



***SOUTH WHITEHALL TOWNSHIP AUTHORITY
(A Component Unit of South Whitehall Township)***

FINANCIAL STATEMENTS

Years Ended December 31, 2021 and 2020

TABLE OF CONTENTS

	Pages
INDEPENDENT AUDITOR'S REPORT	1 - 2
BASIC FINANCIAL STATEMENTS	
Statements of Net Position.....	3 - 4
Statements of Revenues, Expenses, and Changes in Net Position.....	5 - 6
Statements of Cash Flows.....	7 - 8
Notes to Basic Financial Statements	9 - 21



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INDEPENDENT AUDITOR'S REPORT

**To the Board of Commissioners
South Whitehall Township Authority
South Whitehall, Pennsylvania**

Opinions

We have audited the accompanying financial statements of the business-type activities and each major fund of South Whitehall Township Authority, a component unit of South Whitehall Township, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise South Whitehall Township Authority's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of South Whitehall Township Authority, as of December 31, 2021 and 2020, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of South Whitehall Township Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 South Whitehall Township Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our 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 generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

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

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

Required Supplementary Information

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

Herbein + Company, Inc.

Reading, Pennsylvania
June 15, 2022

SOUTH WHITEHALL TOWNSHIP AUTHORITY

STATEMENTS OF NET POSITION

December 31, 2021 and 2020

	Total		Water Fund		Sewer Fund	
	2021	2020	2021	2020	2021	2020
ASSETS						
CURRENT ASSETS						
Cash and investments	\$ 10,589,211	\$ 7,601,801	\$ 5,014,199	\$ 2,906,528	\$ 5,575,012	\$ 4,695,273
Restricted cash - escrow	-	11,188	-	11,188	-	-
Accounts receivable, net of allowance for doubtful accounts	544,344	667,526	286,077	397,260	258,267	270,266
Due from other governments	25,776	33,853	18,750	23,700	7,026	10,153
Interfund receivables (payables)	-	-	(250,000)	(260,000)	250,000	260,000
Due from primary government	-	689,506	-	213,293	-	476,213
Prepaid expenses	2,374	-	2,374	-	-	-
TOTAL CURRENT ASSETS	11,161,705	9,003,874	5,071,400	3,291,969	6,090,305	5,711,905
CAPITAL ASSETS						
Land	405,032	405,032	278,588	278,588	126,444	126,444
Buildings and improvements	753,255	677,020	751,331	675,096	1,924	1,924
Water and sewer systems	37,791,741	37,427,117	19,096,398	19,096,398	18,695,343	18,330,719
Machinery and equipment	1,745,397	1,923,597	1,103,518	1,556,017	641,879	367,580
	40,695,425	40,432,766	21,229,835	21,606,099	19,465,590	18,826,667
Accumulated depreciation on capital assets	(24,244,296)	(23,827,417)	(12,680,889)	(12,484,017)	(11,563,407)	(11,343,400)
TOTAL CAPITAL ASSETS	16,451,129	16,605,349	8,548,946	9,122,082	7,902,183	7,483,267
TOTAL ASSETS	27,612,834	25,609,223	13,620,346	12,414,051	13,992,488	13,195,172

See accompanying notes.

SOUTH WHITEHALL TOWNSHIP AUTHORITY
STATEMENTS OF NET POSITION - CONTINUED

December 31, 2021 and 2020

	Total		Water Fund		Sewer Fund	
	2021	2020	2021	2020	2021	2020
LIABILITIES						
CURRENT LIABILITIES						
Due to primary government	329,424	-	305,637	-	23,787	-
Accounts payable	930,727	579,746	278,398	294,970	652,329	284,776
Accrued other	28,200	28,100	12,916	12,433	15,284	15,667
Escrow payable	-	11,188	-	11,188	-	-
TOTAL CURRENT LIABILITIES	1,288,351	619,034	596,951	318,591	691,400	300,443
NET POSITION						
Investment in capital assets	16,451,129	16,605,349	8,548,946	9,122,082	7,902,183	7,483,267
Unrestricted	9,873,354	8,384,840	4,474,449	2,973,378	5,398,905	5,411,462
TOTAL NET POSITION	\$ 26,324,483	\$ 24,990,189	\$ 13,023,395	\$ 12,095,460	\$ 13,301,088	\$ 12,894,729

See accompanying notes.

