</u>
Current Assets		
Cash and cash equivalents	\$ 10,272,260	\$ 10,879,550
Investments	750,000	250,000
Accounts receivable	588,130	616,790
Prepaid expenses	<u>26,551</u>	<u>94,110</u>
Total Current Assets	<u>11,636,941</u>	<u>11,840,450</u>
Noncurrent Assets		
Long-term investments	3,000,000	2,249,703
Capital assets		
Land	673,095	673,095
Construction in progress	150,065	453,693
Wastewater treatment and collection systems	57,296,264	57,388,210
Equipment	<u>2,590,513</u>	<u>2,522,183</u>
Total Capital Assets	60,709,937	61,037,181
Less: accumulated depreciation	<u>(33,929,856)</u>	<u>(33,139,870)</u>
Net Capital Assets	<u>26,780,081</u>	<u>27,897,311</u>
Total Noncurrent Assets	<u>29,780,081</u>	<u>30,147,014</u>
Total Assets	<u>\$ 41,417,022</u>	<u>\$ 41,987,464</u>
 LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses	<u>\$ 498,267</u>	<u>\$ 506,056</u>
Total Current Liabilities	<u>498,267</u>	<u>506,056</u>
Long-Term Liabilities		
Compensated absences	<u>41,897</u>	<u>53,418</u>
Total Long-Term Liabilities	<u>41,897</u>	<u>53,418</u>
Total Liabilities	<u>540,164</u>	<u>559,474</u>
 NET POSITION		
Net investment in capital assets	26,780,081	27,897,311
Unrestricted	<u>14,096,777</u>	<u>13,530,679</u>
Total Net Position	<u>40,876,858</u>	<u>41,427,990</u>
Total Liabilities and Net Position	<u>\$ 41,417,022</u>	<u>\$ 41,987,464</u>

The notes to the financial statements are an integral part of this statement.

MONTGOMERY TOWNSHIP MUNICIPAL SEWER AUTHORITY
(A Component Unit of Montgomery Township, Pennsylvania)

Statements of Revenues, Expenses, and Changes in Net Position

For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	Restated <u>2020</u>
Operating Revenues		
Sewer revenue	\$ 5,579,878	\$ 5,514,798
Penalties and interest	56,091	1,713
Auxiliary waste charges	184,847	213,850
Certifications and service fees	34,383	48,289
Miscellaneous	85,310	29,834
Total Operating Revenues	<u>5,940,509</u>	<u>5,808,484</u>
Operating Expenses		
Salaries, payroll taxes and benefits	1,115,280	1,173,904
Administration	667,648	652,588
Maintenance, operations and contractual services	1,326,325	1,333,391
Lease rental and treatment charges	1,583,614	1,583,819
Total Operating Expenses before Depreciation	<u>4,692,867</u>	<u>4,743,702</u>
Depreciation expense	2,218,363	2,393,153
Total Operating Expenses	<u>6,911,230</u>	<u>7,136,855</u>
Operating Income (Loss)	<u>(970,721)</u>	<u>(1,328,371)</u>
Non-Operating Revenue (Expense)		
Rental income, net of expenses	15,000	15,000
Tapping fees	51,038	208,342
Investment income	63,923	136,730
Gain on sale of fixed assets	10,529	(13,935)
Total Non-Operating Revenue (Expense)	<u>140,490</u>	<u>346,137</u>
Capital Grants and Contributions	<u>279,099</u>	<u>114,887</u>
Change in Net Position	(551,132)	(867,347)
Net Position, Beginning of Year	<u>41,427,990</u>	<u>42,295,337</u>
Net Position, End of Year	<u>\$ 40,876,858</u>	<u>\$ 41,427,990</u>

The notes to the financial statements are an integral part of this statement.

MONTGOMERY TOWNSHIP MUNICIPAL SEWER AUTHORITY
(A Component Unit of Montgomery Township, Pennsylvania)

