

**CHALFONT-NEW BRITAIN TOWNSHIP
JOINT SEWAGE AUTHORITY
BUCKS COUNTY, PENNSYLVANIA**

**FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

YEAR ENDED MAY 31, 2020

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Independent Auditors' Report

Board of Directors
Chalfont-New Britain Township
Joint Sewage Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the business type activities of Chalfont-New Britain Township Joint Sewage Authority, Bucks County, Pennsylvania, as of and for the year ended May 31, 2020, as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Chalfont-New Britain Township Joint Sewage Authority as of May 31, 2020, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

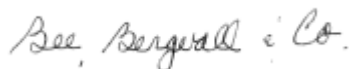
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Chalfont-New Britain Township Joint Sewage Authority's, financial statements as a whole. The accompanying financial information listed as supplemental schedules-operating expenses and general and administrative expenses, is presented for purposes of additional analysis and is not a required part of the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited the Chalfont-New Britain Township Joint Sewage Authority's 2019 financial statements, and our report dated October 18, 2019, 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 May 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.



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

Warrington, PA
August 19, 2020

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Management's Discussion and Analysis

May 31, 2020

This Management Discussion and Analysis (MD&A) is a brief overview of the financial condition of the Chalfont-New Britain Township Joint Sewage Authority (The Authority) as of May 31, 2020. We have attempted to provide this information in a format easily read and understood by the general public.

The annual Financial Report is comprised of two components: the MD&A and the Financial Statements, including the Auditor's Report and notes. The Authority's audited Financial Statements for Fiscal Year ended May 31, 2020 (FY 2020) are attached.

The Financial Statements are prepared in conformity with the U.S. Generally Accepted Accounting Principles (GAAP), with the exception of the Statement of Revenues and Expenses Compared to Budget, which is prepared on a cash basis as opposed to an accrual basis. The Authority operates on a cash basis throughout the year converting to an accrual basis for the purpose of the annual financial audit and subsequent reporting, except as noted above.

In this MD&A, Revenues and Expenses for FY 2020, compared to those for fiscal year ended May 31, 2019 (FY 2019), are reported on the accrual basis, as in the Financial Statements. Revenues and Expenses for FY 2020 compared to budget for FY 2020 are reported on the cash basis.

The following are general accounting terms used throughout this document:

Accrual Basis: A method of accounting that recognizes revenue when earned, rather than when collected and expenses when incurred, rather than when paid.

Assets: Items of value owned by the Authority.

Capital Assets: Items owned by the Authority that are considered a major purchase and play an important role in the operations of the wastewater treatment facilities. They are reported at the cost of the capitalized item less accumulated depreciation.

Current Assets: Items owned by the Authority that can reasonably be expected to be converted into cash or used in operations within a year.

Depreciation: An allowance made for wear and tear on an asset over its estimated useful life.

Liabilities: Debts or obligations owed by the Authority payable in money, goods, or services.

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Management's Discussion and Analysis

May 31, 2020

Net Position: Accumulated undistributed earnings of an entity retained for future needs.

Restricted Assets: Cash or items owned by the Authority whose use is restricted for a specific purpose.

This MD&A is a part of, and to be used in conjunction with, the Chalfont-New Britain Township Joint Sewage Authority Financial Statements as of May 31, 2020. Questions concerning any information contained in this report or requests for additional information should be addressed to the Executive Director, Chalfont-New Britain Township Joint Sewage Authority, 1645 Upper State Road, Doylestown, Pennsylvania 18901-2624.

STATEMENTS OF NET POSITION (pages 12 and 13 of the Financial Statements)

The Statements of Net Position provides information on all of the Authority's assets and liabilities, with the difference between the two being reported as Net Position. Changes in Net Position throughout the years are an indicator of the health of the Authority's financial position.

The following table summarizes the financial position of the Authority as of May 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Assets		
Current Assets	\$ 7,923,414	\$ 8,050,378
Current Restricted Assets	204,511	224,850
Capital Assets	<u>41,409,032</u>	<u>40,649,670</u>
Total Assets	<u>\$ 49,536,957</u>	<u>\$ 48,924,898</u>
Liabilities		
Payable from Current Assets	\$ 1,543,551	\$ 1,298,884
Payable from Restricted Assets	204,511	224,850
Long Term Liabilities	<u>4,691,811</u>	<u>5,485,017</u>
Total Liabilities	<u>6,439,873</u>	<u>7,008,751</u>
Net Position		
Net Investment in Capital Assets	36,823,634	34,514,398
Unrestricted	<u>6,273,450</u>	<u>7,401,749</u>
Total Net Position	<u>\$ 43,097,084</u>	<u>\$ 41,916,147</u>

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Management's Discussion and Analysis

May 31, 2020

STATEMENTS OF NET POSITION (pages 12 and 13 of the Financial Statements)
(Continued)

