

FINANCIAL STATEMENTS

FIRST REGIONAL COMPOST AUTHORITY

DECEMBER 31, 2020

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INDEPENDENT AUDITORS' REPORT

To the Board Members
First Regional Compost Authority
Northampton, Pennsylvania

We have audited the accompanying financial statements of the business-type activities and the major fund of the First Regional Compost Authority, Pennsylvania, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible 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 error or fraud.

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 Authority'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 Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position – cash basis of the business-type activities and the major fund of the First Regional Compost Authority, Pennsylvania, as of December 31, 2020, and the respective changes in financial position – cash basis and, thereof for the year then ended in accordance with the basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2021, on our consideration of the First Regional Compost Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the First Regional Compost Authority, Pennsylvania's internal control over financial reporting and compliance.



Emmaus, Pennsylvania
June 4, 2021

FIRST REGIONAL COMPOST AUTHORITY
STATEMENT OF NET ASSETS – CASH BASIS
DECEMBER 31, 2020

	<u>Governmental</u> <u>Activities</u>	<u>Business-</u> <u>Type</u> <u>Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ -	\$ 113,695	\$ 113,695
Capital assets (net of accumulated depreciation)	<u>-</u>	<u>515,702</u>	<u>515,702</u>
Total Assets	<u>-</u>	<u>629,397</u>	<u>629,397</u>
 <u>LIABILITIES</u>			
Equipment lease payable:			
Due within one year	-	15,803	15,803
Due in more than one year	<u>-</u>	<u>16,424</u>	<u>16,424</u>
Total Liabilities	<u>-</u>	<u>32,227</u>	<u>32,227</u>
 <u>NET ASSETS</u>			
Contributed capital	-	31,792	31,792
Retained earnings	<u>-</u>	<u>565,378</u>	<u>565,378</u>
Total Net Assets	<u>\$ -</u>	<u>\$ 597,170</u>	<u>\$ 597,170</u>

The accompanying notes are an integral part of the financial statements.

FIRST REGIONAL COMPOST AUTHORITY
STATEMENT OF ACTIVITIES – CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2020

	Program Revenue			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<u>Governmental Activities</u>				
State Funding	\$ -	\$ -	\$ -	\$ -
Total Governmental Activities	-	-	-	-
<u>Business-type Activities</u>				
Compost Recycling	632,697	551,823	-	-
Total Business-type Activities	632,697	551,823	-	-
Total	\$ 632,697	\$ 551,823	\$ -	\$ -

The accompanying notes are an integral part of the financial statements.

FIRST REGIONAL COMPOST AUTHORITY
STATEMENT OF ACTIVITIES - CASH BASIS (Continued)
YEAR ENDED DECEMBER 31, 2020

	<u>Net (Expense) Revenue and Changes in Net Assets</u>		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<u>Governmental Activities</u>			
None	\$ -	\$ -	\$ -
Total Governmental Activities	-	-	-
<u>Business-type Activities</u>			
Compost Recycling	-	(80,874)	(80,874)
Total Business-type Activities	-	(80,874)	(80,874)
Total	-	(80,874)	(80,874)
<u>Other Revenues and Transfers</u>			
Interest expense	-	(1,866)	(1,866)
Investment earnings	-	11	11
Total Other Revenues and Transfers	-	(1,855)	(1,855)
Changes in net assets	-	(82,729)	(82,729)
Net assets, January 1	-	679,899	679,899
Net Assets, December 31	<u>\$ -</u>	<u>\$ 597,170</u>	<u>\$ 597,170</u>

The accompanying notes are an integral part of the financial statements.

FIRST REGIONAL COMPOST AUTHORITY
STATEMENT OF NET ASSETS – CASH BASIS
PROPRIETARY FUND
DECEMBER 31, 2020

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 113,695
Total Current Assets	113,695

NON-CURRENT ASSETS

Property, plant and equipment	1,943,330
Less: Accumulated depreciation	(1,427,628)
Total Non-current Assets	515,702

TOTAL ASSETS	\$ 629,397
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LIABILITIES

CURRENT LIABILITIES

Equipment lease payable - current portion	\$ 15,803
Total Current Liabilities	15,803

NON-CURRENT LIABILITIES

Equipment lease payable	16,424
Total Non-current Liabilities	16,424

TOTAL LIABILITIES	32,227
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NET ASSETS

Contributed capital	31,792
Retained earnings	565,378
Total Net Assets	597,170

TOTAL LIABILITIES AND NET ASSETS	\$ 629,397
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The accompanying notes are an integral part of the financial statements.