SOUTH WHITEHALL TOWNSHIP AUTHORITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Years Ended December 31, 2021 and 2020

	Total		Water		Sewer	
	2021	2020	2021	2020	2021	2020
OPERATING REVENUES						
Charges for services	\$ 6,675,097	\$ 6,357,476	\$ 3,961,863	\$ 3,704,002	\$ 2,713,234	\$ 2,653,474
Intergovernmental revenue	163,843	163,667	89,058	89,389	74,785	74,278
Other operating revenue	28,179	19,085	23,399	14,748	4,780	4,337
TOTAL OPERATING REVENUES	6,867,119	6,540,228	4,074,320	3,808,139	2,792,799	2,732,089
OPERATING EXPENSES						
Bad debt expense (recovery)	4,086	1,336	(3,365)	7,286	7,451	(5,950)
Contracted services	2,606,557	2,256,608	1,171,545	1,142,287	1,435,012	1,114,321
Depreciation	1,040,637	1,013,322	653,033	629,722	387,604	383,600
Insurance	41,850	39,296	40,000	37,510	1,850	1,786
Office expenses	40,670	32,823	19,757	15,483	20,913	17,340
Other	200,203	265,920	139,299	189,686	60,904	76,234
Contracted personnel	1,584,505	1,562,463	681,287	690,452	903,218	872,011
Professional services	330,476	193,945	236,315	130,279	94,161	63,666
Repairs and maintenance	137,659	299,110	118,409	258,750	19,250	40,360
Utilities	127,460	118,270	121,862	113,299	5,598	4,971
TOTAL OPERATING EXPENSES	6,114,103	5,783,093	3,178,142	3,214,754	2,935,961	2,568,339
OPERATING INCOME (LOSS)	753,016	757,135	896,178	593,385	(143,162)	163,750

See accompanying notes.

SOUTH WHITEHALL TOWNSHIP AUTHORITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - CONTINUED

Years Ended December 31, 2021 and 2020

	Total		Water		Sewer	
	2021	2020	2021	2020	2021	2020
OPERATING INCOME (LOSS) - from previous page	753,016	757,135	896,178	593,385	(143,162)	163,750
NONOPERATING REVENUES (EXPENSES)						
Interest income	4,007	7,811	1,925	3,624	2,082	4,187
Tapping fees	832,295	487,668	282,689	141,673	549,606	345,995
Capacity reservation	15,536	250,685	7,768	124,171	7,768	126,514
Gain (loss) on disposal of capital assets	(60,630)	(9,921)	(50,695)	(6,433)	(9,935)	(3,488)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>791,208</u>	<u>736,243</u>	<u>241,687</u>	<u>263,035</u>	<u>549,521</u>	<u>473,208</u>
INCOME BEFORE TRANSFERS	1,544,224	1,493,378	1,137,865	856,420	406,359	636,958
TRANSFERS FROM (TO) PRIMARY GOVERNMENT	<u>(209,930)</u>	<u>(209,069)</u>	<u>(209,930)</u>	<u>(209,069)</u>	-	-
CHANGE IN NET POSITION	1,334,294	1,284,309	927,935	647,351	406,359	636,958
NET POSITION - BEGINNING	<u>24,990,189</u>	<u>23,705,880</u>	<u>12,095,460</u>	<u>11,448,109</u>	<u>12,894,729</u>	<u>12,257,771</u>
NET POSITION - ENDING	<u><u>\$ 26,324,483</u></u>	<u><u>\$ 24,990,189</u></u>	<u><u>\$ 13,023,395</u></u>	<u><u>\$ 12,095,460</u></u>	<u><u>\$ 13,301,088</u></u>	<u><u>\$ 12,894,729</u></u>

See accompanying notes.