Statements of Cash Flows

For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>Restated 2020</u>
Cash Flows from Operating Activities:		
Cash received from customers	\$ 5,969,169	\$ 5,878,104
Cash paid to suppliers	(3,103,741)	(3,333,124)
Cash paid to employees	<u>(1,540,874)</u>	<u>(1,512,367)</u>
Net Cash Provided by (Used in) Operating Activities	<u>1,324,554</u>	<u>1,032,613</u>
Cash Flows from Capital and Related Financing Activities:		
Tapping fees	51,038	208,342
Acquisition and construction of capital assets	(1,101,136)	(842,501)
Gain on capital asset disposal	10,529	74,436
Capital contributions and grants	<u>279,099</u>	<u>114,887</u>
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>(760,470)</u>	<u>(444,836)</u>
Cash Flows from Investing Activities:		
Interest received	63,923	136,730
Purchases of investments	(2,000,000)	(1,999,703)
Proceeds from sales of investments	749,703	6,899,506
Net rental income	<u>15,000</u>	<u>15,000</u>
Net Cash Provided by (Used in) Investing Activities	<u>(1,171,374)</u>	<u>5,051,533</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(607,290)	5,639,310
Cash and Cash Equivalents, at Beginning of Year	<u>10,879,550</u>	<u>5,240,240</u>
Cash and Cash Equivalents, at End of Year	<u>\$ 10,272,260</u>	<u>\$ 10,879,550</u>
Reconciliation of Net Income (Loss) to Net Cash Provided by (Used In) Operating Activities		
Operating income (loss)	<u>\$ (970,721)</u>	<u>\$ (1,328,371)</u>
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Depreciation expense	2,218,363	2,393,153
(Increase) decrease in accounts receivable	28,660	69,620
(Increase) decrease in prepaid expenses	67,559	(94,110)
Increase (decrease) in accounts payable and accrued expenses	(7,786)	(25,928)
Increase (decrease) compensated absences	<u>(11,521)</u>	<u>18,249</u>
Total adjustments	<u>2,295,275</u>	<u>2,360,984</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ 1,324,554</u>	<u>\$ 1,032,613</u>

The notes to the financial statements are an integral part of this statement.

MONTGOMERY TOWNSHIP MUNICIPAL SEWER AUTHORITY

(A Component Unit of Montgomery Township, Pennsylvania)

Statements of Fiduciary Net Assets – Custodial Funds

For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	Restated <u>2020</u>
ASSETS		
Restricted cash for developers	\$ <u>596,449</u>	\$ <u>429,495</u>
NET POSITION		
Restricted for developers	\$ <u>596,449</u>	\$ <u>429,495</u>

The notes to the financial statements are an integral part of this statement.

MONTGOMERY TOWNSHIP MUNICIPAL SEWER AUTHORITY
(A Component Unit of Montgomery Township, Pennsylvania)

Statements of Changes in Fiduciary Net Position – Custodial Funds

For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	Restated <u>2020</u>
Additions		
Escrow receipts	\$ 327,448	\$ 306,661
Total Additions	<u>327,448</u>	<u>306,661</u>
Deductions		
Escrow disbursements	<u>160,494</u>	<u>387,147</u>
Total Disbursements	<u>160,494</u>	<u>387,147</u>
Change in net position	166,954	(80,486)
Net Position Restricted for Developers		
Beginning of Year	<u>429,495</u>	<u>509,981</u>
End of Year	<u>\$ 596,449</u>	<u>\$ 429,495</u>

The notes to the financial statements are an integral part of this statement.

MONTGOMERY TOWNSHIP MUNICIPAL SEWER AUTHORITY
(A Component Unit of Montgomery Township, Pennsylvania)

Notes to Financial Statements

December 31, 2021

NOTE 1. Summary of Significant Accounting Policies

Organization and Reporting Entity

Montgomery Township Municipal Sewer Authority (the “Authority” is a public corporation organized in 1963 by the Board of Montgomery Township (the “Township”) in accordance with the Municipality Authorities Act of 1945. The Authority is a lease-back and operating authority, the purpose of which is to borrow money to finance the construction or acquisition of sewer facilities and operate a sewer system. The facilities are subject to a lease-back arrangement between the Township and the Authority.

The current Sewage System Lease (the “Lease”) dated November 20, 2013, was executed between the Township and the Authority. Terms of the Lease, expiring June 24, 2063, provide for the option of the Township, as lessee, to delegate operation of the sewer system, with the Township remaining liable for the proper performance of its obligations under the Lease. Operation of the sewer system has been delegated to the Authority by the Township pursuant to the Operating Agreement.

The Authority is governed by a five-member board. Members of the board are appointed by the Township’s Board of Supervisors.

The Authority’s governing board is responsible for decisions made in the operation of the Authority. The Township, however, is responsible for funding any deficit which may arise in the operation of the Authority. The Township also is required to review and approve the Authority’s annual operating budget and any amendment thereto. The Township has guaranteed the debt issued by the Authority in the event the Authority would not be able to meet its obligations to service the debt. In lieu of sewer charges to Township facilities, the Township provides office space to the Authority at no charge.

