

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

FINANCIAL STATEMENTS

Years Ended December 31, 2022 and 2021

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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, 2022 and 2021, 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, 2022 and 2021, 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
September 20, 2023**

SOUTH WHITEHALL TOWNSHIP AUTHORITY

STATEMENTS OF NET POSITION

December 31, 2022 and 2021

	Total		Water Fund		Sewer Fund	
	2022	2021	2022	2021	2022	2021
ASSETS						
CURRENT ASSETS						
Cash and investments	\$ 10,952,416	\$ 10,589,211	\$ 5,513,539	\$ 5,014,199	\$ 5,438,877	\$ 5,575,012
Accounts receivable, net of allowance for doubtful accounts	1,011,089	544,344	732,069	286,077	279,020	258,267
Due from other governments	18,678	25,776	14,737	18,750	3,941	7,026
Interfund receivables (payables)	-	-	-	(250,000)	-	250,000
Prepaid expenses	-	2,374	-	2,374	-	-
TOTAL CURRENT ASSETS	11,982,183	11,161,705	6,260,345	5,071,400	5,721,838	6,090,305
CAPITAL ASSETS						
Land	405,032	405,032	278,588	278,588	126,444	126,444
Construction in progress	335,642	-	329,135	-	6,507	-
Buildings and improvements	762,301	753,255	760,377	751,331	1,924	1,924
Water and sewer systems	38,318,775	37,791,741	19,623,432	19,096,398	18,695,343	18,695,343
Machinery and equipment	2,375,120	1,745,397	1,245,767	1,103,518	1,129,353	641,879
	<u>42,196,870</u>	<u>40,695,425</u>	<u>22,237,299</u>	<u>21,229,835</u>	<u>19,959,571</u>	<u>19,465,590</u>
Accumulated depreciation on capital assets	<u>(25,380,901)</u>	<u>(24,244,296)</u>	<u>(13,352,743)</u>	<u>(12,680,889)</u>	<u>(12,028,158)</u>	<u>(11,563,407)</u>
TOTAL CAPITAL ASSETS	16,815,969	16,451,129	8,884,556	8,548,946	7,931,413	7,902,183
TOTAL ASSETS	28,798,152	27,612,834	15,144,901	13,620,346	13,653,251	13,992,488

See accompanying notes.

SOUTH WHITEHALL TOWNSHIP AUTHORITY
STATEMENTS OF NET POSITION - CONTINUED

December 31, 2022 and 2021

	Total		Water Fund		Sewer Fund	
	2022	2021	2022	2021	2022	2021
LIABILITIES						
CURRENT LIABILITIES						
Due to primary government	130,127	329,424	106,340	305,637	23,787	23,787
Accounts payable	1,118,457	601,729	491,417	278,398	627,040	323,331
Accounts payable - capital	307,793	328,998	307,793	-	-	328,998
Accrued other	21,578	28,200	9,547	12,916	12,031	15,284
TOTAL CURRENT LIABILITIES	1,577,955	1,288,351	915,097	596,951	662,858	691,400
NET POSITION						
Investment in capital assets	16,508,176	16,122,131	8,576,763	8,548,946	7,931,413	7,573,185
Unrestricted, designated	2,000,000	-	-	-	2,000,000	-
Unrestricted	8,712,021	10,202,352	5,653,041	4,474,449	3,058,980	5,727,903
TOTAL NET POSITION	\$ 27,220,197	\$ 26,324,483	\$ 14,229,804	\$ 13,023,395	\$ 12,990,393	\$ 13,301,088

See accompanying notes.

SOUTH WHITEHALL TOWNSHIP AUTHORITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Years Ended December 31, 2022 and 2021