SOUTH WHITEHALL TOWNSHIP AUTHORITY

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2021 and 2020

	Total		Water		Sewer	
	2021	2020	2021	2020	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES						
Received from customers	\$ 6,998,378	\$ 6,458,593	\$ 4,190,453	\$ 3,793,855	\$ 2,807,925	\$ 2,664,738
Payments to suppliers for goods and services	(3,480,540)	(3,179,000)	(1,883,956)	(1,851,540)	(1,596,584)	(1,327,460)
Payments to primary government for personnel services	(1,584,405)	(1,572,038)	(680,804)	(694,463)	(903,601)	(877,575)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,933,433	1,707,555	1,625,693	1,247,852	307,740	459,703
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfer from (to) primary government	865,611	(865,611)	365,611	(365,611)	500,000	(500,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Tapping fees	832,295	487,668	282,689	141,673	549,606	345,995
Capacity reservation	15,536	250,685	7,768	124,171	7,768	126,514
Transfer from (to) primary government	(56,611)	(61,994)	(56,611)	(61,994)	-	-
Acquisition of capital assets	(618,049)	(440,970)	(130,592)	(409,670)	(487,457)	(31,300)
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	173,171	235,389	103,254	(205,820)	69,917	441,209
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest income	4,007	7,811	1,925	3,624	2,082	4,187
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,976,222	1,085,144	2,096,483	680,045	879,739	405,099
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	7,612,989	6,527,845	2,917,716	2,237,671	4,695,273	4,290,174
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 10,589,211</u>	<u>\$ 7,612,989</u>	<u>\$ 5,014,199</u>	<u>\$ 2,917,716</u>	<u>\$ 5,575,012</u>	<u>\$ 4,695,273</u>

See accompanying notes.

SOUTH WHITEHALL TOWNSHIP AUTHORITY

STATEMENTS OF CASH FLOWS - CONTINUED

Years Ended December 31, 2021 and 2020

	Total		Water		Sewer	
	2021	2020	2021	2020	2021	2020
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES						
Operating income (loss)	\$ 753,016	\$ 757,135	\$ 896,178	\$ 593,385	\$ (143,162)	\$ 163,750
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation	1,040,637	1,013,322	653,033	629,722	387,604	383,600
Change in allowance	(567,248)	108,099	(3,448)	(11,834)	(563,800)	119,933
Change in assets and liabilities:						
Accounts receivable	690,430	(182,901)	114,631	625	575,799	(183,526)
Due from other governments	8,077	(6,833)	4,950	(3,075)	3,127	(3,758)
Interfund balances	-	-	(10,000)	-	10,000	-
Prepaid expenses	(2,374)	983	(2,374)	869	-	114
Accounts payable	21,983	28,327	(16,572)	43,173	38,555	(14,846)
Accrued other	100	(9,575)	483	(4,011)	(383)	(5,564)
Escrow payable	(11,188)	(1,002)	(11,188)	(1,002)	-	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 1,933,433	\$ 1,707,555	\$ 1,625,693	\$ 1,247,852	\$ 307,740	\$ 459,703
The components of cash and cash equivalents are as follows:						
Cash	\$ 10,589,211	\$ 7,601,801	\$ 5,014,199	\$ 2,906,528	\$ 5,575,012	\$ 4,695,273
Restricted cash	-	11,188	-	11,188	-	-
Cash and cash equivalents	<u>\$ 10,589,211</u>	<u>\$ 7,612,989</u>	<u>\$ 5,014,199</u>	<u>\$ 2,917,716</u>	<u>\$ 5,575,012</u>	<u>\$ 4,695,273</u>

See accompanying notes.

SOUTH WHITEHALL TOWNSHIP AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2021 and 2020

The South Whitehall Township Authority (the "Authority") was incorporated under the Pennsylvania Municipal Authorities Act by the South Whitehall Township Commissioners in 1962 for the purpose of financing, developing, maintaining, and operating the sewage and water transportation systems to the residents of South Whitehall Township. The Authority was governed by a five-member board through September of 2017. The Authority is a component unit of South Whitehall Township.

On May 3, 2017, the Board of Commissioners of South Whitehall Township passed Ordinance No. 1021 to direct the South Whitehall Township Authority to take all steps necessary to effectuate its dissolution. All assets, property interests, and regulatory permits held by the Authority will be transferred to South Whitehall Township and all contractual rights and obligations will also be assigned to South Whitehall Township. All ownership, operation, maintenance, and control of the water and sewer system which services the Township will be transferred to South Whitehall Township. From the time of the ordinance until dissolution, the Authority is prohibited from entering into new contracts and agreements or assuming new debt obligations. The certificate of termination of the Authority was signed in September of 2017, at which point forward all operations were administered by the Township Board of Commissioners.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

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

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

SOUTH WHITEHALL TOWNSHIP AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

A. Financial Reporting Entity - continued

Based upon the application of these criteria, the South Whitehall Township Authority has determined it does not have any component units, but is itself a component unit of South Whitehall Township. The financial statements represent the activity of the South Whitehall Township Authority only and do not reflect any activity of the primary government.

B. Basis of Presentation

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

The following are descriptions of the proprietary funds of the Authority that are reported as major funds:

Water Fund - is used to account for the operations of the water supply works and water distribution systems. The water system is a public utility service, which is maintained on a self-supporting basis.

