

READING AREA 
WaterAuthority
A Component Unit of the City of Reading

Financial Statements
December 31, 2019 and 2018

**Reading Area Water Authority
A Component Unit of the City of Reading**

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December 31, 2019 and 2018

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Independent Auditor's Report

To the Members of the Board
Reading Area Water Authority
Reading, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the Reading Area Water Authority, Berks County, Pennsylvania, a component unit of the City of Reading, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Reading Area Water 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Reading Area Water Authority as of December 31, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on Pages 3 to 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

RKL LLP

June 4, 2020
Wyomissing, Pennsylvania

Reading Area Water Authority A Component Unit of the City of Reading

Management's Discussion and Analysis
December 31, 2019 and 2018

The management of the Reading Area Water Authority (the Authority) offers readers of our financial statements the following narrative overview and analysis of our financial activities for the years ended December 31, 2019 and 2018.

Financial Highlights

- Current unrestricted assets exceeded current liabilities by \$14,162,220 at the close of the year. This is compared to \$18,389,939 and \$18,983,734 at the close of the 2018 and 2017 years, respectively.
- Total net position increased by \$598,104, \$6,673,960, and \$3,054,482 for the years ended 2019, 2018, and 2017, respectively. The 2019 decrease from 2018 is mainly a decrease in miscellaneous income generated from the contributions towards the production of the Birdsboro Power Plant that was recognized in 2018. The 2017 increase is mainly due to an increase in miscellaneous income, and decreases in chemical supply costs, meter reading expense, and contracted services.
- The Authority had net operating income of \$3,556,133 for 2019, compared to net operating income of \$2,945,874 and \$5,516,028 for 2018 and 2017, respectively.

Basic Financial Statements

Our basic financial statements are prepared on the accrual basis of accounting using an economic resources measurement focus, which is basically the same as what is used for profit businesses in the private-sector. The basic financial statements include a statement of net position, statement of revenues, expenses, and changes in net position, statement of cash flows, and notes to financial statements.

Statement of Net Position - The statement of net position presents information on the assets, deferred outflow of resources, and liabilities, with the difference between assets and deferred outflow of resources and liabilities reported as net position. The increases and decreases in net position over time may be a useful indicator of the finances of the Authority as to whether it is improving or deteriorating.

Statement of Revenues, Expenses, and Changes in Net Position - The statement of revenues, expenses, and changes in net position of the Authority for the year shows the detail of increase in net position being combined with the beginning net position balance, resulting in the ending net position for the year.

Statement of Cash Flows - The statement of cash flows reports cash activities for the year resulting from operating activities, noncapital financing activities, capital and related financing activities, and investing activities. The net result of these activities, added to the beginning of the year cash balance, reconciles to the cash balance at the end of the current year.

Notes to Financial Statements - The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

Reading Area Water Authority
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Management's Discussion and Analysis
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Financial Information

Net Position - The following schedule presents a summary of net position comparison at December 31, 2019, 2018, and 2017:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Assets			
Unrestricted current assets	\$ 19,340,020	\$ 25,886,197	\$ 24,371,571
Restricted current assets	9,570,456	9,389,010	11,067,725
Capital assets, net	66,455,706	64,973,550	59,036,648
Other asset	917,715	951,810	1,020,000
Deferred Outflow of Resources	<u>917,612</u>	<u>1,054,979</u>	<u>1,197,798</u>
Total Assets and Deferred Outflow of Resources	<u>\$ 97,201,509</u>	<u>\$ 102,255,546</u>	<u>\$ 96,693,742</u>
Liabilities			
Current liabilities	\$ 5,177,800	\$ 7,496,258	\$ 5,387,837
Long-term debt	<u>77,462,829</u>	<u>80,796,512</u>	<u>84,017,089</u>
Total Liabilities	<u>\$ 82,640,629</u>	<u>\$ 88,292,770</u>	<u>\$ 89,404,926</u>
Net Position			
Net investment in capital assets	\$ (13,468,765)	\$ (18,130,096)	\$ (27,177,795)
Restricted for debt service	7,592,650	7,513,275	7,426,839
Restricted for capital assets	1,879,990	1,845,316	3,581,321
Unrestricted	<u>18,557,005</u>	<u>22,734,281</u>	<u>23,458,451</u>
Total Net Position	<u>\$ 14,560,880</u>	<u>\$ 13,962,776</u>	<u>\$ 7,288,816</u>

Current liabilities decreased by 30.9% in 2019 compared to an increase by 39.1% in 2018 and a decrease by 10.0% in 2017. The 2019 decrease is attributable to decreases in capital accounts payable related to the construction of the Birdsboro Power Plant.

Revenues - The following schedule presents a summary of revenues for the years ended December 31, 2019, 2018, and 2017:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating Revenues			
Water billings	\$ 30,958,357	\$ 29,663,185	\$ 29,736,140
Interest and penalty charges	572,094	541,209	472,340
Tampered meter and other charges	387,604	310,720	449,933
Tapping and connection fees	175,246	50,610	177,175
Abandonment fees	<u>41,836</u>	<u>20,107</u>	<u>60,907</u>
Total Operating Revenues	<u>\$ 32,135,137</u>	<u>\$ 30,585,831</u>	<u>\$ 30,896,495</u>

The 2019 fiscal year's total operating revenue increased by 5.1% compared to 2018, and decreased by 1.0% and 0.1% in 2018 and 2017, respectively.

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Financial Information (continued)

Expenses - The following schedule presents a summary of expenses for the years ended December 31, 2019, 2018, and 2017:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating Expenses			
Lease payments, City of Reading	\$ 12,142,535	\$ 11,640,032	\$ 11,426,339
Chemical supplies	1,173,058	1,051,101	746,486
Salaries, payroll taxes, and employee benefits	6,372,046	6,213,345	5,877,245
Contracted services	907,019	967,302	849,520
Other	<u>3,672,352</u>	<u>3,895,738</u>	<u>3,176,042</u>
Total Operating Expenses	<u>\$ 24,267,010</u>	<u>\$ 23,767,518</u>	<u>\$ 22,075,632</u>

The \$527,358 increase in expenses is primarily due to an increase in lease payments to the City of Reading in accordance with Section 6.03 Bonus Lease Payments of the lease between the Authority and the City of Reading.