FIRST REGIONAL COMPOST AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS – CASH BASIS
PROPRIETARY FUND
YEAR ENDED DECEMBER 31, 2020

OPERATING REVENUE	
Municipal contributions	\$ 208,941
Recycling fees and product sales	<u>342,882</u>
TOTAL OPERATING REVENUE	<u>551,823</u>
OPERATING EXPENSES	
Administrative services and office expenses	47,769
Depreciation	117,235
Equipment maintenance and repairs	151,698
Facility maintenance and repairs	14,127
Insurance	21,326
Legal and professional fees	4,385
Operations services and expenses	231,651
Payroll tax and employer benefits	<u>44,506</u>
TOTAL OPERATING EXPENSES	<u>632,697</u>
OPERATING (LOSS)	<u>(80,874)</u>
NONOPERATING REVENUE (EXPENSES)	
Interest income	11
Interest expense	<u>(1,866)</u>
TOTAL NONOPERATING REVENUE (EXPENSES)	<u>(1,855)</u>
CHANGE IN NET ASSETS	(82,729)
Total Net Assets - January 1	<u>679,899</u>
Total Net Assets - December 31	<u>\$ 597,170</u>

The accompanying notes are an integral part of the financial statements.

FIRST REGIONAL COMPOST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 1 Summary of Significant Accounting Policies

The First Regional Compost Authority (Authority), incorporated and operating under the provisions of the Pennsylvania Municipal Authorities Act, as amended, provides a centralized area within Northampton County to facilitate the practice of recycling yard waste, brush and grass clippings for the municipalities who participate and provides mulch and compost to the residents of those municipalities. The Authority is governed by five townships (Allen Township, East Allen Township, Moore Township, Bushkill Township, Lehigh Township) and was established by the five townships on September 14, 2006.

The accompanying financial statements include all accounts and funds of the First Regional Compost Authority, based on Governmental Accounting Standards Board (GASB) criteria for determining the scope of the reporting entity as presented below. The GASB is the accepted standard-setting body establishing governmental accounting and financial reporting principles.

Principles Determining Scope of the Reporting Entity

In evaluating how to define the Authority, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB. The basic, but not the only, criteria for including a potential component unit within the reporting entity are financial accountability. Financial accountability is defined as the appointment of a voting majority of the component unit's board and either the ability to impose will by the primary government or the possibility that the component unit will provide a financial benefit or impose a financial burden on the primary government. The Authority's general purpose financial statements do not include any component units since the criteria for inclusion, as set forth in GASB has not been met.

Government-wide and Fund Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities, which report information on all of the nonfiduciary activities of the Authority. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

FIRST REGIONAL COMPOST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2020

NOTE 1 Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund financial statements are provided for the proprietary (enterprise) fund.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide and fund financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are not presented since the Authority has no funds meeting these criteria.

The Authority reports the following major proprietary fund:

The General Fund is the Authority's proprietary fund established to account for all revenues and expenses related to the drop off of raw products and the recycling of these products into mulch and compost for use by the residents and commercial businesses of the participating municipalities.

The proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods. The principal operating revenue of the Authority is the charge of fees to the participating municipalities and commercial businesses. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

FIRST REGIONAL COMPOST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2020

NOTE 1 Summary of Significant Accounting Policies (Continued)

Basis of Accounting

The financial statements of the Authority have been prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Consequently, certain revenues and the related assets are recognized when received rather than when earned and certain expenses are recognized when paid rather than when the obligation is incurred. The Authority does however, capitalize fixed assets and organization costs and depreciates/amortizes them over their estimated useful lives.

Revenue Recognition

The participating municipalities and commercial businesses are billed quarterly for recycling privileges. The Authority recognizes the income when the cash is received.

Use of Estimates

The preparation of financial statements in conformity with the cash basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Cash and Investments

Statutes allow the Authority to invest in obligations of the U.S. Treasury, U.S. Agencies and Commonwealth of Pennsylvania obligations, savings accounts or time deposits of institutions insured by the Federal Deposit Insurance Corporation (FDIC) and deposits in excess of insured amounts if collateralized by the depository.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful live of the property, plant and equipment ranging from five to fifteen years.

FIRST REGIONAL COMPOST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2020

NOTE 2 Deposits and Investments

The Authority has a policy that requires all deposits and investments, other than U.S. government obligations, to be covered by Federal depository insurance or to be fully collateralized by the financial institution issuing the investment or acquiring the deposit. Deposits that are not insured by the Federal Deposit Insurance Corporation are collateralized using the pooled asset method to 100% of value as required by Pennsylvania law. The securities pledged as collateral are held by the trust department of financial institutions or by its agents in the financial institution's name.