Total Assets of the Authority, as of May 31, 2020, were about \$49.5 million, an increase of about \$600 thousand from FY 2019. Of the Total Assets, about \$7.9 million (16% of the total) are in Current Assets. Current Assets decreased 2% from FY 2019. Current Assets are general funds and "Time Open" investments at Uninvest Bank and in Term and CD programs with the Pennsylvania Local Government Investment Trust (PLGIT). Capital Assets of about \$41.4 million increased by about \$760 thousand from FY 2019 due to capitalization of Assets. Approximately \$205 thousand were in Current Restricted Assets. Current Restricted Assets are escrow accounts held by the Authority on behalf of developers to ensure the proper construction of sewer systems in new residential and commercial developments.

Total Liabilities of the Authority as of May 31, 2020, were approximately \$6.4 million, an 8% decrease from FY 2019. Long Term Liabilities of about \$4.7 million (73% of the total) decreased about 14% from FY 2019, and is related to the Series 2016 Construction Loan for the treatment plant construction projects. See Note 10 of the Financial Statements for further description of Construction Loan activities. As of May 31, 2020, the outstanding principal on the Series 2016 Loan is approximately \$5.4 million. Of the Total Liabilities, about \$1.5 million (24%) were Current, Payable from Current Assets. Approximately \$205 thousand (3%) were Payable from Restricted Assets, which are the developer escrow accounts held by the Authority. Long Term Liabilities also include employee-related Compensated Absences of approximately \$106 thousand.

Total Net Position of the Authority, as of May 31, 2020 is approximately \$43.1 million with \$36.8 million (85%) as Net Investment in Capital Assets, and approximately \$6.3 million (15%) in Unrestricted Assets. Total Net Position increased approximately 3% from FY 2019.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
(page 14)

The Statement of Revenues, Expenses and Changes in Net Position summarizes the net position of the Authority as of May 31, 2020 and provides a comparison to FY 2019.

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Management's Discussion and Analysis

May 31, 2020

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
(Continued)

	<u>2020</u>	<u>2019</u>
Operating Revenues		
Sewer Rentals	\$ 2,806,649	\$ 2,596,275
Operating Payment	1,474,760	1,050,782
Miscellaneous	<u>33,245</u>	<u>31,929</u>
Total Operating Revenues	<u>4,314,654</u>	<u>3,678,986</u>
Operating Expenses		
Facility Operating Expenses	2,864,553	2,846,862
General & Administrative Expenses	965,449	948,809
Compensated Absences	(10,758)	21,302
Depreciation Expense on Assets		
Reimbursed Previously by BCWSA	<u>689,999</u>	<u>700,592</u>
Total Operating Expenses	<u>4,509,243</u>	<u>4,517,565</u>
Operating Income (Loss)	(194,589)	(838,579)
Net Non-Operating Revenue (Expense)		
Interest income	134,982	142,446
Reimbursement for capital purchases	1,165,217	336,045
Tap in fees	195,251	157,157
Gain (loss) on replacement of fixed assets	(9,700)	(4,550)
Interest expense	<u>(112,224)</u>	<u>(126,957)</u>
Net Non-Operating Revenue (Expense)	1,373,526	504,141
Income (Loss) Before Contributions	1,178,937	(334,438)
Capital Contributions	<u>2,000</u>	<u>114,531</u>
Change in Net Position	1,180,937	(219,907)
Net Position Beginning of Year	<u>41,916,147</u>	<u>42,136,054</u>
Net Position End of Year	<u>\$ 43,097,084</u>	<u>\$ 41,916,147</u>

Operating Revenues for FY 2020, reported on the accrual basis, were about \$4.3 million, a 17% increase from FY 2019, primarily a result of a 5% sewer rental rate increase, and also a contractual surcharge payment received from BCWSA. Approximately \$2.8 million (65%) of the Operating Revenues came from Authority Sewer Rentals, which increased slightly from FY 2019. Operating Payments from the Bucks County Water and Sewer Authority (BCWSA) accounted for about \$1.5 million (34%) of the Total Revenues. BCWSA Operating Payments are based on a contractually fixed percentage of the treatment plant operating costs and matched the budgeted amount for FY 2020. Miscellaneous income accounted for approximately \$33 thousand.

Operating Expenses for FY 2020, inclusive of depreciation and reported on the accrual basis, totaled approximately \$4.5 million, about the same as FY 2019. Facility Operating Expenses of \$2.9 million were higher than FY 2019 by \$18 thousand. Schedule A and Schedule B of the Financial Statements lists the Facility Operating Expenses, and General and Administrative Expenses respectively.

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Management's Discussion and Analysis

May 31, 2020

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
(Continued)

These Schedules also include Depreciation as attributed to the Authority's cost of the Capital Assets. Depreciation Expense on Assets previously reimbursed by BCWSA, listed separately here and shown in the amount of \$690 thousand is related to the BCWSA's cost share of the Capital Assets.