Changes in Net Position - The following schedule presents a summary of changes in net position for the years ended December 31, 2019, 2018, and 2017:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating revenues	\$ 32,135,137	\$ 30,585,831	\$ 30,896,495
Operating expenses	<u>24,267,010</u>	<u>23,767,518</u>	<u>22,075,632</u>
Operating Income before Depreciation and Amortization	7,868,127	6,818,313	8,820,863
Depreciation and amortization	<u>4,311,994</u>	<u>3,872,439</u>	<u>3,304,835</u>
Operating Income	3,556,133	2,945,874	5,516,028
Nonoperating revenues (expenses), net	<u>(2,958,029)</u>	<u>3,728,086</u>	<u>(2,461,546)</u>
Increase in Net Position	<u>\$ 598,104</u>	<u>\$ 6,673,960</u>	<u>\$ 3,054,482</u>

**Reading Area Water Authority
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Management's Discussion and Analysis
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Financial Information (continued)

Changes in Net Position (continued)

**Statement of Changes in Net Position
Year Ended December 31, 2019**

	<u>Beginning Balance</u>	<u>Increase (Decrease)</u>	<u>Ending Balance</u>
Net investment in capital assets	\$ (18,130,096)	\$ 4,661,331	\$ (13,468,765)
Restricted for debt service	7,513,275	79,375	7,592,650
Restricted for capital assets	1,845,316	34,674	1,879,990
Unrestricted (deficit)	<u>22,734,281</u>	<u>(4,177,276)</u>	<u>18,557,005</u>
Total Net Position	<u>\$ 13,962,776</u>	<u>\$ 598,104</u>	<u>\$ 14,560,880</u>

**Statement of Changes in Net Position
Year Ended December 31, 2018**

	<u>Beginning Balance</u>	<u>Increase (Decrease)</u>	<u>Ending Balance</u>
Net investment in capital assets	\$ (27,177,795)	\$ 9,047,699	\$ (18,130,096)
Restricted for debt service	7,426,839	86,436	7,513,275
Restricted for capital assets	3,581,321	(1,736,005)	1,845,316
Unrestricted (deficit)	<u>23,458,451</u>	<u>(724,170)</u>	<u>22,734,281</u>
Total Net Position	<u>\$ 7,288,816</u>	<u>\$ 6,673,960</u>	<u>\$ 13,962,776</u>

**Statement of Changes in Net Position
Year Ended December 31, 2017**

	<u>Beginning Balance</u>	<u>Increase (Decrease)</u>	<u>Ending Balance</u>
Net investment in capital assets	\$ (22,222,481)	\$ (4,955,314)	\$ (27,177,795)
Restricted for debt service	7,409,503	17,336	7,426,839
Restricted for capital assets	11,689,991	(8,108,670)	3,581,321
Unrestricted	<u>7,357,321</u>	<u>16,101,130</u>	<u>23,458,451</u>
Total Net Position	<u>\$ 4,234,334</u>	<u>\$ 3,054,482</u>	<u>\$ 7,288,816</u>

Capital Assets

The Authority's investment in capital assets includes leasehold improvements, acquired systems, equipment, vehicles, computers and software, and construction in progress. Major additions are funded by the issuance of water revenue bonds and notes or funds held in the Authority's construction accounts.

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Capital Assets (continued)

The Authority's capital assets as of December 31, 2019, 2018, and 2017, net of accumulated depreciation, amounted to \$66,455,708, \$64,973,550, and \$59,036,648, respectively. For the year ended December 31, 2019, this amount represents a net increase (including additions, deletions, and depreciation) of \$1,211,904 from the prior year. See Note 7 for more information on capital assets.

**Capital Assets at December 31
(Net of Accumulated Depreciation)**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Leasehold improvements	\$ 59,729,045	\$ 41,825,937	\$ 42,511,647
Acquired systems	696,465	718,458	740,452
Equipment	5,316,646	5,369,952	5,320,486
Vehicles	363,389	377,654	446,419
Computers and software	79,909	101,108	114,896
Construction in progress	<u>270,252</u>	<u>16,580,441</u>	<u>9,902,748</u>
	<u>\$ 66,455,706</u>	<u>\$ 64,973,550</u>	<u>\$ 59,036,648</u>

Debt Administration

At December 31, 2019, the Authority had \$79,821,778 of Guaranteed Revenue Bonds and notes payable, compared to \$83,183,891 and \$86,579,043 at the years ended December 31, 2018 and 2017, respectively. The proceeds from these long-term borrowings were used for renovations and improvements to the water system. See Note 8 for additional information on the Authority's debt.

In March 2020, the Authority issued the federally taxable Water Revenue Bonds, Series 2020 totaling \$50,195,000, various interest rates ranging from 1.611% to 2.952%, maturing in amounts ranging from \$575,000 to \$6,245,000 through 2036. Proceeds of the bond to refinance the Authority's Water Revenue Bonds, Series of 2011 (see Note 12 for more information.)

Economic Factors

The Authority will continue to address the existing infrastructure by addressing the rehabilitation needs of the system, as well as pursue possible extension of the water system into new areas.

Request for Information

This financial report is intended to provide an overview of the finances of the Reading Area Water Authority for those with an interest in the Authority. Questions concerning any information contained in the report may be directed to the Executive Director, Reading Area Water Authority, 1801 Kutztown Road, Reading, Pennsylvania 19604.