Sewer Fund - is used to account for the operations of the wastewater collection and treatment system. The sewer system is a public utility service, which is maintained on a self-supporting basis.

Operating revenues and expenses are distinguished from nonoperating items in the statements of revenues, expenses, and changes in net position. Operating revenues and expenses generally result from providing services in connection with Authority's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for water distribution and wastewater collection (including extra strength) and treatment. Operating expenses include the cost of providing water distribution and wastewater collection and treatment, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Tapping Fees and Capacity Reservation

Tapping fees collected are recognized as revenue upon the hook-up to the Authority sewer system. Capacity reservations are nonrefundable and are recognized as revenue when they are received. Tapping fees and capacity reservations are reported as nonoperating revenue on the statements of revenues, expenses, and changes in net position.

SOUTH WHITEHALL TOWNSHIP AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Measurement Focus and Basis of Accounting

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

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

D. Budgetary Information

The Authority is not required to adopt a budget, but it does. The Authority adopts a flexible annual operating budget. The budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America. The current operating budget details the Authority's plans to earn and expend funds for charges incurred for operation, maintenance, certain interest and general functions, and other charges for the year. All unexpended and unencumbered appropriations in the operating budget lapse at the end of the year.

E. Financial Position

1. Cash and Cash Equivalents

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

2. Restricted Developer's Escrow Account

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

SOUTH WHITEHALL TOWNSHIP AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Financial Position - continued

3. Investments

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

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

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

4. Accounts Receivable

The Authority provides continuous services to its customers. Billings are provided to customers on a quarterly basis. Accounts receivable represents open receivables, which include penalties and interest, and is stated net of an allowance for doubtful accounts. The estimate of the allowance for doubtful accounts is based upon an analysis of specific receivables considering the age of the past due receivable and an assessment of its ultimate collectability. In reviewing aged receivables, management considers their knowledge of customers, historical activity, and current economic conditions in determining an appropriate allowance for doubtful accounts. The Authority also has the opportunity to lien properties as necessary.

5. Due From Other Governments

Due from other governments represents amounts due from the County of Lehigh, the Township of Salisbury, and Lower Macungie Township for water and sewer services provided.

6. Interfund Transactions

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the year are referred to as "interfund receivables and payables." Interfund transactions are eliminated in the total column of the statements of net position.

SOUTH WHITEHALL TOWNSHIP AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Financial Position - continued

7. Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in the financial statements. The costs of prepaid items are recorded as expenses when consumed rather than when purchased.

8. Capital Assets and Depreciation

The Authority's capital assets, with useful lives of more than one year, are stated at historical cost and comprehensively reported in the financial statements. Cost includes engineering fees and other expenses incurred during the period of construction as required by generally accepted accounting principles. Major additions and improvements are capitalized, while expenditures for maintenance and repairs, which do not improve or extend the lives of the respective assets, are expensed. Construction in progress is stated at cost and consists primarily of costs incurred on construction projects. No provision for depreciation is made on construction in progress until the assets are complete and placed into service. In the case of donations, the government values these capital assets at the estimated fair value of the item at the date of its donation.

The Authority generally capitalizes assets with a cost of \$5,000 or more as purchase and construction outlays occur, with the exception of land (\$1 capitalization threshold) and infrastructure (\$25,000 capitalization threshold). Assets purchased or constructed with long-term debt may be capitalized regardless of the threshold established. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in nonoperating revenues (expenses).

Estimated useful lives of the depreciable assets are as follows:

Buildings and improvements	50 years
Water and sewer systems	10 - 50 years
Machinery and equipment	5 - 15 years

SOUTH WHITEHALL TOWNSHIP AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Financial Position - continued

9. Valuation of Long-Lived Assets

Long-lived assets to be held and used are required to be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In general, any long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell. The Authority periodically evaluates the recoverability of its long-lived assets, including real estate and improvements and deferred costs, using objective methodologies. Such methodologies include evaluations based on cash flows generated by the underlying assets or other determinants of fair value. None of the Authority's long-lived assets were considered to be impaired as of December 31, 2021 or 2020.

10. Deferred Outflows/Inflows of Resources

In addition to assets, the statements 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) until then. The Authority presently does not have any items that qualify for reporting in this category.

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

11. Net Position

Net position represents the difference between assets and liabilities and is classified into three categories, as applicable, as follows:

- Investment in capital assets consists of capital assets, net of accumulated depreciation.
- Restricted net position is an amount that has externally imposed restrictions on how the funds can be spent.
- Unrestricted net position is an amount that does not meet the definitions of "net investment in capital assets" or "restricted" and is available for Authority operations.