For purposes of defining the scope of the financial reporting entity, the Authority is considered a component unit of the Township. Such determination is consistent with the Township’s consideration of the criteria used in determining whether such organizations should be included in the Township’s financial reporting entity, which are financial interdependency, selection of governing authority, designation of management, ability to significantly influence operation, accountability for fiscal matters and scope of public service. The accompanying financial statements represent discrete component unit financial statements of the Authority and include all operation of the Authority.

MONTGOMERY TOWNSHIP MUNICIPAL SEWER AUTHORITY
(A Component Unit of Montgomery Township, Pennsylvania)

Notes to Financial Statements

December 31, 2021

NOTE 1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accompanying financial statements are presented on the accrual basis, whereby revenues are recognized in the period earned and expenses are recognized when incurred.

Custodial Funds - This fund is used to account for developer, construction, and grease trap escrows held by the Authority in a custodial capacity.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and in banks and investments in short-term, highly liquid investments with original maturities of less than 90 days.

Accounts Receivable

Charges for services are recognized when earned. All residential and commercial customers are billed quarterly based on usage. An estimated amount has been recorded for services rendered but not yet billed as of the close of the fiscal year. The Authority recognizes uncollectible accounts as a direct charge to bad debt expense at the time the Board deems the accounts to be uncollectible. At year-end, all amounts were considered collectible and no allowance for uncollectible accounts has been calculated.

Revenue Recognition

The Authority distinguishes between operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Authority's ongoing operation. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When an expense is incurred for purposes for which there are both restricted and unrestricted net position available, it is the Authority's policy to apply those expenses to restricted net position to the extent that such are available and then to unrestricted net position.

Investments

Investments are carried at their fair value based on quoted market prices.

MONTGOMERY TOWNSHIP MUNICIPAL SEWER AUTHORITY
(A Component Unit of Montgomery Township, Pennsylvania)

Notes to Financial Statements

December 31, 2021

NOTE 1. Summary of Significant Accounting Policies (Continued)

Capital Assets

Capital assets include property, plant, equipment and sewer system assets. The Authority has no formal capitalization threshold. Additions are determined on a case by case basis. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. Depreciation expense is charged to operations on the straight-line basis. Useful lives are as follows:

Equipment	5-25 years
Treatment and collection systems	5-40 years

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Compensated Absences

Employees of the Authority earn their vacation on their anniversary date. The liability for vacation earned but not taken as of December 31, 2021 is \$41,897.

Long-term Obligations

In the financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method when applicable. Bonds payable are reported net of the applicable bond premium or discount.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America require 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 revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

MONTGOMERY TOWNSHIP MUNICIPAL SEWER AUTHORITY
(A Component Unit of Montgomery Township, Pennsylvania)

Notes to Financial Statements

December 31, 2021

NOTE 1. Summary of Significant Accounting Policies (Continued)

Net Position

Net position includes the various net earnings from operating and nonoperating revenues, expenses and contributions of capital. Net position is classified in the following three components: invested in capital assets, net of related liabilities; restricted for capital activity and debt services; and unrestricted net position. Invested in capital assets, net of related debt, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted represents cash and investments established for debt repayment under terms of the debt trust indenture. Restricted assets also include developer deposits held by the Authority to be used to pay costs of certain engineering, legal, and inspection work required by the Authority. Unrestricted assets are amounts that do not meet the definitions above and are available for the Authority operations.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Authority had no items that qualify for reporting in this category. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. There were no items that qualify for reporting in this category.

Comparative Information

The financial statements include certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with accounting policies generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Authority's financial statements for the year ended December 31, 2020, from which the summarized information was derived.

MONTGOMERY TOWNSHIP MUNICIPAL SEWER AUTHORITY
(A Component Unit of Montgomery Township, Pennsylvania)

Notes to Financial Statements

December 31, 2021

NOTE 1. Summary of Significant Accounting Policies (Continued)

Subsequent Events

The Authority has evaluated events and transactions for potential recognition or disclosure in the financial statements through the date of this report, which is the date the statements were available for release. No subsequent events have been recognized or disclosed.