	Total		Water Fund		Sewer Fund	
	2022	2021	2022	2021	2022	2021
OPERATING REVENUES						
Charges for services	\$ 6,895,351	\$ 6,675,097	\$ 4,177,500	\$ 3,961,863	\$ 2,717,851	\$ 2,713,234
Intergovernmental revenue	161,564	163,843	89,285	89,058	72,279	74,785
Other operating revenue	31,775	28,179	22,381	23,399	9,394	4,780
TOTAL OPERATING REVENUES	7,088,690	6,867,119	4,289,166	4,074,320	2,799,524	2,792,799
OPERATING EXPENSES						
Bad debt expense (recovery)	18,896	4,086	18,896	(3,365)	-	7,451
Contracted services	2,999,788	2,606,557	1,269,553	1,171,545	1,730,235	1,435,012
Depreciation	1,136,605	1,040,637	671,854	653,033	464,751	387,604
Insurance	41,900	41,850	40,000	40,000	1,900	1,850
Office expenses	42,690	40,670	19,391	19,757	23,299	20,913
Other	217,504	200,203	142,539	139,299	74,965	60,904
Contracted personnel	1,735,198	1,584,505	769,117	681,287	966,081	903,218
Professional services	230,782	330,476	147,729	236,315	83,053	94,161
Repairs and maintenance	285,953	137,659	175,146	118,409	110,807	19,250
Utilities	143,601	127,460	138,315	121,862	5,286	5,598
TOTAL OPERATING EXPENSES	6,852,917	6,114,103	3,392,540	3,178,142	3,460,377	2,935,961
OPERATING INCOME (LOSS)	235,773	753,016	896,626	896,178	(660,853)	(143,162)

See accompanying notes.

SOUTH WHITEHALL TOWNSHIP AUTHORITY

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

Years Ended December 31, 2022 and 2021

	Total		Water Fund		Sewer Fund	
	2022	2021	2022	2021	2022	2021
OPERATING INCOME (LOSS) - from previous page	235,773	753,016	896,626	896,178	(660,853)	(143,162)
NONOPERATING REVENUES (EXPENSES)						
Interest income	29,312	4,007	11,054	1,925	18,258	2,082
Tapping fees	508,089	832,295	180,931	282,689	327,158	549,606
Capacity reservation	9,734	15,536	4,992	7,768	4,742	7,768
Loss on disposal of capital assets	-	(60,630)	-	(50,695)	-	(9,935)
TOTAL NONOPERATING REVENUES	<u>547,135</u>	<u>791,208</u>	<u>196,977</u>	<u>241,687</u>	<u>350,158</u>	<u>549,521</u>
INCOME (LOSS) BEFORE TRANSFERS	782,908	1,544,224	1,093,603	1,137,865	(310,695)	406,359
TRANSFERS FROM (TO) PRIMARY GOVERNMENT	<u>112,806</u>	<u>(209,930)</u>	<u>112,806</u>	<u>(209,930)</u>	<u>-</u>	<u>-</u>
CHANGE IN NET POSITION	895,714	1,334,294	1,206,409	927,935	(310,695)	406,359
NET POSITION - BEGINNING	<u>26,324,483</u>	<u>24,990,189</u>	<u>13,023,395</u>	<u>12,095,460</u>	<u>13,301,088</u>	<u>12,894,729</u>
NET POSITION - ENDING	<u>\$ 27,220,197</u>	<u>\$ 26,324,483</u>	<u>\$ 14,229,804</u>	<u>\$ 13,023,395</u>	<u>\$ 12,990,393</u>	<u>\$ 13,301,088</u>

See accompanying notes.

SOUTH WHITEHALL TOWNSHIP AUTHORITY

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2022 and 2021

	Total		Water Fund		Sewer Fund	
	2022	2021	2022	2021	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES						
Received from customers	\$ 6,610,147	\$ 6,998,378	\$ 3,828,291	\$ 4,190,453	\$ 2,781,856	\$ 2,807,925
Payments to suppliers for goods and services	(3,443,116)	(3,480,540)	(1,967,280)	(1,883,956)	(1,475,836)	(1,596,584)
Payments to primary government for personnel services	(1,741,820)	(1,584,405)	(772,486)	(680,804)	(969,334)	(903,601)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,425,211	1,933,433	1,088,525	1,625,693	336,686	307,740
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfer from primary government	-	865,611	-	365,611	-	500,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Tapping fees	508,089	832,295	180,931	282,689	327,158	549,606
Capacity reservation	9,734	15,536	4,992	7,768	4,742	7,768
Transfer from to primary government	(86,491)	(56,611)	(86,491)	(56,611)	-	-
Acquisition of capital assets	(1,522,650)	(618,049)	(699,671)	(130,592)	(822,979)	(487,457)
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	(1,091,318)	173,171	(600,239)	103,254	(491,079)	69,917
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest income	29,312	4,007	11,054	1,925	18,258	2,082
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	363,205	2,976,222	499,340	2,096,483	(136,135)	879,739
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	10,589,211	7,612,989	5,014,199	2,917,716	5,575,012	4,695,273
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 10,952,416</u>	<u>\$ 10,589,211</u>	<u>\$ 5,513,539</u>	<u>\$ 5,014,199</u>	<u>\$ 5,438,877</u>	<u>\$ 5,575,012</u>

See accompanying notes.