Reading Area Water Authority
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Statement of Net Position

	December 31,	
	2019	2018
Assets		
Current Assets, Unrestricted		
Cash	\$ 13,894,351	\$ 18,330,441
Accounts receivable, water billings, net of allowance 2019 \$2,204,145; 2018 \$2,106,794	4,124,000	4,002,415
Accounts receivable, trash and recycling billings, net of allowance 2019 \$85,477; 2018 \$129,908	12,334	16,598
Other receivables	9,429	2,129,961
Unbilled water usage	1,084,997	1,170,171
Inventory	160,309	189,543
Prepaid expenses	54,600	47,068
Total Current Assets, Unrestricted	19,340,020	25,886,197
Current Assets, Restricted		
Developer escrow deposits, cash	97,816	30,419
Trust accounts, cash and investments		
Clearing Account	676	75,320
Construction Account	1,879,990	1,845,316
Debt Service Account	224,546	7,264
Debt Service Reserve Account	7,367,428	7,430,691
	9,472,640	9,358,591
Total Current Assets, Restricted	9,570,456	9,389,010
Capital Assets		
Capital assets not being depreciated, construction in progress	270,252	16,580,441
Capital assets being depreciated		
Leasehold improvements	79,754,801	58,604,152
Acquired systems	879,745	879,745
Equipment	12,325,315	11,578,274
Vehicles	3,110,443	2,954,234
Computers and software	908,307	891,962
	96,978,611	74,908,367
Accumulated depreciation	(30,793,157)	(26,515,258)
	66,185,454	48,393,109
Capital Assets, Net	66,455,706	64,973,550
Other Asset		
Leased land rights	917,715	951,810
Deferred Outflow of Resources, Refinancing Loss	917,612	1,054,979
Total Assets and Deferred Outflow of Resources	97,201,509	102,255,546

See accompanying notes.

Reading Area Water Authority
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Statement of Net Position (continued)

	December 31,	
	<u>2019</u>	<u>2018</u>
<i>Liabilities</i>		
Current Liabilities		
Accounts payable, trade	\$ 376,075	\$ 768,318
Accounts payable, capital	-	2,277,733
Accrued payroll, compensated absences, and deferred compensation	790,915	732,885
Accrued interest payable	297,398	299,235
Escrow deposits	107,245	30,419
Other	2,158	2,255
Due to City of Reading	224,755	23,300
Current maturities of long-term debt	<u>3,379,254</u>	<u>3,362,113</u>
Total Current Liabilities	5,177,800	7,496,258
Long-Term Debt, Less Current Maturities	<u>77,462,829</u>	<u>80,796,512</u>
Total Liabilities	<u>82,640,629</u>	<u>88,292,770</u>
<i>Net Position</i>		
Net Position		
Net investment in capital assets	(13,468,765)	(18,130,096)
Restricted for debt service	7,592,650	7,513,275
Restricted for capital assets	1,879,990	1,845,316
Unrestricted	<u>18,557,005</u>	<u>22,734,281</u>
Total Net Position	<u>\$ 14,560,880</u>	<u>\$ 13,962,776</u>

Reading Area Water Authority
A Component Unit of the City of Reading

Statement of Revenues, Expenses, and Changes in Net Position

	Years Ended December 31,	
	2019	2018
Operating Revenues		
Water billings	\$ 30,958,357	\$ 29,663,185
Interest and penalty charges	572,094	541,209
Tampered meter and other charges	387,604	310,720
Tapping and connection fees	175,246	50,610
Abandonment fees	41,836	20,107
Total Operating Revenues	32,135,137	30,585,831
Operating Expenses		
Lease payments, City of Reading	12,142,535	11,640,032
Chemical supplies	1,173,058	1,051,101
Engineering	148,771	212,728
Legal fees	618,314	314,184
Salaries and payroll taxes	5,073,432	4,900,630
Insurance	58,234	283,829
Employee benefits	1,298,614	1,312,715
Grant expenditures	73,247	80,094
Utilities	655,444	679,059
Contracted services	907,019	967,302
Repairs and maintenance	960,752	917,080
Professional services	28,300	27,865
Bank charges	413,333	411,962
Dues and subscriptions	69,818	33,752
Advertising	33,354	68,490
Education	5,865	7,709
Supplies	396,876	429,308
Development	20,323	-
Bad debt expense	189,721	429,678
Total Operating Expenses	24,267,010	23,767,518
Operating Income before Depreciation and Amortization	7,868,127	6,818,313
Depreciation and Amortization	4,311,994	3,872,439
Operating Income	3,556,133	2,945,874

Reading Area Water Authority
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Statement of Revenues, Expenses, and Changes in Net Position (continued)

	Years Ended December 31,	
	<u>2019</u>	<u>2018</u>
Nonoperating Revenues (Expenses)		
Grant income	\$ 125,000	\$ -
Investment income	597,173	538,325
Miscellaneous income	581,974	7,324,040
Interest expense	(3,768,727)	(3,892,901)
Miscellaneous expense	(562,177)	(304,124)
Trash and recycling collections, net	<u>68,728</u>	<u>62,746</u>
Nonoperating Revenues (Expenses), Net	<u>(2,958,029)</u>	<u>3,728,086</u>
Increase in Net Position	598,104	6,673,960
Net Position at Beginning of Year	<u>13,962,776</u>	<u>7,288,816</u>
Net Position at End of Year	<u><u>\$ 14,560,880</u></u>	<u><u>\$ 13,962,776</u></u>

**Reading Area Water Authority
A Component Unit of the City of Reading**

Statement of Cash Flows

	Years Ended December 31,	
	2019	2018
Cash Flows from Operating Activities		
Cash receipts from water customers	\$ 31,909,005	\$ 29,866,039
Cash receipts from trash and recycling customers	72,992	74,574
Cash payments to suppliers for goods and services	(17,043,079)	(20,226,008)
Cash payments to employees for services	(5,015,402)	(4,826,409)
Other receipts	706,974	7,324,040
Other payments	(562,177)	(304,124)
Net Cash Provided by Operating Activities	10,068,313	11,908,112
Cash Flows from Capital and Related Financing Activities		
Acquisition and construction of capital assets	(7,804,833)	(7,559,580)
Principal paid on long-term debt	(3,362,113)	(3,395,152)
Interest paid on long-term debt	(3,820,581)	(3,947,229)
Net Cash Used in Capital and Related Financing Activities	(14,987,527)	(14,901,961)
Cash Flows from Investing Activities		
(Increase) decrease in restricted assets, net	(114,049)	1,649,569
Investment income received	597,173	538,325
Net Cash Provided by Investing Activities	483,124	2,187,894
Net Decrease in Cash	(4,436,090)	(805,955)
Cash at Beginning of Year	18,330,441	19,136,396
Cash at End of Year	\$ 13,894,351	\$ 18,330,441