Compensated Absences, as a Long Term Liability, increased in FY 2020 by approximately \$11 thousand, and is reflected as an Operating Expense.

Non-Operating Income for FY 2020, reported on the accrual basis, totaled about \$1.5 million, most of which (\$1.2 million) came from capital project reimbursements received from the BCWSA for the current treatment plant construction project. Interest Income decreased to about \$135 thousand. Tapping Fees for new customer connections accounted for \$195 thousand of the total.

Non-Operating Expenses for FY 2020, reported on the accrual basis, totaled approximately \$122 thousand, which were related to interest on the Construction Loan, and replacement of Fixed Assets.

Income (Loss) Before Contributions in the amount of \$1,179,886 is the Operating Revenues plus net Non-Operating Income/Expense, minus the Operating Expenses.
[\$4,314,654 + \$1,373,525 - \$4,508,293 = \$1,179,886]

Capital Contributions, in the amount of \$2 thousand, are non-cash contributions of capital assets (assets paid for by a third-party then turned over to the Authority). Typically, they are new sewer systems constructed in residential and commercial developments that are subsequently dedicated to the Authority.

Net Position End of Year, for FY 2020, in the amount of \$43,098,033, is calculated as Income (Loss) Before Contributions plus the Capital Contributions plus the Net Position Beginning of Year. [\$1,179,886 + \$2,000 + \$41,916,147= \$43,098,033]. This figure is considered the true net worth of the Authority.

STATEMENT OF CASH FLOWS (page 15)

The Statement of Cash Flows for FY 2020 explains the sources and uses of cash throughout the fiscal year, on a cash basis. Significant changes in Cash Flows, from FY 2019, were primarily related to reduced Capital Expenditures for the aforementioned treatment plant construction project, and related reimbursement reductions. Net Cash from Operating Activities increased by about 53% from FY 2019 to about \$1.6 million. Other significant changes in FY 2020 Cash Flows from FY 2019 include Tapping Fees receipts, and changes in investment activities.

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Management's Discussion and Analysis

May 31, 2020

NOTES TO FINANCIAL STATEMENTS (pages 16-25)

The Notes to Financial Statements specify significant information about the business of the Authority.

CAPITAL ASSETS (NOTE 4 / page 22)

The Capital Assets of the Authority at the end of FY 2020 are about \$41.4 million (net of depreciation), an increase of 2% from FY 2019, due to Construction in Progress of new capital assets. The schedule below summarizes the Capital Assets. More detailed information can be found on page 22 of the Financial Statements (NOTE 4).

	Beginning Balance <u>6/1/2019</u>	Net Additions/ Deletions	Ending Balance <u>5/31/2020</u>
Non-Depreciable Assets			
Land	\$ 764,500	\$ -	\$ 764,500
Construction in progress	-	2,365,448	2,365,448
Other Capital Assets			
Plant	40,078,881	(15,278)	40,063,603
Equipment	1,979,518	25,854	2,005,372
Sanitary Sewers	7,735,729	-	7,735,729
Contributed Sewers	15,465,629	2,000	15,467,629
Accumulated depreciation on capital assets	<u>(25,374,587)</u>	<u>(1,618,662)</u>	<u>(26,993,249)</u>
Totals	<u>\$ 40,649,670</u>	<u>\$ 759,362</u>	<u>\$ 41,409,032</u>

DEBT

At the end of FY 2020, the Authority had total long-term debt of about \$5.4 million. In November 2013 the Authority obtained a construction loan (Series 2013 Loan) of \$10,000,000 to be used for plant improvement projects and refinancing of prior loans. The remaining principal of that Loan was paid off in FY 2016. Authority then obtained a new construction loan (Series 2016) with an initial principal amount of \$7.99 million. The loan is to be repaid over 10 years beginning in November 2016 at a fixed interest rate of 1.94%, with monthly payments of \$73,304.

The following is a summary of the Authority's outstanding long-term debt as of May 31, 2020:

<u>Year of Issue</u>	<u>Amount of Original Issue</u>	<u>Average Interest Rate</u>	<u>Final Maturity</u>	<u>Balance 6/1/2019</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Interest Payments</u>	<u>Balance 5/31/2020</u>
2016	\$ 7,990,000	1.940%	2026	\$ 6,135,272	\$ -	\$ (767,426)	\$ 112,224	\$ 5,367,846

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Management's Discussion and Analysis

May 31, 2020

FINANCIAL OUTLOOK

The Financial Outlook for FY 2020-21 should again remain relatively stable. There are no significant changes anticipated for both operational Revenues and Expenses. Customer base is expected to increase gradually, due to recent increasing development activity. Sewer usage rates were last increased in the second half of FY 2019.