New Accounting Pronouncements

GASB Statement No. 84, Fiduciary Activities (GASB 84): GASB reclassifies certain escrow deposits from liabilities in the Business-type funds to Fiduciary funds, and reclassifies escrow liabilities to Net Position Restricted for Developers the Fiduciary Funds. Escrow additions are now recorded as receipts and escrow disbursements are recorded as expenses. The 2020 balances have been restated to reflect this change. The beginning net position in Fiduciary funds changed by \$509,981 as a result of implementing this statement. The custodial funds have been removed from the Statement of Cash Flows.

GASB Codification Section L20, Leases (GASB 87): GASB 87 substantially changes current accounting procedures regarding lease accounting and offers specific accounting guidance for lessees, lessors and sale-leaseback transactions. GASB 87 establishes a right-of-use (“ROU”) model that requires lessees to record a ROU asset and lease liability in the statement of financial position for all leases with terms longer than 12 months (the standard may optionally be applied to leases with terms of 12 months or less). Leases will be classified as either finance leases or operating leases depending on the characteristics of the lease; consistent with current accounting procedures, the recognition, measurement and presentation of expenses and cash flows arising from the lease will depend on the lease classification. This Statement is expected to have an implementation date for fiscal years beginning after December 15, 2021.

MONTGOMERY TOWNSHIP MUNICIPAL SEWER AUTHORITY
(A Component Unit of Montgomery Township, Pennsylvania)

Notes to Financial Statements

December 31, 2021

NOTE 2. Cash and Investments

State law allows the Authority to invest in obligations of the United States of America, the Commonwealth of Pennsylvania, or any agency or instrumentality of either, which are secured by the full faith and credit of such entity. The law also allows for the Authority to invest in certificates of deposit of banks, savings and loans, and savings banks both within and outside the Commonwealth of Pennsylvania, provided such amounts are insured by the Federal Deposit Insurance Corporation (FDIC) or other like insurance, and that deposits in excess of such insurance are collateralized by the depository. The state also imposes limitations with respect to the amount of investment in certificates of deposit to the extent that such deposits may not exceed 20% of a bank's total capital surplus or 20% of a savings and loans or savings bank's assets, net of its liabilities. The Authority may also invest in shares of registered investment companies, provided that investments of the Authority are authorized investments, as noted above.

Custodial Credit Risk - Deposits - In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority's policy is to require their banking institution to provide a letter stating that they follow the Commonwealth of Pennsylvania Act 72, where all funds in excess of federal depository insurance limits held by the bank are collateralized in public funds secured on a pooled basis. At year-end, the carrying amount of deposits was \$10,272,260. Of that bank balance, \$250,000 was covered by federal depository insurance and \$4,763,345 was invested in externally pooled investments, which are not subject to credit risk. Any balances exceeding depository insurance are exposed to custodial credit risk as uninsured and collateralized with securities held by the pledging institution's trust department or agent, but not in the Authority's name.

Investment Pool - The Authority has carrying deposits in external investment pools, held with PLGIT Bank. These deposits are considered cash equivalents because of their short maturity dates and are included in the carrying amount of deposits disclosed above. These deposits are not subject to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form. The investment in the pool is the same as the value of the pool shares and is reported at amortized cost, which approximates fair value. Pool amounts are invested directly in a portfolio of securities, which are held by a third-party custodian. All investments in an external investment pool that is not SEC registered are subject to oversight by the Commonwealth of Pennsylvania. The Authority can withdraw funds from the external investment pool without limitation or fees upon adequate notice. The investment pool was rated AAAM by Standard & Poor's and has average maturities of less than 30 days. The Investment Pool operates in accordance with appropriate state laws and regulations

MONTGOMERY TOWNSHIP MUNICIPAL SEWER AUTHORITY
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Notes to Financial Statements

December 31, 2021

NOTE 2. Cash and Investments (Continued)

Custodial Credit Risk - Investments - For an investment, this is the risk that, in event of a failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The risks of default are eliminated due to the constraints imposed upon allowable investment instruments through state limitations as discussed above.

The Authority's investments are as follows:

	<u>Fair Value</u>	<u>Rating</u>	<u>Average Maturity</u>
Externally Pooled Investments (PLGIT)	\$ 4,763,345	AAAm	30 Days
Certificates of Deposit	<u>3,750,000</u>	Not applicable	3.1 Years
Total	<u>\$ 8,513,345</u>		

Interest Rate Risk - This is the risk that changes in interest rates will adversely affect the fair market value of an investment. The Authority has no formal investment policy.

Credit Risk - This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits the investment of governmental funds as described above. The Authority does not have a formal investment policy for credit risk.