The Pennsylvania Municipal Authorities Act limits investment and deposit types the Authority may purchase as follows:

- a) United States Treasury Bills and Notes.
- b) Short-term obligations of the United States, its agencies or instrumentalities.
- c) Deposits in savings accounts or time deposits insured by the Federal Deposit Insurance Corporation or similar insurance and provided that approved collateral for public deposits is pledged by the depository for excess amounts over the insured maximum.
- d) Obligations of the United States and the Commonwealth of Pennsylvania or any of their agencies or instrumentalities backed by the full faith and credit of the United States, Commonwealth of Pennsylvania or political subdivisions.
- e) Shares of an investment company provided that the only investments of the company are in the investments listed in a) through d) above.

DEPOSITS:

The Authority's deposits are categorized to give an indication of the level of risk assumed by the Authority. The categories are described as follows:

Category 1 - Insured or collateralized with securities held by the entity or by its agent in the entity's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.

Category 3 - Uncollateralized.

FIRST REGIONAL COMPOST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2020

NOTE 2 Deposits and Investments (Continued)

As of December 31, 2020, the carrying amount and the bank balances of the Authority deposits totaled \$113,695 and \$120,839 respectively. The bank balance is covered by federal depository insurance and is considered risk category 1.

INVESTMENTS:

There were no investments held by the Authority as of December 31, 2020.

NOTE 3 Property, Plant and Equipment

Property, plant and equipment can be summarized as follows:

Building	\$ 11,702
Leasehold Improvements	54,820
Equipment	<u>1,876,808</u>
	1,943,330
Accumulated Depreciation	<u>(1,427,628)</u>
	<u>\$ 515,702</u>

Depreciation expense of \$117,235 has been charged to operations for 2020.

NOTE 4 Equipment Lease Payable

The Authority entered into a 3-year Equipment Lease Purchase Agreement with Community First National Bank to purchase equipment valued at \$401,212. This purchase was made in conjunction with Pennsylvania Department of Environmental Resources who provided a grant of \$350,000 which was used as the first payment on the loan due July 1, 2019. At December 31, 2020, the outstanding balance of this loan is \$32,227. Scheduled loan repayments are as follows:

2021	\$ 15,803
2022	<u>16,424</u>
	<u>\$ 32,227</u>

Interest expense for the year ended December 31, 2020 was \$1,866.

FIRST REGIONAL COMPOST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2020

NOTE 5 Major Supporters

The Authority receives a substantial amount of its support from the founding communities and additional municipalities. This funding source comprised 25% of the total operating revenues of the Authority for 2020.

<u>Municipal Contributions</u>	
Founding Communities	
Allen Township	\$ 13,234
East Allen Township	15,200
Moore Township	28,514
Bushkill Township	27,930
Lehigh Township	32,630
Total	117,508
Additional Municipalities	
Northampton Borough	36,528
Catasauqua Borough	24,115
Lower Nazareth Borough	20,880
Bath Borough	9,910
Total	91,433
Total Municipal Contributions	\$ 208,941

NOTE 6 Contingencies

The Authority participates in a number of state and local assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The audits of these programs including the year ended December 31, 2020, have not yet been conducted. Accordingly, the Authority's compliance with applicable grant and local assistance program requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the Authority expects such amounts, if any, to be immaterial.

NOTE 7 Deficit Fund Balances

No funds of the Authority had a deficit fund balance at December 31, 2020.

FIRST REGIONAL COMPOST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2020

NOTE 8 Risk Management

Significant losses are covered by commercial insurance for all major programs. There has been no significant reduction in insurance coverage. Settlement amounts have not exceeded insurance coverages for the current year or the prior year.

NOTE 9 Deferred Compensation Plan

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, with optional participation 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 financial hardship.

NOTE 10 Subsequent Events

Subsequent events have been evaluated through June 4, 2021, which was the date the financial statements were available to be issued.

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board Members
First Regional Compost Authority
Northampton, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the major fund of the First Regional Compost Authority, Northampton, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the First Regional Compost Authority, Northampton's basic financial statements, and have issued our report thereon dated June 4, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the First Regional Compost Authority, Northampton's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the First Regional Compost Authority, Northampton's internal control. Accordingly, we do not express an opinion on the effectiveness of the First Regional Compost Authority, Northampton's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the First Regional Compost Authority, Northampton's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance or other matters that is required to be reported under *Government Auditing*.

First Regional Compost Authority, Northampton's Response to Findings

The First Regional Compost Authority, Northampton's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The First Regional Compost Authority, Northampton's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Emmaus, Pennsylvania
June 4, 2021