Inflation will continue to affect operational expenses. Recently completed projects, however, will continue to help contain certain operating costs. The FY 2013 project to bring natural gas to the site significantly reduced the treatment facility's fuel costs. The project to replace the Ultraviolet System, completed in FY 2012, has proven to significantly reduce electricity consumption. More recent construction projects have also implemented features designed to further reduce electric usage, including installing variable speed motors with automated and computerized controls, and installing more efficient lighting throughout the plant facility. In addition, the Authority continues to benefit from multi-year agreements for both electricity and natural gas generation, which will minimize increases in those significant expenses. A collective bargaining agreement, negotiated in FY 2019 and in effect through FY 2024, should keep employee-related expenses reasonably stable.

Phase II of the treatment plant expansion and upgrade project was completed in FY 2015. The 15% increase in permitted flow capacity created by the Phase II project was approved for use in early FY 2015. This additional capacity is sufficient to provide for residential and commercial development activity for the foreseeable future.

Construction of Phase III of the treatment plant expansion and upgrade project was completed in FY 2019. Final total cost of Phase III was about \$7.1 million. These projects have been funded by a combination of existing reserve funds, the Series 2016 Construction Loan, and BCWSA capital project contributions. The Authority is currently engaged in two other capital projects in FY 2020. One will be to replace and relocate Sewage Pumping Station #4, with an estimated cost of \$2 million; and the other project, nearing completion in FY 2020, is replacement of the Biosolids Dryer at the Treatment Plant, also with an estimated cost of \$2 million.

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Statements of Net Position

May 31, 2020 and 2019

ASSETS

	<u>2020</u>	<u>2019</u>
Current Assets		
Cash and cash equivalents	\$ 3,832,224	\$ 1,041,455
Investments	3,595,873	6,547,643
Interest receivable	38,208	78,542
Accounts receivable	<u>457,109</u>	<u>382,738</u>
Total Current Assets	<u>7,923,414</u>	<u>8,050,378</u>
 Current Restricted Assets		
Escrow	<u>204,511</u>	<u>224,850</u>
Total Restricted Assets	<u>204,511</u>	<u>224,850</u>
 Capital Assets (net of accumulated depreciation)		
Land	764,500	764,500
Construction in progress	2,365,448	-
Plant and equipment	23,322,984	24,632,321
Sanitary sewers	5,189,183	5,289,969
Contributed sewers	<u>9,766,917</u>	<u>9,962,880</u>
Total Capital Assets	<u>41,409,032</u>	<u>40,649,670</u>
 TOTAL ASSETS	<u>\$ 49,536,957</u>	<u>\$ 48,924,898</u>

LIABILITIES AND NET POSITION

	<u>2020</u>	<u>2019</u>
Current Liabilities (Payable from Current Assets)		
Current maturities	\$ 782,448	\$ 767,427
Accounts payable	437,152	220,342
Accrued payroll	10,300	9,875
Unearned revenue	<u>313,651</u>	<u>301,240</u>
Total Payable from Current Assets	<u>1,543,551</u>	<u>1,298,884</u>
Current Liabilities (Payable from Restricted Assets)		
Escrow	<u>204,511</u>	<u>224,850</u>
Total Payable from Restricted Assets	<u>204,511</u>	<u>224,850</u>
Total Current Liabilities	<u>1,748,062</u>	<u>1,523,734</u>
Long-Term Debt		
Construction loan	4,585,398	5,367,845
Compensated absences	<u>106,413</u>	<u>117,172</u>
Total Long-Term Debt	<u>4,691,811</u>	<u>5,485,017</u>
Total Liabilities	<u>6,439,873</u>	<u>7,008,751</u>
Net Position		
Net Investment in Capital Assets	36,823,634	34,514,398
Unrestricted	<u>6,273,450</u>	<u>7,401,749</u>
Total Net Position	<u>43,097,084</u>	<u>41,916,147</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 49,536,957</u>	<u>\$ 48,924,898</u>