Concentration of Credit Risk - This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Authority had no certificates of deposit that exceeded 5% of investments.

Fair Value Measurements - The Authority categorizes its fair value measurements within the hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the 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. The Authority has the following recurring fair value measurements as of December 31, 2021. All investments are considered to be Level 2.

Custodial Funds - The Authority acts in a custodial capacity with respect to monies deposited with it by developers and others. These monies are held by the Authority and used to pay legal, engineering, and other fees incurred on behalf of a specific project. Any unused deposits are returned to the developer upon completion of the project, except for an administrative handling fee. At December 31, 2021, \$596,449 represents the balance of these monies held in escrow.

MONTGOMERY TOWNSHIP MUNICIPAL SEWER AUTHORITY
(A Component Unit of Montgomery Township, Pennsylvania)

Notes to Financial Statements

December 31, 2021

NOTE 3. Property, Plant and Equipment

The following is a summary of changes in property, plant and equipment:

	Restated Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Capital assets, not being depreciated:				
Land	\$ 673,095	\$ -	\$ -	\$ 673,095
Construction in progress	453,693	1,101,136	(1,404,764)	150,065
Total capital assets, not being depreciated	<u>1,126,788</u>	<u>1,101,136</u>	<u>(1,404,764)</u>	<u>823,160</u>
Capital assets, being depreciated:				
Wastewater treatment and collections systems				
Hatfield Waste Water Treatment Plant	10,491,642	54,536	-	10,546,178
Eureka Wastewater Treatment Plant	25,602,821	492,253	(5,800)	26,089,274
Other Sewer System Improvements	6,941,656	789,642	(1,422,580)	6,308,718
Developer Dedication	14,352,094	-	-	14,352,094
Total Wastewater treatment and collection	<u>57,388,213</u>	<u>1,336,431</u>	<u>(1,428,380)</u>	<u>57,296,264</u>
Equipment	<u>2,522,183</u>	<u>68,330</u>	<u>-</u>	<u>2,590,513</u>
Total capital assets, being depreciated	<u>59,910,396</u>	<u>1,404,761</u>	<u>(1,428,380)</u>	<u>59,886,777</u>
Less accumulated depreciation for:				
Wastewater treatment and collections systems				
Hatfield Waste Water Treatment Plant	8,950,548	136,292	-	9,086,840
Eureka Wastewater Treatment Plant	10,714,884	828,340	(5,800)	11,537,424
Other Sewer System Improvements	4,622,975	351,774	(1,422,580)	3,552,169
Developer Dedication	7,411,536	679,300	-	8,090,836
Equipment	<u>1,439,930</u>	<u>222,657</u>	<u>-</u>	<u>1,662,587</u>
Total accumulated depreciation	<u>33,139,873</u>	<u>2,218,363</u>	<u>(1,428,380)</u>	<u>33,929,856</u>
Total capital assets, being depreciated, net	<u>26,770,523</u>	<u>(813,602)</u>	<u>-</u>	<u>25,956,921</u>
All capital assets, net	<u>\$ 27,897,311</u>	<u>\$ 287,534</u>	<u>\$ (1,404,764)</u>	<u>\$ 26,780,081</u>

The beginning capital asset balance has been restated to capture developer dedications received in the prior year.

Unrestricted Net Position December 31, 2020	\$ 41,313,103
Prior Period Adjustment	<u>114,887</u>
Restated Unrestricted Net Position December 31, 2020	<u>\$ 41,427,990</u>

MONTGOMERY TOWNSHIP MUNICIPAL SEWER AUTHORITY
(A Component Unit of Montgomery Township, Pennsylvania)

Notes to Financial Statements

December 31, 2021

NOTE 4. Long-term Debt

Long-term liability activity for the year ended December 31, 2021 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balances	Due Within One Year
Compensated absences	\$ 53,418	\$ -	\$ (11,521)	\$ 41,897	\$ -

NOTE 5. Agreement with Hatfield Township Municipal Authority

The Authority has entered into an agreement with the Hatfield Township Municipal Authority (“Hatfield”), whereby Hatfield agrees to accept sewage for treatment from the Authority’s collection system.

The agreement provides for the payment of a deferred capacity charge resulting in the Authority owning one-third (1/3) of the capacity of the Hatfield Sewage Treatment Plant (the “Treatment Plant”). The agreement also provides for a new expansion upgrading of the Treatment Plant.