SOUTH WHITEHALL TOWNSHIP AUTHORITY

STATEMENTS OF CASH FLOWS - CONTINUED

Years Ended December 31, 2022 and 2021

	Total		Water Fund		Sewer Fund	
	2022	2021	2022	2021	2022	2021
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES						
Operating income (loss)	\$ 235,773	\$ 753,016	\$ 896,626	\$ 896,178	\$ (660,853)	\$ (143,162)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation	1,136,605	1,040,637	671,854	653,033	464,751	387,604
Change in allowance	21,779	(567,248)	21,809	(3,448)	(30)	(563,800)
Change in assets and liabilities:						
Accounts receivable	(488,524)	690,430	(467,801)	114,631	(20,723)	575,799
Due from other governments	7,098	8,077	4,013	4,950	3,085	3,127
Interfund balances	-	-	(250,000)	(10,000)	250,000	10,000
Prepaid expenses	2,374	(2,374)	2,374	(2,374)	-	-
Accounts payable	516,728	21,983	213,019	(16,572)	303,709	38,555
Accrued other	(6,622)	100	(3,369)	483	(3,253)	(383)
Escrow payable	-	(11,188)	-	(11,188)	-	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 1,425,211	\$ 1,933,433	\$ 1,088,525	\$ 1,625,693	\$ 336,686	\$ 307,740

See accompanying notes.

SOUTH WHITEHALL TOWNSHIP AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022 and 2021

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, 2022 and 2021

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 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, 2022 and 2021

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. While appropriations lapse at the end of the year, encumbrances outstanding are reported as reservations of fund balance for subsequent expenses.

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.

SOUTH WHITEHALL TOWNSHIP AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022 and 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Financial Position - continued

2. 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.

3. 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.

4. 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.

5. 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, 2022 and 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Financial Position - continued

6. 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.

7. 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 acquisition 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

8. Valuation of Long-Lived Assets

Long-lived assets to be held and used are required to be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In general, any long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell. The Authority periodically evaluates the recoverability of its long-lived assets, including real estate and improvements and deferred costs, using objective methodologies. Such methodologies include evaluations based on cash flows generated by the underlying assets or other determinants of fair value. None of the Authority's long-lived assets were considered to be impaired as of December 31, 2022 or 2021.

SOUTH WHITEHALL TOWNSHIP AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022 and 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Financial Position - continued

9. Deferred Outflows/Inflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Authority presently does not have any items that qualify for reporting in this category.

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

10. 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.

11. Net Position Flow Assumptions

It is the policy of the Township to have an unrestricted net position equal to or greater than \$5 million in the Water Fund and \$10 million in the Sewer Fund.

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.

SOUTH WHITEHALL TOWNSHIP AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022 and 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

G. Adoption of Accounting Standards

During the year ended December 31, 2022, the Authority adopted new accounting guidance GASB Statement No. 87, *Leases*. The implementation of this standard had no impact on the Authority's financials.

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, 2022 and 2021

NOTE 2 - CASH AND INVESTMENTS - CONTINUED

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

	2022	2021
Cash on hand	\$ -	\$ 175
Deposits	10,952,416	10,589,036
Total	\$ 10,952,416	\$ 10,589,211

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, 2022 and 2021, the carrying amount of the Authority's deposits was \$10,952,416 and \$10,589,036, respectively, and the bank balance was \$10,953,762 and \$10,586,014, respectively. Of the bank balance, \$750,000 and \$500,000, respectively, was covered by federal depository insurance and \$10,203,762 and \$9,780,161, 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 for December 31, 2021 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, 2022 and 2021, 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, 2022 and 2021.