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Statement of Cash Flows (continued)

	Years Ended December 31,	
	2019	2018
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities		
Operating income	\$ 3,556,133	\$ 2,945,874
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	4,311,994	3,872,439
Trash and recycling, net	68,728	62,746
Miscellaneous income	706,974	7,324,040
Miscellaneous expenses	(562,177)	(304,124)
(Increase) decrease in assets		
Accounts receivable, water billings	(121,585)	(135,478)
Unbilled water usage	85,174	(154,636)
Accounts receivable, trash and recycling billings	4,264	11,828
Accounts receivable, other	2,129,961	(2,129,961)
Inventory	29,234	94,266
Prepaid expenses	(7,532)	(6,600)
Increase (decrease) in liabilities		
Accounts payable	(392,243)	435,884
Accrued payroll and compensated absences	58,030	74,221
Due to City of Reading	201,455	(180,844)
Other liabilities	(97)	(1,543)
Net Cash Provided by Operating Activities	\$ 10,068,313	\$ 11,908,112
Noncash Investing, Capital, and Financial Activities		
Capital expenditures on accounts payable, capital	\$ -	\$ 2,277,733

Reading Area Water Authority A Component Unit of the City of Reading

Notes to Financial Statements
December 31, 2019 and 2018

Note 1 - Nature of Activity

The Reading Area Water Authority (the Authority), a component unit of the City of Reading (the City), was created as an operating authority in 1994 in compliance with the Pennsylvania Municipality Authorities Act. The Authority was formed to provide water services to residential, commercial, and industrial users of the Water System for the City and certain surrounding municipalities. The Authority is governed by a seven-member Board, each of whom is appointed by the City.

Note 2 - Summary of Significant Accounting Policies

The accompanying financial statements conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant accounting policies used by the Authority.

The Financial Reporting Entity

The Authority is a water supply and distribution entity which operates under a board of director's form of government. Accounting principles generally accepted in the United States of America require that the reporting entity consists of the primary government and organizations 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 an organization 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 organization 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 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. The decision to include a potential component unit in the reporting entity was made based upon the above criteria. There are no agencies or component units required to be included in the Authority's reporting entity.

The Authority is a component unit of the City of Reading, Pennsylvania.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Authority operates as an enterprise fund. An enterprise fund is used to account for the financing of services to the general public, where all or most of the costs involved are paid in the form of charges to users of such services.

**Reading Area Water Authority
A Component Unit of the City of Reading**

Notes to Financial Statements
December 31, 2019 and 2018

Note 2 - Summary of Significant Accounting Policies (continued)

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(continued)**

The financial statements are reported using the economic resources measurement focus and the 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.

Operating revenues and expenses are distinguished from nonoperating items in the statement of revenues, expenses, and changes in net position. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for the sale of water. Operating expenses include the cost of providing services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal nonoperating revenues and expenses of the Authority are investment income and interest expense.

Assets, Deferred Outflow of Resources, Liabilities, and Net Position

Project Accounts

In accordance with the terms of the trust indenture dated September 15, 2002, the first supplemental indenture dated July 1, 2003, the second supplemental indenture dated July 15, 2007, the third supplemental indenture dated December 19, 2011, and the fourth supplemental indenture dated April 15, 2015 (hereinafter collectively referred to as the "indentures"), relating to the bonded debt, funds of the Authority are accounted for by separate trust accounts; segregated for specific use and held for the benefit of the bondholders. In accordance with the indentures, the trust accounts maintained by the independent trustee are accounted for, by the trustee, using the cash basis method of accounting. A brief description of the purposes of the several revenue bond trust restricted accounts follows:

Clearing Account

Funds are deposited herein to cover principal and interest payments due on the bonds. Transfers are made to the Debt Service Account to make these payments.

Construction Account

The Construction Account consists of funds deposited from the Settlement Account for the purpose of paying costs of capital additions.

Debt Service Account

Semiannual transfers from the Clearing Account are recorded in this account. Current debt service and sinking fund requirements of the bond issues are paid from this account.

Debt Service Reserve Account

This account was funded by the trust indentures. The aggregate balance provides additional collateral for the bondholders.

Reading Area Water Authority
A Component Unit of the City of Reading

Notes to Financial Statements
December 31, 2019 and 2018

Note 2 - Summary of Significant Accounting Policies (continued)

Assets, Deferred Outflow of Resources, Liabilities, and Net Position (continued)

Cash

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. Cash and cash equivalents held in trust accounts are considered to be investments.

Accounts Receivable

Accounts receivable are shown net of an allowance for uncollectibles, as applicable. Accounts receivable are evaluated for collectibility and an allowance is established, as deemed necessary, based on the best information available and in an amount that management believes is adequate. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received. As of December 31, 2019 and 2018, the allowance for uncollectible accounts was \$2,289,622 and \$2,235,702, respectively

Unbilled Water Usage

Water usage that is not billed by year-end is recorded using subsequent billings for water used through December 31.

Investments

The Board and trustee are permitted to invest the Authority's funds as defined in the Local Government Unit Debt Act, the Municipality Authorities Act, and the related trust indentures. Authorized types of investments include the following:

1. U.S. Treasury Bills.
2. Short-term obligations of the U.S. Government and federal agencies.
3. Insured savings and checking accounts and certificates of deposit in banks, savings and loan associations, and credit unions.
4. General obligation bonds of the federal government, the Commonwealth of Pennsylvania or any state agency, or of any Pennsylvania political subdivision.
5. Bills of exchange or time drafts drawn are accepted by a commercial bank not to exceed 180 days.
6. Short-term unsecured obligations of corporations or other business entities organized in accordance with federal or state law.
7. Shares of mutual funds whose investments are restricted to the above categories.