See auditors' report and accompanying notes to financial statements

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Position

For the Years Ended May 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating Revenues		
Sewer rents	\$ 2,806,649	\$ 2,596,275
Operating payment	1,474,760	1,050,782
Miscellaneous	<u>33,245</u>	<u>31,929</u>
Total Operating Revenues	<u>4,314,654</u>	<u>3,678,986</u>
Operating Expenses		
Operating expenses - Schedule A	2,864,553	2,846,862
General and administrative expenses - Schedule B	965,449	948,809
Compensated absences	(10,758)	21,302
Depreciation expense on assets reimbursed previously by BCWSA	<u>689,999</u>	<u>700,592</u>
Total Operating Expenses	<u>4,509,243</u>	<u>4,517,565</u>
Net Operating Income (Loss)	<u>(194,589)</u>	<u>(838,579)</u>
Non-Operating Revenue (Expense)		
Interest income	134,982	142,446
Reimbursement for capital purchases	1,165,217	336,045
Tapping fees	195,251	157,157
Gain (loss) on replacement of capital assets	(9,700)	(4,550)
Interest expense	<u>(112,224)</u>	<u>(126,957)</u>
Net Non-Operating Revenue (Expense)	<u>1,373,526</u>	<u>504,141</u>
Income (Loss) Before Contributions	1,178,937	(334,438)
Capital Contributions	<u>2,000</u>	<u>114,531</u>
Change in Net Position	1,180,937	(219,907)
Net Position Beginning of Year	<u>41,916,147</u>	<u>42,136,054</u>
Net Position End of Year	<u>\$ 43,097,084</u>	<u>\$ 41,916,147</u>

See auditors' report and accompanying notes to financial statements

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Statements of Cash Flows

For the Years Ended May 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Cash received from customers	\$ 4,252,694	\$ 3,655,823
Cash paid to suppliers	(1,234,069)	(1,276,700)
Cash paid to employees	<u>(1,371,109)</u>	<u>(1,299,667)</u>
Net cash provided by (used in) operating activities	<u>1,647,516</u>	<u>1,079,456</u>
Cash flows from capital and related financing activities:		
Capital expenditures	(2,424,317)	(686,194)
Retirement of debt	(767,426)	(752,694)
Capital project reimbursements	1,165,217	336,045
Tapping fees	195,251	157,157
Interest paid	<u>(112,224)</u>	<u>(126,957)</u>
Net cash provided by (used in) capital and related financing activities	<u>(1,943,499)</u>	<u>(1,072,643)</u>
Cash flows from investing activities:		
Sales of investments	6,547,643	6,493,602
Purchases of investments	(3,595,873)	(6,547,643)
Change in escrow deposits	(20,339)	(79,946)
Interest received	<u>134,982</u>	<u>142,446</u>
Net cash provided by (used in) investing activities	<u>3,066,413</u>	<u>8,459</u>
Net increase (decrease) in restricted and unrestricted cash and cash equivalents	2,770,430	15,272
Restricted and unrestricted cash and cash equivalents, at beginning of year	<u>1,266,305</u>	<u>1,251,033</u>
Restricted and unrestricted cash and cash equivalents, at end of year	<u>\$ 4,036,735</u>	<u>\$ 1,266,305</u>
Reconciliation of Net Income (Loss) to Net Cash Provided by (Used In) Operating Activities		
Operating income (loss)	\$ <u>(194,589)</u>	\$ <u>(838,579)</u>
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation expense	1,657,255	1,675,239
(Increase) decrease in accounts receivable	(74,371)	(23,163)
(Increase) decrease interest receivable	40,334	(16,047)
(Increase) decrease in escrows deposits	20,339	79,946
Increase (decrease) in accounts payable	216,810	(40,921)
Increase (decrease) in payroll and payroll tax payable	425	385
Increase (decrease) in unearned revenue	12,411	301,240
Increase (decrease) in compensated absences	(10,759)	21,302
Increase (decrease) in escrow liabilities	<u>(20,339)</u>	<u>(79,946)</u>
Total adjustments	<u>1,842,105</u>	<u>1,918,035</u>
Net cash provided by (used in) operating activities	\$ <u>1,647,516</u>	\$ <u>1,079,456</u>

See auditors' report and accompanying notes to financial statements

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Notes to Financial Statements

May 31, 2020

NOTE 1. Summary of Significant Accounting Policies

Reporting Entity: The Authority is a municipal corporation existing and operating under the Municipal Authorities Act of the Commonwealth of Pennsylvania. The accompanying financial statements present the primary government. In evaluating the Authority (the primary government) as a reporting entity, all potential component units that may or may not fall within the financial accountability of the Authority have been addressed. Financial accountability is present if the Authority appoints a voting majority of a component unit's governing body and has the ability to impose its will on the organization or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Authority. Based on the aforementioned criteria, there were no entities which were considered for inclusion in the reporting entity.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

Basis of Accounting: The accompanying financial statements have been prepared on the accrual basis of accounting, whereby revenues are recognized when earned and expenditures are recognized when incurred.

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

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Cash and Cash Equivalents: The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with maturities within three months or less from the fiscal year end.

Restricted Assets: 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 fees incurred on behalf of a specific project. Any unused deposits are returned to the developer upon completion of the project. None of the monies received from or expended on behalf of the developers are recorded in the revenues or expenses of the Authority. At May 31, 2020, \$ 0 represents the balance of these monies held in escrow.