SOUTH WHITEHALL TOWNSHIP AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Financial Position - continued

12. Net Position Flow Assumptions

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

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

F. Use of Estimates

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

NOTE 2 - CASH AND INVESTMENTS

The Authority is permitted to invest funds in:

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

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

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

SOUTH WHITEHALL TOWNSHIP AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 2 - CASH AND INVESTMENTS - CONTINUED

The components of cash as presented on the financial statements are as follows at December 31:

	2021	2020
Cash on hand	\$ 175	\$ 175
Deposits	10,589,036	7,601,626
Restricted deposits	-	11,188
Total	\$ 10,589,211	\$ 7,612,989

Custodial Credit Risk

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. At December 31, 2021 and 2020, the carrying amount of the Authority's deposits was \$10,589,036 and \$7,612,814, respectively, and the bank balance was \$10,586,014 and \$7,583,327, respectively. Of the bank balance, \$500,000 and \$439,679, respectively, was covered by federal depository insurance and \$9,780,161 and \$7,143,648, respectively, was exposed to custodial credit risk but covered by collateralization requirements in accordance with Act 72 of the 1971 Session of the Pennsylvania General Assembly. The remaining bank balance of \$305,853 and \$0, respectively, was not insured by federal depository insurance or by collateralization requirements of Act 72 of the 1971 session of the Pennsylvania General Assembly.

At December 31, 2021 and 2020, the Authority did not have investments.

NOTE 3 - ACCOUNTS RECEIVABLE

The accounts receivable balance represents amounts due from customers for water and sewer services that have been provided by the Authority as of December 31, 2021 and 2020.

Accounts receivable include the following amounts at December 31:

	2021			2020		
	Gross Receivable	Allowance	Net Receivable	Gross Receivable	Allowance	Net Receivable
Water charges	\$ 544,344	\$ (258,267)	\$ 286,077	\$ 658,975	\$ (261,715)	\$ 397,260
Sewer charges	607,801	(349,534)	258,267	1,183,600	(913,334)	270,266
	\$ 1,152,145	\$ (607,801)	\$ 544,344	\$ 1,842,575	\$ (1,175,049)	\$ 667,526

SOUTH WHITEHALL TOWNSHIP AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 4 - INTERFUND RECEIVABLES (PAYABLES)

During the course of operations, the Authority has transactions between funds to finance operations and provide services. The interfund receivables and payables were as follows as of December 31:

	2021		2020	
	Interfund Receivables	Interfund Payables	Interfund Receivables	Interfund Payables
Water Fund	\$ -	\$ 250,000	\$ -	\$ 260,000
Sewer Fund	250,000	-	260,000	-
Total	<u>\$ 250,000</u>	<u>\$ 250,000</u>	<u>\$ 260,000</u>	<u>\$ 260,000</u>

All interfund receivables and payables will be repaid at the discretion of the Board, which may be longer than one year.

Interfund transactions are eliminated from the total column on the statements of net position.

NOTE 5 - PRIMARY GOVERNMENT TRANSACTIONS

The employees of the Authority are provided by South Whitehall Township. The Authority pays its prorated share of employee costs including salaries, payroll taxes, benefits, and pension costs of the Township. The Authority leases certain vehicles and equipment from South Whitehall Township. The lease of the equipment is on a month-to-month basis with no ongoing lease commitment for the Authority.

The Authority had a payable to the primary government of \$329,424 at December 31, 2021. The payable relates to reimbursement of net operating costs paid by the primary government during and prior to the year ended December 31, 2021. The Authority had a receivable from the primary government of \$689,506 at December 31, 2020. The receivable relates to cash loaned to the primary government for a campus renovation project before loan proceeds were available, net of payables to the primary government for reimbursement of net operating costs paid by the primary government during and prior to the year ended December 31, 2020. The outstanding receivable was satisfied in 2021.

For the years ended December 31, 2021 and 2020, the Authority transferred \$209,930 and \$209,069, respectively, to the Township to satisfy the debt service obligation of the water fund portion of the General Obligation Note of 2018.