Reading Area Water Authority
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Notes to Financial Statements
December 31, 2019 and 2018

Note 2 - Summary of Significant Accounting Policies (continued)

Assets, Deferred Outflow of Resources, Liabilities, and Net Position (continued)

Investments (continued)

When making investments, the Board and trustee (as governed by the trust indentures) can combine funds from more than one fund under the Authority's control for the purchase of a single investment and join with other political subdivisions and municipal authorities in the purchase of a single investment.

Investments are carried at fair value.

Capital Assets

Capital assets are recorded at cost and depreciated utilizing the straight-line method over their estimated useful lives as follows:

Leasehold improvements	5 to 40 years
Acquired systems	40 years
Equipment	3 to 40 years
Vehicles	5 to 7 years
Computers and software	3 to 5 years

Maintenance and repairs of capital assets are charged to operations and major improvements are capitalized. Upon retirement, sale, or other disposition of capital assets, the cost and accumulated depreciation are eliminated from the accounts, and gain or loss is included in operations.

Bond Premiums, Discounts, and Deferred Refinancing Losses

Bond premiums, discounts, and deferred refinancing losses are deferred and amortized over the term of the bonds using the effective interest method. Unamortized bond premiums and discounts are presented as an addition or deduction to the face amount of the revenue bonds payable, whereas deferred refinancing losses are recorded as a deferred outflow of resources.

Deferred Outflow of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflow of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. The Authority has a deferred outflow of resources related to a loss on refunding of bonds that results from the difference in the carrying value of refunded debt and its reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Reading Area Water Authority
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Notes to Financial Statements
December 31, 2019 and 2018

Note 2 - Summary of Significant Accounting Policies (continued)

Assets, Deferred Outflow of Resources, Liabilities, and Net Position (continued)

Compensated Absences

The Authority records its obligation to compensate employees for earned but unused sick time as the liability is incurred. The liability has been determined according to personnel policies of the Authority.

Deferred Compensation

The Authority records its liability for deferred compensation as it is earned. The liability has been determined according to management's policy for nonunion employees and the collective bargaining agreement for union employees.

Net Position

Net position is classified into three categories as follows:

Net investment in capital assets - Consists of capital assets, net of accumulated depreciation, deferred outflow of resources, refinancing loss, and debt incurred for the acquisition of capital assets.

Restricted for debt service - Amounts that have externally imposed restrictions on how the funds can be spent.

Unrestricted - Amounts that do not meet the definitions of "net investment in capital assets" or "restricted" and are available for Authority operations.

When restricted and unrestricted resources are available for its use, it is the Authority's policy to use restricted resources first.

Recent Accounting Pronouncements

Effective January 1, 2019, the Authority adopted Governmental Accounting Standards Board (GASB) Statement 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This Statement requires that additional essential information related to debt be disclosed in the notes to financial statements. The effect of this Statement required additional disclosures related to debt.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. GASB Statement No. 84 is effective for periods beginning after December 15, 2019.

Reading Area Water Authority
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Notes to Financial Statements
December 31, 2019 and 2018

Note 2 - Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements (continued)

In June 2017, the GASB issued Statement 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. GASB Statement 87 is effective for periods beginning after June 15, 2021.

The Authority is currently evaluating what effect the adoption of these GASB Statements will have on its financial statements.

Note 3 - Budget Matters

The Authority is not legally required to adopt a budget on an annual basis; however, a budget is adopted annually in order to enhance the operating effectiveness of the Authority.

Note 4 - Stewardship, Compliance, and Accountability

The Authority had no material violations of finance-related legal and contractual provisions in regard to the terms, covenants, provisions, or conditions contained in the trust indentures relating to the bond issues.

Note 5 - Cash and Investments

The Authority's available cash is invested in demand deposit accounts, petty cash, and investments. The carrying amounts of cash and investments consist of the following at December 31:

	<u>2019</u>	<u>2018</u>
Petty cash	\$ 930	\$ 930
Demand deposit accounts	13,991,237	18,359,930
Money market mutual funds	8,273,139	8,159,090
U.S. treasury securities	1,199,501	1,199,501
	<u>\$ 23,464,807</u>	<u>\$ 27,719,451</u>

Reading Area Water Authority
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Notes to Financial Statements
 December 31, 2019 and 2018

Note 5 - Cash and Investments (continued)

Reconciliation to Statement of Net Position

	<u>2019</u>	<u>2018</u>
Cash and Investments		
Current Assets, Unrestricted	\$ 13,894,351	\$ 18,330,441
Restricted, Trust Accounts, Cash and Investments	9,472,640	9,358,591
Current Assets, Developer Escrow, Cash	<u>97,816</u>	<u>30,419</u>
	<u>\$ 23,464,807</u>	<u>\$ 27,719,451</u>

Cash

The Authority's available cash is invested in demand deposit accounts.

Custodial Credit Risk - Cash

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned to the Authority. The Authority has a deposit policy for custodial risk that requires depository institutions to pledge securities as collateral for deposits that exceed depository insurance. At December 31, 2019 and 2018, the carrying amounts of the Authority's bank deposits were \$13,991,237 and \$18,359,930, respectively, and the bank balances were \$14,658,010 and \$19,232,761, respectively, of which \$457,025 and \$357,137 were covered by Federal Depository Insurance, respectively. The remaining deposits of \$14,200,984 and \$18,875,624 at December 31, 2019 and 2018, respectively, were exposed to custodial risk because they were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Authority's name.

Interest Rate Risk

The Authority does not have a formal investment policy that limits maturities in certain investments as a means of managing its exposure to fair value losses arising from increasing interest rates.

The Authority has the following investments and related maturities as of December 31:

2019	<u>Fair Value</u>	<u>Less than One Year</u>
Federated Treasury Obligation Funds	\$ 8,273,139	\$ 8,273,139
Federal Home Loan Bank Note	<u>1,199,501</u>	<u>1,199,501</u>
	<u>\$ 9,472,640</u>	<u>\$ 9,472,640</u>

Reading Area Water Authority
A Component Unit of the City of Reading

Notes to Financial Statements
December 31, 2019 and 2018

Note 5 - Cash and Investments (continued)

Interest Rate Risk (continued)

2018	Fair Value	Less than One Year
Federated Treasury Obligation Funds	\$ 8,159,090	\$ 8,159,090
Federal Home Loan Bank Note	1,199,501	1,199,501
	<u>\$ 9,358,591</u>	<u>\$ 9,358,591</u>

Custodial Credit Risk - Investments

The Authority does not have an investment policy that would limit its investment choices to certain credit ratings. However, the Authority limits the type of investments permitted as defined in the Local Government Unit Debt Act, the Municipality Authorities Act, and the related trust indentures. Permitted investments are defined in Note 2.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of December 31, 2019 and 2018, \$9,472,640 and \$9,358,591, respectively, is held by the investment's counterparty, not in the name of the Authority.