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Notes to Financial Statements

May 31, 2020

NOTE 1. Summary of Significant Accounting Policies (Continued)

Capital Assets: Capital assets, which include property, plant, equipment, and sewer system assets, are defined by the Authority as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects when constructed. Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Plant	15-40 years
Equipment	5-40 years
Sanitary sewers	40-80 years
Contributed sewers	40-80 years

Depreciation is shown in operating expense, general and operating expense and depreciation expense on assets reimbursed previously by BCWSA. BCWSA reimburses the Authority a percentage for capital outlay.

Contributions in Aid of Construction: Sewer systems and equipment, which are constructed and installed by developers in new housing developments within the Township, are generally dedicated to the Authority upon completion of each section of the development. Upon dedication, the estimated cost to construct such property is recorded by the Authority as an increase to property, plant and equipment and as an increase to contributions in aid of construction.

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: net investment in capital assets; restricted for capital activity and debt services; and unrestricted net position. Net investment in capital assets 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 assets 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 are amounts that do not meet the definitions above and are available for the Authority operations.

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Notes to Financial Statements

May 31, 2020

NOTE 1. Summary of Significant Accounting Policies (Continued)

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

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 does not have any 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. The Authority does not have any items that qualify for reporting in this category.

Unearned Revenue: Unearned revenues represent amounts received in advance.

Compensated Absences: Employees of the Authority are entitled to accrue unused sick leave and vacation time, from one calendar year to the next, up to a maximum of 600 hours of sick time and 40 hours of vacation time. At retirement an employee may receive up to 5% of their individual salary as a cash payout.

Vacation pay is granted to employees depending on length of service and other factors. Employees are encouraged to take all of their vacation time in the year earned. Long-term vacation and sick pay obligation for the year ended May 31, 2020 is \$ 106,413.

Comparative Information: The financial statements include certain prior year comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting policies generally accepted in the United States of America, because the management discussion and analysis is presented for two years only. Accordingly, such prior year information should be read in conjunction with the Authority's financial statements for the year ended May 31, 2019, from which the comparative information was derived.

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Notes to Financial Statements

May 31, 2020

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.

NOTE 2. Budgets and Budgetary Accounting

Annual budgets are adopted on a cash basis of accounting, which is not consistent with Generally Accepted Accounting Principles (GAAP). The budget and all transactions are presented in accordance with the Authority's method (cash basis) in the Statement of Revenues and Expenses Compared to Budget to provide a meaningful comparison of actual results with the budget. The major differences between the cash basis of accounting and GAAP are that:

Revenues are recorded when received in cash as opposed to when susceptible to accrual. Expenditures are recorded when paid as opposed to when the liability is incurred, except for interest on general long term obligations, which is recorded when due. Debt principal payments and capitalized fixed assets are recorded on the balance sheet instead of in expenditures.

The Authority follows these procedures in establishing the budgetary data reflected in the financial statements:

1. During April a preliminary budget is adopted.
2. In June or July the final budget is adopted.
3. All budget revisions require the approval of the Authority.
4. Budgetary control is maintained at the account level.
5. The budget is adopted on the cash basis of accounting. All appropriations lapse at year end.

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Notes to Financial Statements

May 31, 2020

NOTE 3. Cash and Investments

With the exception of Pension Trust Funds, 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.

The law provides that the Authority's Pension Trust Funds may invest in any form or type of investment, financial instrument, or financial transaction if determined by the Authority to be prudent.

Investments for the Authority are reported at fair value. The Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the pool's amortized cost-based net asset value per share, which approximates fair value. There are no limitations or restrictions on withdrawals.

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 bank balance of deposits was \$3,962,509. Of the bank balance, \$250,000 was covered per bank by depository insurance. Any balances exceeding depository insurance are exposed to custodial credit risk because it is uninsured and collateralized with securities held by the pledging institution's trust department or agent, but not in the Authority's name. At May 31, 2020 the amount in excess of this insurance was \$3,712,509.

The Authority has deposits of \$2,489,414 in external investment pools that is considered cash equivalents because of their short maturity dates and is included in the deposits figures above.

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Notes to Financial Statements

May 31, 2020

NOTE 3. Cash and Investments (Continued)

Custodial Credit Risk - Investments. For an investment, this is the risk that, in the 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.

At year-end, the Authority's pooled cash and investment balances were as follows:

<u>Investments</u>	<u>Maturity Dates</u>	<u>Fair Value</u>	<u><1 year</u>	<u>1-5 years</u>
External Pooled Investments	2020	\$ 2,489,414	\$ 2,489,414	\$ -
Term Deposits	2020	1,325,705	1,325,705	-
Certificate of Deposit	2020-2021	<u>2,270,168</u>	<u>2,270,168</u>	<u>-</u>
Total		<u>\$ 6,085,287</u>	<u>\$ 6,085,287</u>	<u>\$ -</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 does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits the investment of governmental funds as described above. The Authority does not have a formal investment policy for credit risk. The government's investments in the external investment pool were rated AAAM by Standard & Poor's.