SOUTH WHITEHALL TOWNSHIP AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 6 - CAPITAL ASSETS

Capital asset balances and activity for the year ended December 31, 2021, were as follows:

	Balance January 1, 2021	Additions	Disposals/ Transfers	Balance December 31, 2021
Capital assets not being depreciated:				
Land	\$ 405,032	\$ -	\$ -	\$ 405,032
Capital assets being depreciated:				
Building and building improvements	677,020	76,235	-	753,255
Water and sewer systems	37,427,117	453,124	(88,500)	37,791,741
Machinery and equipment	1,923,597	417,688	(595,888)	1,745,397
Total being depreciated	40,027,734	947,047	(684,388)	40,290,393
Less accumulated depreciation:				
Building and building improvements	183,823	60,506	-	244,329
Water and sewer systems	22,681,099	464,844	(88,500)	23,057,443
Machinery and equipment	962,495	515,287	(535,258)	942,524
Total accumulated depreciation	23,827,417	1,040,637	(623,758)	24,244,296
Total Capital Assets, Net	\$ 16,605,349	\$ (93,590)	\$ (60,630)	\$ 16,451,129

SOUTH WHITEHALL TOWNSHIP AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 6 - CAPITAL ASSETS - CONTINUED

Capital asset balances and activity for the year ended December 31, 2020, were as follows:

	Balance January 1, 2020	Additions	Disposals/ Transfers	Balance December 31, 2020
Capital assets not being depreciated:				
Land	\$ 408,342	\$ -	\$ (3,310)	\$ 405,032
Capital assets being depreciated:				
Building and building improvements	487,985	189,522	(487)	677,020
Water and sewer systems	37,450,023	-	(22,906)	37,427,117
Machinery and equipment	1,694,963	251,448	(22,814)	1,923,597
Total being depreciated	39,632,971	440,970	(46,207)	40,027,734
Less accumulated depreciation:				
Building and building improvements	133,208	50,786	(171)	183,823
Water and sewer systems	21,903,962	796,007	(18,870)	22,681,099
Machinery and equipment	816,521	166,529	(20,555)	962,495
Total accumulated depreciation	22,853,691	1,013,322	(39,596)	23,827,417
Total Capital Assets, Net	\$ 17,187,622	\$ (572,352)	\$ (9,921)	\$ 16,605,349

NOTE 7 - INTERMUNICIPAL AGREEMENTS

On October 1, 1997, South Whitehall Township entered into an agreement with the City of Allentown (City) for the purchase of water. On the same day, this agreement was assigned to the South Whitehall Township Authority. Under Addendum #2 to the agreement, dated January 1, 2004, the Authority agrees to purchase a minimum of 850,000 gallons of water per day average per year from the City. Rates for purchase are determined as a percentage of current rates to City customers. Costs under the agreement for the years ended December 31, 2021 and 2020, were \$1,171,545 and \$1,142,287, respectively.

On December 29, 1981, the Authority (through the South Whitehall Township) entered into an agreement with the City of Allentown for the transportation, treatment, and disposal of sewage collected by the South Whitehall Township Authority. The Authority pays the City of Allentown for sewer treatment charges, sewage transportation charges, and debt service charges on a quarterly basis. Final calculations are determined after year end, with an adjustment billing in the following year. Treatment expense for the years ended December 31, 2021 and 2020, was \$1,435,012 and \$1,114,321, respectively.

SOUTH WHITEHALL TOWNSHIP AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 8 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all areas which the Authority retains risk of loss. There were no reductions in insurance coverage for the current year or the three prior years.

NOTE 9 - NEW ACCOUNTING STANDARDS

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

- Statement No. 87, *Leases* - This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. This statement is effective for the Authority's fiscal year ending December 31, 2022.
- Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* - As used in this statement, a public-private and public-public partnership arrangement (PPP) is an arrangement in which a government contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset, for a period of time in an exchange or exchange-like transaction. This statement requires that PPPs that meet the definition of a lease apply the guidance in Statement No. 87 if existing assets of the transferor that are not required to be improved by the operator as part of the PPP arrangement are the only underlying PPP assets and the PPP does not meet the definition of a service concession arrangement. The Statement also provides accounting and financial reporting requirements for all other PPPs. The Statement also defines and provides guidance for accounting and financial reporting for availability payment arrangements (APAs). This statement is effective for the Authority's fiscal year ending December 31, 2023.

SOUTH WHITEHALL TOWNSHIP AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 9 - NEW ACCOUNTING STANDARDS - CONTINUED

- Statement No. 96, *Subscription-Based IT Arrangements* - This statement establishes guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. This statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. This statement is effective for the Authority's fiscal year ending December 31, 2023.

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