Note 6 - Fair Value Measurements

The Authority categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy sets out a fair value hierarchy with the highest priority being quoted prices in active markets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3. The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the fair value hierarchy classification is determined based on the lowest level input that is significant to the fair value measurement in its entirety. Fair value measurements will be classified and disclosed in one of the following three categories:

Level 1 - Quoted market prices in active markets for identical assets or liabilities.

Level 2 - Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3 - Unobservable inputs that are not corroborated by market data.

Reading Area Water Authority
A Component Unit of the City of Reading

Notes to Financial Statements
 December 31, 2019 and 2018

Note 6 - Fair Value Measurements (continued)

The following tables present the balances of fair value measurements on a recurring basis by level within the hierarchy as of December 31:

	2019			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments Measured at Fair Value				
U.S. Treasury securities, Federal Home Loan Bank Note	\$ -	\$ 1,199,501	\$ -	\$ 1,199,501
Investment Measured at Net Asset Value (NAV)				
Federated Treasury Obligation Funds				8,273,139
				<u>\$ 9,472,640</u>
	2018			
Investments Measured at Fair Value				
U.S. Treasury securities, Federal Home Loan Bank Note	\$ -	\$ 1,199,501	\$ -	\$ 1,199,501
Investment Measured at Net Asset Value (NAV)				
Federated Treasury Obligation Funds				8,159,090
				<u>\$ 9,358,591</u>

Investments classified in Level 2 are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

The Federated Treasury Obligations Funds are valued at net asset value (NAV) of units held. This Fund invests primarily in short-term U.S. Treasury securities and seeks to maintain a stable net asset value of \$1.00 per share. However, it is possible to lose money. Investments in the Federated Treasury Obligation Funds are not insured or guaranteed by the Federal Deposit Insurance Company or any other government agency.

Reading Area Water Authority
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Notes to Financial Statements
December 31, 2019 and 2018

Note 7 - Capital Assets

Capital assets activity was as follows at December 31:

	Balance January 1, 2019	Additions	Transfers/ Deletions	Balance December 31, 2019
Capital assets not being depreciated				
Construction in progress	\$ 16,580,441	\$ 4,821,172	\$ (21,131,361)	\$ 270,252
Capital assets being depreciated				
Leasehold improvements	58,604,152	19,288	21,131,361	79,754,801
Acquired systems	879,745	-	-	879,745
Equipment	11,578,274	747,041	-	12,325,315
Vehicles	2,954,234	156,209	-	3,110,443
Computers and software	891,962	16,345	-	908,307
Total capital assets being depreciated	74,908,367	938,883	21,131,361	96,978,611
Less accumulated depreciation for				
Leasehold improvements	16,778,215	3,247,541	-	20,025,756
Acquired systems	161,287	21,993	-	183,280
Equipment	6,208,322	800,347	-	7,008,669
Vehicles	2,576,580	170,474	-	2,747,054
Computers and software	790,854	37,544	-	828,398
Total accumulated depreciation	26,515,258	4,277,899	-	30,793,157
Total capital assets being depreciated, net	48,393,109	(3,339,016)	21,131,361	66,185,454
Total capital assets, net	\$ 64,973,550	\$ 1,482,156	\$ -	\$ 66,455,706

Reading Area Water Authority
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Notes to Financial Statements
December 31, 2019 and 2018

Note 7 - Capital Assets (continued)

	<u>Balance January 1, 2018</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance December 31, 2018</u>
Capital assets not being depreciated				
Construction in progress	\$ 9,902,748	\$ 8,853,272	\$ (2,175,579)	\$ 16,580,441
Capital assets being depreciated				
Leasehold improvements	56,404,007	2,200,145	-	58,604,152
Acquired systems	879,745	-	-	879,745
Equipment	10,815,128	763,146	-	11,578,274
Vehicles	2,876,463	77,771	-	2,954,234
Computers and software	869,566	22,396	-	891,962
Total capital assets being depreciated	<u>71,844,909</u>	<u>3,063,458</u>	<u>-</u>	<u>74,908,367</u>
Less accumulated depreciation for				
Leasehold improvements	13,892,360	2,885,855	-	16,778,215
Acquired systems	139,293	21,994	-	161,287
Equipment	5,494,642	713,680	-	6,208,322
Vehicles	2,430,044	146,536	-	2,576,580
Computers and software	754,670	36,184	-	790,854
Total accumulated depreciation	<u>22,711,009</u>	<u>3,804,249</u>	<u>-</u>	<u>26,515,258</u>
Total capital assets being depreciated, net	<u>49,133,900</u>	<u>(740,791)</u>	<u>-</u>	<u>48,393,109</u>
Total capital assets, net	<u>\$ 59,036,648</u>	<u>\$ 8,112,481</u>	<u>\$ (2,175,579)</u>	<u>\$ 64,973,550</u>

Reading Area Water Authority
A Component Unit of the City of Reading

Notes to Financial Statements
 December 31, 2019 and 2018

Note 8 - Long-Term Debt

Long-term debt consists of the following at December 31:

	Balance Outstanding January 1, 2019	Payments	Balance Outstanding December 31, 2019	Due Within One Year
Guaranteed Water Revenue Bonds, Series of 2003 (Capital Appreciation Bonds), initial issue \$21,080,000, various interest rates ranging from 3.60% to 4.62%, maturing in amounts ranging from \$610,000 to \$2,690,000 through 2020	\$ 5,380,000	\$ (2,690,000)	\$ 2,690,000	\$ 2,690,000
Note payable to PENNVEST, maximum drawdown of \$6,550,000, interest only for the first 36 months of the loan, principal and interest due monthly thereafter; interest at 1.27% for the first five years and 2.55% thereafter through 2032, guaranteed by the City of Reading	3,963,891	(277,113)	3,686,778	284,254
Water Revenue Bonds, Series of 2011, initial issue \$50,000,000, various interest rates ranging from 2.35% to 5.25%, maturing in amounts ranging from \$100,000 to \$6,975,000 through 2036	49,195,000	(105,000)	49,090,000	100,000
Water Revenue Bonds, Series of 2015, initial issue \$25,130,000, various interest rates ranging from 3.00% to 5.00%, maturing in amounts ranging from \$57,000 to \$577,000 through 2027	24,645,000	(290,000)	24,355,000	305,000
	\$ 83,183,891	\$ (3,362,113)	\$ 79,821,778	\$ 3,379,254

Reading Area Water Authority
A Component Unit of the City of Reading

Notes to Financial Statements
 December 31, 2019 and 2018

Note 8 - Long-Term Debt (continued)

	Balance Outstanding January 1, 2018	Payments	Balance Outstanding December 31, 2018	Due Within One Year
Guaranteed Water Revenue Bonds, Series of 2003 (Capital Appreciation Bonds), initial issue \$21,080,000, various interest rates ranging from 3.60% to 4.62%, maturing in amounts ranging from \$610,000 to \$2,690,000 through 2020	\$ 8,070,000	\$ (2,690,000)	\$ 5,380,000	\$ 2,690,000
Note payable to PENNVEST, maximum drawdown of \$6,550,000, interest only for the first 36 months of the loan, principal and interest due monthly thereafter; interest at 1.27% for the first five years and 2.55% thereafter through 2032, guaranteed by the City of Reading	4,234,043	(270,152)	3,963,891	277,113
Water Revenue Bonds, Series of 2011, initial issue \$50,000,000, various interest rates ranging from 2.35% to 5.25%, maturing in amounts ranging from \$100,000 to \$6,975,000 through 2036	49,350,000	(155,000)	49,195,000	105,000
Water Revenue Bonds, Series of 2015, initial issue \$25,130,000, various interest rates ranging from 3.00% to 5.00%, maturing in amounts ranging from \$57,000 to \$577,000 through 2027	24,925,000	(280,000)	24,645,000	290,000
	<u>\$ 86,579,043</u>	<u>\$ (3,395,152)</u>	<u>\$ 83,183,891</u>	<u>\$ 3,362,113</u>

**Reading Area Water Authority
A Component Unit of the City of Reading**

Notes to Financial Statements
December 31, 2019 and 2018

Note 8 - Long-Term Debt (continued)

Aggregate maturities required on the long-term debt at December 31, 2019 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2020	\$ 3,379,254	\$ 3,685,450	\$ 7,064,704
2021	3,401,579	3,542,301	6,943,880
2022	3,574,093	3,380,387	6,954,480
2023	3,741,801	3,209,980	6,951,781
2024	3,889,707	3,064,360	6,954,067
2025-2029	21,869,443	13,094,145	34,963,588
2030-2034	26,360,901	7,900,641	34,261,542
2035-2036	13,605,000	1,080,450	14,685,450
	<u>\$ 79,821,778</u>	<u>\$ 38,957,714</u>	<u>\$ 118,779,492</u>
		<u>2019</u>	<u>2018</u>
Total long-term debt		\$ 79,821,778	\$ 83,183,891
Current maturities		(3,379,254)	(3,362,113)
Unamortized bond discount		(183,889)	(194,732)
Unamortized bond premium		1,324,168	1,522,394
Unamortized interest on capital appreciation bonds		(119,974)	(352,928)
		<u>\$ 77,462,829</u>	<u>\$ 80,796,512</u>

The Authority has a line of credit agreement with a bank of \$4,500,000. There were no borrowings against the line of credit at December 31, 2019 and 2018.

Note Payable

The Authority's outstanding notes from direct borrowings related to business-type activities of \$3,686,778 are secured by a lien on the Authority's water revenues and the guaranty of the City secured by an assignment of the leave between the Authority and the City regarding the operation of the Authority's Water System.

Bonds Payable

The Authority's outstanding bonds are secured under the indentures by an assignment and pledge to the trustee of receipts and revenues from the Water System. In the event of default, the Trustee may enforce, and upon the written request of the Registered Owners of at least 25% in aggregate principal amount of all the bonds then outstanding under the Indenture accompanied by indemnity as provided in the Indenture shall enforce, for the benefit of all Registered Owners, all rights provided under the Indenture and said Act, including bringing suit upon all the Bonds Outstanding under the Indenture and protecting and enforcing by mandamus or other suit, action or proceeding at law or in equity all rights of Registered Owners and of having a receiver appointed.

Reading Area Water Authority
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Notes to Financial Statements
December 31, 2019 and 2018

Note 8 - Long-Term Debt (continued)

Covenants

The Water Revenue Bonds, Series of 2011 and Series of 2015, are subject to financial covenants, including a rate covenant. In addition, the Authority covenants that at all times it will maintain the Water System in good and operating condition, continuously operate the same, maintain adequate service, and maintain adequate insurance coverage. At December 31, 2019, the Authority was in compliance with these financial and operational covenants.

Note 9 - Operating Lease

During June 2017, the Authority entered into a new lease agreement with the City to repeal and replace the original lease agreement and all addendums in an effort to organize all proceeding agreements and addendums into one complete document. The new lease agreement was effective January 1, 2017 and shall continue until November 30, 2046. The initial lease payment of \$9,275,000 reflects the fair rental value of the Water System, and increased by 2% on January 1st of each respective year for 2018 and 2019. For 2020, 2021, and 2022, the amount of the lease payment shall be increased by 1.5% on January 1st of each respective year. For subsequent years the City and the Authority shall engage in good faith negotiations regarding any further annual increases in the lease payments. In the event that both parties are unable to agree on an amount of any further increase, beginning January 1, 2023 and for each year thereafter, the amount of the lease payment shall be increased by 1.5% effective January 1st of each respective year. The lease payment under the agreement for 2019 and 2018 was \$9,649,710 and \$9,460,500, respectively.