Concentration of Credit Risk. This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The concentration of credit risk in investments of external investment pools is not required to be disclosed.

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. None of the monies received from or expended on behalf of the developers are recorded in the revenues or expenses of the Authority. At May 31, 2020, \$204,511 represents the balance of these monies held in escrow.

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Notes to Financial Statements

May 31, 2020

NOTE 4. Capital Assets

Capital asset activity for the year ended May 31, 2020 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 764,500	\$ -	\$ -	\$ 764,500
Construction in progress	-	2,365,448	-	2,365,448
Total capital assets, not being depreciated	<u>764,500</u>	<u>2,365,448</u>	<u>-</u>	<u>3,129,948</u>
Capital assets, being depreciated:				
Plant	40,078,881	5,722	(21,000)	40,063,603
Equipment	1,979,518	53,147	(27,293)	2,005,372
Sanitary sewers	7,735,729	-	-	7,735,729
Contributed sewers	15,465,629	2,000	-	15,467,629
Total capital assets, being depreciated	<u>65,259,757</u>	<u>60,869</u>	<u>(48,293)</u>	<u>65,272,333</u>
Less accumulated depreciation for:				
Plant	15,979,973	1,280,974	(21,000)	17,239,947
Equipment	1,446,105	77,532	(17,593)	1,506,044
Sanitary sewers	2,445,760	100,786	-	2,546,546
Contributed sewers	5,502,749	197,963	-	5,700,712
Total accumulated depreciation	<u>25,374,587</u>	<u>1,657,255</u>	<u>(38,593)</u>	<u>26,993,249</u>
Total capital assets, being depreciated, net	<u>39,885,170</u>	<u>(1,596,386)</u>	<u>(9,700)</u>	<u>38,279,084</u>
All capital assets, net	<u>\$ 40,649,670</u>	<u>\$ 769,062</u>	<u>\$ (9,700)</u>	<u>\$ 41,409,032</u>

NOTE 5. Deferred Compensation Plan/Payable

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Authority employees, permits them 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.

Participants' rights under the plan are equal to the fair market value of the deferred account for each participant.

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Notes to Financial Statements

May 31, 2020

NOTE 6. Money Purchase Pension Plan

The Authority sponsors a money purchase plan under which substantially all employees are covered. Following are details of the plan.

Chalfont-New Britain Township Joint Sewage Authority Pension Trust

Plan Description

The Authority sponsors a money purchase plan to provide pension benefits for employees of the Authority. The plan covers all full-time employees and requires 1,000 hours of service for eligibility.

As required by the plan document, the employer contributes 8.0% of eligible compensation and covered employees contribute 2.5% of their salary to the pension trust. Employees are allowed to voluntarily contribute an additional 7.5% of eligible compensation.

The Pension Trust provides retirement benefits, as well as, death and disability benefits. All benefits vest after 7 years of credited service. Married employees who retire at or after age 60 with 10 years of credited service are entitled to a 50% joint and survivor annuity. Members who are not married are entitled to a life annuity. Members may elect not to take the annuities and choose to take one of the following forms of payment:

- a) A single lump sum payment.
- b) The purchase of a different form of annuity.
- c) Equal installments over a period of not more than the member's or the beneficiary's life expectancy at the time of distribution.

If an employee terminates employment before 7 years of credited service for reasons other than death, disability, or retirement, he or she is entitled to only the "vested percentage" of the account balance; therefore, the accumulated employee contributions plus related investment earnings are refunded to the employee upon termination. If an employee dies before 7 years of credited service, the beneficiary will be entitled to 100% of the members account balance.

The Authority's total payroll for all employees for the year ended May 31, 2020 was \$1,357,459. The total covered payroll was \$1,280,194 on the cash basis of accounting, which is the basis used to calculate the pension contributions. The Authority has made the necessary contribution of \$ 102,416 (8.0% of covered payroll).

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Notes to Financial Statements

May 31, 2020

NOTE 7. Post-Retirement Benefits

In accordance with the Union Labor Contract the Authority implemented a single employer plan. Plan benefits may be amended through Union Labor Contracts.

The Authority provides a health care bridge for certain employees by continuing to pay the same premium costs provided to regular full-time active employees for those employees who retire with 25 years of continuous active service, for a period not to exceed 3 years should such employee retire before he is eligible for Medicare. This period shall be a bridge between early retirement eligibility and Medicare eligibility. The coverage will be funded on a pay-as-you-go basis. The expense for post retiree health care costs for the year ended May 31, 2020 was \$0. There were no retirees receiving this benefit. The plan does not issue a stand-alone financial report.

The Authority has elected to use the alternative measurement method to value the liability. The financial statements do not reflect the long-term liability of \$2,460 due to the immateriality of the amount.

