

READING AREA   
**WaterAuthority**

**A Component Unit of the City of Reading**

**Financial Statements**

**December 31, 2020 and 2019**



**FOCUSED. ON YOU.**

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

---

Table of Contents  
December 31, 2020 and 2019

	<b>Page</b>
<b>INDEPENDENT AUDITOR'S REPORT</b>	1 and 2
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	3 to 8
<b>FINANCIAL STATEMENTS</b>	
Statement of Net Position - Enterprise Fund	9 and 10
Statement of Revenues, Expenses, and Changes in Net Position - Enterprise Fund	11 and 12
Statement of Cash Flows - Enterprise Fund	13 and 14
Statement of Net Position - Fiduciary Fund	15 and 16
Statement of Changes in Fiduciary Net Position - Fiduciary Fund	17 and 18
Notes to Financial Statements	19 to 37



## **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 (the Authority), Berks County, Pennsylvania, a component unit of the City of Reading, as of and for the years ended December 31, 2020 and 2019, of the business-type activities and aggregate remaining fund information and 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 opinions 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 opinions.

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and aggregate remaining fund information of the Reading Area Water Authority as of December 31, 2020 and 2019, and the respective 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.

## Other Matter - Adoption of Governmental Accounting Standards Board (GASB)

The Authority adopted the provisions of GASB Statement No. 84, *Fiduciary Activity*, as of January 1, 2019. As a result, the fund balance of the Fiduciary Fund as of January 1, 2019 has been restated to \$1,846,161 from \$-0-, as previously reported. The adoption had no material impact on the financial statements. Our opinion is not modified in respect to these matters.

## 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 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB 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 14, 2021  
Wyomissing, Pennsylvania

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

---

Management's Discussion and Analysis  
December 31, 2020 and 2019

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, 2020 and 2019.

### **Financial Highlights**

- Current unrestricted assets exceeded current liabilities by \$16,606,712 at the close of the year. This is compared to \$14,260,036 and \$18,389,939 at the close of the 2019 and 2018 years, respectively.
- Total net position increased by \$1,875,761, \$598,104, and \$6,673,960 for the years ended 2020, 2019, and 2018, respectively. The 2020 increase is due to a reduction in interest expense as a result of the advance refunding of the Water Revenue Bonds, Series of 2011 with the proceeds of the Water Revenue Bonds, Series of 2020. 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 Authority had net operating income of \$3,653,656 for 2020, compared to net operating income of \$3,556,133 and \$2,945,874 for 2019 and 2018, 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 - enterprise fund, statement of revenues, expenses, and changes in net position - enterprise fund, statement of cash flows - enterprise fund, statement of net position - fiduciary fund; statement of changes in fiduciary net position - fiduciary fund; and notes to financial statements.

**Statement of Net Position - Enterprise Fund** - The statement of net position - enterprise fund presents the financial position of the Authority. It presents information on the Authority's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

**Statement of Revenues, Expenses, and Changes in Net Position - Enterprise Fund** - The statement of revenues, expenses, and changes in net position - enterprise fund 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 - Enterprise Fund** - The statement of cash flows - enterprise fund 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.

**Fiduciary Funds** - Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Authority's own programs. The accounting used for fiduciary funds is much like that used for enterprise funds.

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

Management's Discussion and Analysis  
December 31, 2020 and 2019

**Basic Financial Statements (continued)**

**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.

**Financial Information - Enterprise Fund**

**Net Position** - The following schedule presents a summary of net position comparison at December 31, 2020, 2019, and 2018:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>Assets</b>			
Unrestricted current assets	\$ 21,713,308	\$ 19,330,591	\$ 25,886,197
Restricted current assets	8,513,384	9,472,640	9,389,010
Capital assets, net	63,336,954	66,455,706	64,973,550
Other asset	883,620	917,715	951,810
<b>Deferred Outflow of Resources</b>	<u>785,490</u>	<u>917,612</u>	<u>1,054,979</u>
<b>Total Assets and Deferred Outflow of Resources</b>	<u>\$ 95,232,756</u>	<u>\$ 97,094,264</u>	<u>\$ 102,255,546</u>
<b>Liabilities</b>			
Current liabilities	\$ 5,106,596	\$ 5,070,555	\$ 7,496,258
Long-term debt	<u>73,689,519</u>	<u>77,462,829</u>	<u>80,796,512</u>
<b>Total Liabilities</b>	<u>\$ 78,796,115</u>	<u>\$ 82,533,384</u>	<u>\$ 88,292,770</u>
<b>Net Position</b>			
Net investment in capital assets	\$ (13,433,654)	\$ (13,468,765)	\$ (18,130,096)
Restricted for debt service	8,513,382	7,592,650	7,513,275
Restricted for capital assets	2	1,879,990	1,845,316
Unrestricted	<u>21,356,911</u>	<u>18,557,005</u>	<u>22,734,281</u>
<b>Total Net Position</b>	<u>\$ 16,436,641</u>	<u>\$ 14,560,880</u>	<u>\$ 13,962,776</u>

Current liabilities increased by 0.7% in 2020 compared to a decrease by 32.4 % in 2019 and an increase of 39.1% in 2018. The 2020 increase is attributable to the contractual principal payments on long-term debt.