In addition to the lease payment to the City for operational and administrative expenses, the Authority is to pay a financing fee and meter surcharge payment. The Authority must also provide water service free of charge to the City. Total lease expense for the years ended December 31, 2019 and 2018 was \$12,142,535 and \$11,640,032, respectively.

In addition, if the Authority enters a contract to supply new commercial customers with water in excess of 10% of the current permitted capacity, the Authority shall pay to the city 25% of the net annual revenues generated by the contract.

The following is a schedule of the future minimum lease payments under the lease agreement as of December 31, 2019:

2020	\$ 9,794,456
2021	9,941,372
2022	10,090,493
2023	10,241,850
2024	10,395,478
Thereafter	<u>272,622,910</u>
	<u>\$ 323,086,559</u>

Reading Area Water Authority
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Notes to Financial Statements
December 31, 2019 and 2018

Note 10 - Retirement Plan

During 2011, the Authority adopted a retirement plan covering salary deferral for those employees who meet the eligibility requirements set forth in the plan. The amount of the contribution for salary deferral is at the discretion of the employee, subject to the provisions of Section 457(b) of the Internal Revenue Code. Under terms of the plan, the Authority may make discretionary matching contributions.

The Authority reflects its contributions to the plan as an operating expense. For the years ended December 31, 2019 and 2018, \$111,567 and \$109,429, respectively, was contributed to the plan.

Note 11 - Commitments and Contingencies

Commitments

Capital Improvements

The Authority has entered into contracts for various capital improvements. Outstanding commitments on these contracts totaled approximately \$2,797,028 as of December 31, 2019.

Trash and Recycling Billing Agreement

In April 2013, the Authority entered a Memorandum of Understanding with the City related to charges for trash and recycling. The Authority assumed the billing and collection of the billings at no charge to the City beginning after January 1, 2013. In addition, the City released to the Authority the accounts receivable that result from the billing of such trash and recycling service charges. In exchange for the transfer of the receivables, the Authority made payments to the City of a determined amount on April 30, 2013 and September 30, 2013. The Authority also paid a differential on the amount collected on delinquent accounts from January 1, 2013 through December 31, 2013. The agreement was through December 31, 2014 and, thereafter, on a year-to-year basis, unless either party notifies the other by August 31 of any calendar year of its intention to terminate the agreement.

In March 2014, a first amendment was approved establishing payments to be made on a monthly basis for 2014 as defined in the amendment. For years after 2014, payments to be made to the City were as defined in the agreement and were to be paid monthly.

The agreement was terminated as of January 1, 2016. The Authority continues to bill and collect the trash and recycling charges on behalf of the City and remits the collections to the City. The net revenue earned from trash and recycling for the years ended December 31, 2019 and 2018 was \$68,728 and \$62,746, respectively.

Reading Area Water Authority
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Notes to Financial Statements
December 31, 2019 and 2018

Note 11 - Commitments and Contingencies (continued)

Contingencies

Letters of Credit

The Authority has a letter of credit of \$800,000 for general Authority matters. The Authority also has letters of credit required by the Commonwealth of Pennsylvania in connection with capital improvement projects in the amount of \$395,957. The Authority is the beneficiary of a letter of credit of \$379,058 in connection with capital improvement projects. The maximum amount of letters of credit the Authority can issue is \$4,500,000. At December 31, 2019, all letters of credit were unused.

Concentration of Labor

The Authority has entered into collective bargaining agreements (CBA) with the employees who operate and maintain the Authority's facilities. Of the Authority's total workforce, 87% is covered by the agreement. As of December 31, 2019, the Foreman CBA is effective through 2023 and the Rank and File CBA is effective through 2022.

Litigation

In the normal course of business, the Authority is involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material adverse effect on the financial statements.

Gain Contingency

The Authority is involved in litigation and negotiations with several parties regarding the collection of unbilled water usage and engineering fees. Due to the inability to determine the outcome and an estimation of potential recovery of any amounts owed to the Authority related to these matters, the Authority has not recorded a receivable in its financial statements as of December 31, 2019.

Note 12 - Reclassifications

Certain information in the 2018 financial statements and related notes contain reclassifications necessary to make that information comparable to information presented in the 2019 financial statements.

Reading Area Water Authority
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Notes to Financial Statements
 December 31, 2019 and 2018

Note 13 - Subsequent Events

The Authority has evaluated subsequent events through June 4, 2020. This date is the date the financial statements were available to be issued. The following events subsequent to December 31, 2019 were noted:

COVID-19

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. The actions taken to mitigate it have had, and are expected to continue to have, an adverse impact on the economy, financial markets, and the geographical area of the Authority. It is unknown how long these conditions will last and what the complete financial effect will be to the Authority.

Additionally, it is reasonably possible that estimates made in the financial statements have been, or will be, materially and adversely impacted in the near term as a result of these conditions.

Water Revenue Bonds, Series of 2020

In March 2020, the Authority issued the federally taxable Water Revenue Bonds, Series 2020 with a maximum draw of \$50,195,000, various interest rates ranging from 1.611% to 2.952%, maturing in amounts ranging from \$575,000 to \$6,245,000 through 2036. Proceeds of the bond to refinance the Authority's Water Revenue Bonds, Series of 2011.

Aggregate maturities required on the long-term debt as a result of the issuance of Water Revenue Bonds, Series of 2020 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2020	\$ 4,234,254	\$ 2,009,213	\$ 6,243,467
2021	3,866,579	2,252,259	6,118,838
2022	4,044,093	2,085,194	6,129,287
2023	4,216,801	1,909,760	6,126,561
2024	4,369,707	1,758,930	6,128,637
2025-2029	24,259,443	6,596,029	30,855,472
2030-2034	26,635,900	3,511,763	30,147,663
2035-2036	9,300,000	364,720	9,664,720
	<u>\$ 80,926,777</u>	<u>\$ 20,487,868</u>	<u>\$ 101,414,645</u>

No other material events subsequent to December 31, 2019 were noted.