NOTE 8. Agreements with Other Municipalities

The Authority has agreements with other municipalities for the transportation and treatment of sanitary wastes.

With Montgomery Township Municipal Sewer Authority, Hatfield Township Municipal Authority (HTMA), and Warrington Township connections are billed at the same rate as the connections in the Authority's service area.

In October 2012, negotiation of a new Operating Agreement between the Authority and the BCWSA was finalized that outlined new terms and conditions for capacity, treatment, and cost sharing of the Authority's treatment facility.

NOTE 9. Risk Management and Contingencies

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Authority carries commercial 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.

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Notes to Financial Statements

May 31, 2020

NOTE 9. Risk Management and Contingencies (Continued)

The global pandemic due to the spread of the COVID-19 coronavirus continued subsequent to year end. As a result, economic uncertainties have arisen that could negatively impact the Authority's finances including investment income. The potential impact is unknown at this time.

NOTE 10. Debt

In November 2016, the Authority obtained a \$7,990,000 loan (series 2016 loan) to currently refund the series 2013. The loan is to be repaid over 120 months beginning in December 2016 at a fixed interest rate of 1.94%. The monthly payments are \$73,304. The refunding resulted in a savings of approximately \$27,000 per year.

Long-term liability activity for the year ended May 31, 2020 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Construction loan 2016	\$ 6,135,272	\$ -	\$ (767,426)	\$ 5,367,846	\$ 782,448
Compensated absences	117,172	-	(10,759)	106,413	-
Business-type activities					
Long-Term Liabilities	<u>\$ 6,252,444</u>	<u>\$ -</u>	<u>\$ (778,185)</u>	<u>\$ 5,474,259</u>	<u>\$ 782,448</u>

Maturities are based on required minimum payments with no further draw-downs included in the calculation.

Debt service for the construction loan is funded primarily from charges for services. Any liabilities for compensated absences are generally liquidated by the Authority's activities. Future maturities as of May 31, 2020 are as follows:

Year Ending	Principal	Interest
31-May		
2021	\$ 782,448	\$ 97,203
2022	797,763	81,888
2023	813,378	66,273
2024	829,298	50,353
2025	845,531	34,120
2026-2027	<u>1,299,428</u>	<u>20,049</u>
	<u>\$ 5,367,846</u>	<u>\$ 349,886</u>

SUPPLEMENTAL INFORMATION

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Schedule A: Operating Expenses

For the Years Ended May 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating Expenses		
Sanitary Sewers		
Salaries and wages	\$ 240,850	\$ 229,332
Education and training	849	652
Materials and supplies	19,221	31,397
Chemicals	18,390	15,721
Maintenance	30,006	18,900
Alarm system	2,484	2,201
Power-pump station	10,625	11,539
PA one call	1,278	951
Industrial pretreatment	1,164	653
Engineering	1,910	7,180
Legal	3,286	2,028
Miscellaneous customer service	-	951
Depreciation expense	<u>330,726</u>	<u>329,897</u>
Total Sanitary Sewers	<u>660,789</u>	<u>651,402</u>
Sewage Disposal		
Salaries and wages	839,134	787,322
Education and training	1,376	3,056
Materials and supplies	82,467	87,966
Polymer	3,539	9,551
Ferric chloride	20,093	26,301
Laboratory	9,201	12,462
Outside laboratory	15,477	15,995
Equipment maintenance/repair	109,117	77,984
Electrical repair	17,325	19,251
Ground maintenance	8,753	23,279
Fuel oil	14,603	-
Power	212,360	226,026
Natural gas	41,232	28,610
Engineering	166	21,964
Permits	4,386	7,086
Alarm system	-	-
Sludge disposal	84,750	85,448
Chemicals	103,255	118,409
Depreciation expense	<u>636,530</u>	<u>644,750</u>
Total Sewage Disposal	<u>2,203,764</u>	<u>2,195,460</u>
 TOTAL OPERATING EXPENSES	 <u>\$ 2,864,553</u>	 <u>\$ 2,846,862</u>

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Schedule B: General and Administrative Expenses

For the Years Ended May 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Administrative Expenses		
Salaries and wages	\$ 291,550	\$ 283,398
Insurance - plant/equipment	117,953	117,622
Insurance - medical	247,638	250,397
PA unemployment	4,829	4,978
Pension	102,416	96,950
Social security	103,260	98,009
Legal	16,562	20,889
Audit	12,040	11,815
Administrative	9,311	3,366
Engineering	6,000	6,000
Materials and supplies	6,331	8,704
Postage	11,497	12,125
Office equipment	21,037	15,723
Telephone	9,861	9,964
Maintenance	3,061	7,565
Education and training	<u>2,103</u>	<u>1,304</u>
Total Administrative Expenses	<u>\$ 965,449</u>	<u>\$ 948,809</u>