Accounts receivable include the following amounts at December 31:

	2022			2021		
	Gross Receivable	Allowance	Net Receivable	Gross Receivable	Allowance	Net Receivable
Water charges	\$ 1,012,145	\$ (280,076)	\$ 732,069	\$ 544,344	\$ (258,267)	\$ 286,077
Sewer charges	628,524	(349,504)	279,020	607,801	(349,534)	258,267
	\$ 1,640,669	\$ (629,580)	\$ 1,011,089	\$ 1,152,145	\$ (607,801)	\$ 544,344

SOUTH WHITEHALL TOWNSHIP AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022 and 2021

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:

	2022		2021	
	Interfund Receivables	Interfund Payables	Interfund Receivables	Interfund Payables
Water Fund	\$ -	\$ -	\$ -	\$ 250,000
Sewer Fund	-	-	250,000	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 250,000</u>	<u>\$ 250,000</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 \$130,127 at December 31, 2022. The payable relates to reimbursement of net operating costs paid by the primary government during and prior to the year ended December 31, 2022, net of a receivable from the primary government of \$300,000 related to American Rescue Plan Act State and Local Fiscal Recovery Funds used towards a water infrastructure project. 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.

For the year ended 2022, the Authority has a net transfer in of \$112,806 from the primary government. This reflects a transfer to the primary government of \$187,194 to satisfy the debt service obligation of the water fund portion of the General Obligation Bonds, Series of 2021, net of a transfer from the primary government of \$300,000, which represents American Rescue Plan Act State and Local Fiscal Recovery Funds used towards a water infrastructure project. For the year ended 2021, the Authority transferred \$209,930, 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, 2022 and 2021

NOTE 6 - CAPITAL ASSETS

Capital asset balances and activity for the year ended December 31, 2022, were as follows:

	Balance January 1, 2022	Additions	Disposals/ Transfers	Balance December 31, 2022
Capital assets not being depreciated:				
Land	\$ 405,032	\$ -	\$ -	\$ 405,032
Construction in process	-	335,642	-	335,642
Total not being depreciated	405,032	335,642	-	740,674
Capital assets being depreciated:				
Building and building improvements	753,255	9,046	-	762,301
Water and sewer systems	37,791,741	527,034	-	38,318,775
Machinery and equipment	1,745,397	629,723	-	2,375,120
Total being depreciated	40,290,393	1,165,803	-	41,456,196
Less accumulated depreciation:				
Building and building improvements	244,329	63,831	-	308,160
Water and sewer systems	23,057,443	803,864	-	23,861,307
Machinery and equipment	942,524	268,910	-	1,211,434
Total accumulated depreciation	24,244,296	1,136,605	-	25,380,901
Total Capital Assets, Net	\$ 16,451,129	\$ 364,840	\$ -	\$ 16,815,969

SOUTH WHITEHALL TOWNSHIP AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022 and 2021

NOTE 6 - CAPITAL ASSETS - CONTINUED

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

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, 2022 and 2021, were \$1,269,553 and \$1,171,545, 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, 2022 and 2021, was \$1,730,235 and \$1,435,012, respectively.

SOUTH WHITEHALL TOWNSHIP AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022 and 2021

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 - COMMITMENTS AND CONTINGENCIES

South Whitehall Township awards bids and contracts for capital projects and expenses on behalf of the Authority. Outstanding commitments, including bids awarded subsequent to year-end for water and sewer infrastructure projects include:

<u>Project</u>	<u>Contracts/Bids Awarded</u>
Bridgeview Terrace - Phase 2	\$ 250,772
Tilghman Street Bridge Utility Relocation	<u>473,060</u>
Total	<u>\$ 723,832</u>

NOTE 10 - NET POSITION

The Authority board designated \$2,000,000 and \$0 to be used for future capital costs associated with the Kline's Island Wastewater Treatment Plant that is owned and maintained by the Lehigh County Authority for the years ended December 31, 2022 and 2021, respectively. The unrestricted/undesignated portion of net position is \$8,712,021 (\$5,653,041 - water; \$3,058,980 - sewer) and \$10,202,352 (\$4,474,449 - water; \$5,727,903 - sewer) for the years ended December 31, 2022 and 2021, respectively.

SOUTH WHITEHALL TOWNSHIP AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2022 and 2021

NOTE 11 - NEW ACCOUNTING STANDARDS

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

- 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.
- 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.
- Statement No. 100, *Accounting Changes and Error Corrections - an Amendment of Statement No. 62* - The primary objective of this statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.
- Statement No. 101, *Compensated Absences* - The primary objective of this statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

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