The Authority pays an annual operating charge in quarterly installments to Hatfield, which is the Authority’s pro-rata share of the net operating and maintenance expense of the Treatment Plant.

NOTE 6. Deferred Compensation Plan

The Authority offers its employees a Deferred Compensation Plan (the “Plan”) created in accordance with Internal Revenue Code Section 457. The Plan, available to full-time Authority employees, permits the employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The compensation deferred is managed by an outside trustee under various investment options. The assets of the Plan are held in trust for the exclusive benefit of the Plan participants and their beneficiaries and shall not be diverted for any other purpose. As a result, the Authority excludes the financial statements of the Plan from its financial statements. For the year ended December 31, 2021, the Authority’s contribution was \$88,121.

MONTGOMERY TOWNSHIP MUNICIPAL SEWER AUTHORITY
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Notes to Financial Statements

December 31, 2021

NOTE 7. 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, worker's compensation, healthcare costs, and natural disasters for which the Authority carries commercial insurance. There have been no significant reductions in coverage from the prior year, and settlements have not exceeded coverage in the past three years.

The Authority is self-insured for unemployment compensation and short term disability insurance.

In the normal course of business, there are various relatively minor claims and suits pending against the Authority, none of which materially affect the financial position of the Authority. At the present time, there are no unasserted claims or significant litigation matters pending.

SUPPLEMENTAL INFORMATION

MONTGOMERY TOWNSHIP MUNICIPAL SEWER AUTHORITY
(A Component Unit of Montgomery Township, Pennsylvania)

Schedules of Charges for Sewer Services

For the Years Ended December 31, 2021 and 2020

Charges for Sewer Services	<u>2021</u>	<u>2020</u>
Residential Customers		
Eureka	\$ 1,357,156	\$ 1,455,924
Chalfont-New Britain	49,271	49,207
Hatfield	2,337,427	2,323,285
Lansdale	22,951	23,678
Upper Gwynedd	332,500	337,268
Neshaminy Falls	177,925	180,069
Wells	<u>66,960</u>	<u>66,394</u>
Total Residential Customers	<u>4,344,190</u>	<u>4,435,825</u>
Commercial Customers		
Eureka	376,334	312,443
Chalfont-New Britain	2,015	1,752
Hatfield	518,276	453,829
MISCO	102,849	89,199
Lower Gwynedd	157,980	152,811
Upper Gwynedd	<u>78,234</u>	<u>68,939</u>
Total Commercial Customers	<u>1,235,688</u>	<u>1,078,973</u>
Total Charges for Sewer Services	<u>\$ 5,579,878</u>	<u>\$ 5,514,798</u>

MONTGOMERY TOWNSHIP MUNICIPAL SEWER AUTHORITY
(A Component Unit of Montgomery Township, Pennsylvania)

Schedules of Administration Expenses, Maintenance, Operations and Contractual Services, and Lease Rental and Treatment Charges

For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Administration		
Audit fee	\$ 14,400	\$ 14,400
Board member fees	5,100	5,100
Computer support, supplies and upgrades	112,749	91,772
Dues and subscriptions	3,593	5,014
Insurance	4,302	29,463
Legal fees	16,070	21,447
Miscellaneous	21,360	23,895
Office salaries and benefits	414,073	356,712
Office supplies, printing and advertising	73,485	100,622
Telephone and postage	2,516	4,163
Total Administration Expenses	<u>\$ 667,648</u>	<u>\$ 652,588</u>
Maintenance, Operations, and Contractual Services		
Communications	\$ 27,010	\$ 27,425
Engineering	70,270	132,192
Equipment rental	897	1,897
Eureka plant		
Chemicals and laboratory	274,465	240,375
Sludge disposal	193,249	186,691
Insurance	90,564	84,539
Miscellaneous	10,610	6,697
Repairs and maintenance	373,606	303,069
Utilities	245,031	316,250
Vehicles and maintenance	40,623	34,256
Total Maintenance, Operations, and Contractual Services	<u>\$ 1,326,325</u>	<u>\$ 1,333,391</u>
Lease Rental and Treatment Charges		
Chalfont-New Britain	\$ 45,255	\$ 45,505
Hatfield treatment	1,107,712	1,087,997
Lansdale	23,382	25,465
Lower Gwynedd	97,185	107,692
Upper Gwynedd	310,080	317,160
Total Lease Rental and Treatment Charges	<u>\$ 1,583,614</u>	<u>\$ 1,583,819</u>