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

Management's Discussion and Analysis  
December 31, 2020 and 2019

**Financial Information - Enterprise Fund (continued)**

**Revenues** - The following schedule presents a summary of revenues for the years ended December 31, 2020, 2019, and 2018:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>Operating Revenues</b>			
Water billings	\$ 31,735,206	\$ 30,958,357	\$ 29,663,185
Interest and penalty charges	619,149	572,094	541,209
Tampered meter and other charges	344,642	387,604	310,720
Tapping and connection fees	54,873	175,246	50,610
Abandonment fees	<u>21,664</u>	<u>41,836</u>	<u>20,107</u>
<b>Total Operating Revenues</b>	<b><u>\$ 32,775,534</u></b>	<b><u>\$ 32,135,137</u></b>	<b><u>\$ 30,585,831</u></b>

The 2020 fiscal year's total operating revenue increased by 2.5% compared to 2019, and increased by 5.1% and decreased by 1.0% in 2019 and 2018, respectively.

**Expenses** - The following schedule presents a summary of expenses for the years ended December 31, 2020, 2019, and 2018:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>Operating Expenses</b>			
Lease payments, City of Reading	\$ 12,543,495	\$ 12,142,535	\$ 11,640,032
Chemical supplies	1,156,151	1,173,058	1,051,101
Salaries, payroll taxes, and employee benefits	6,435,587	6,372,046	6,213,345
Contracted services	928,007	907,019	967,302
Other	<u>3,538,722</u>	<u>3,672,352</u>	<u>3,895,738</u>
<b>Total Operating Expenses</b>	<b><u>\$ 24,601,962</u></b>	<b><u>\$ 24,267,010</u></b>	<b><u>\$ 23,767,518</u></b>

The \$334,952 increase in expenses is primarily due to an increase in lease payments to the City of Reading in accordance with lease between the Authority and the City of Reading.

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

Management's Discussion and Analysis  
 December 31, 2020 and 2019

**Financial Information - Enterprise Fund (continued)**

**Changes in Net Position** - The following schedule presents a summary of changes in net position for the years ended December 31, 2020, 2019, and 2018:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Operating revenues	\$ 32,775,534	\$ 32,135,137	\$ 30,585,831
Operating expenses	<u>24,601,962</u>	<u>24,267,010</u>	<u>23,767,518</u>
<b>Operating Income before Depreciation and Amortization</b>	<b>8,173,572</b>	7,868,127	6,818,313
Depreciation and amortization	<u>4,519,916</u>	<u>4,311,994</u>	<u>3,872,439</u>
<b>Operating Income</b>	<b>3,653,656</b>	3,556,133	2,945,874
Nonoperating revenues (expenses), net	<u>(1,777,895)</u>	<u>(2,958,029)</u>	<u>3,728,086</u>
<b>Increase in Net Position</b>	<b>\$ 1,875,761</b>	<b>\$ 598,104</b>	<b>\$ 6,673,960</b>

**Statement of Changes in Net Position**  
**Year Ended December 31, 2020**

	<u>Beginning Balance</u>	<u>Increase (Decrease)</u>	<u>Ending Balance</u>
Net investment in capital assets	\$ (13,468,765)	\$ 35,111	\$ (13,433,654)
Restricted for debt service	7,592,650	920,732	8,513,382
Restricted for capital assets	1,879,990	(1,879,988)	2
Unrestricted	<u>18,557,005</u>	<u>2,799,906</u>	<u>21,356,911</u>
<b>Total Net Position</b>	<b>\$ 14,560,880</b>	<b>\$ 1,875,761</b>	<b>\$ 16,436,641</b>

**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>
<b>Total Net Position</b>	<b>\$ 13,962,776</b>	<b>\$ 598,104</b>	<b>\$ 14,560,880</b>

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

Management's Discussion and Analysis  
 December 31, 2020 and 2019

**Financial Information - Enterprise Fund (continued)**

**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>
<b>Total Net Position</b>	<u>\$ 7,288,816</u>	<u>\$ 6,673,960</u>	<u>\$ 13,962,776</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.

The Authority's capital assets as of December 31, 2020, 2019, and 2018, net of accumulated depreciation, amounted to \$63,336,954, \$66,455,706, and \$64,973,550, respectively. For the year ended December 31, 2020, this amount represents a net increase (including additions, deletions, and depreciation) of \$3,118,752 from the prior year. See Note 7 for more information on capital assets.

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Leasehold improvements	\$ 57,256,465	\$ 59,729,045	\$ 41,825,937
Acquired systems	674,471	696,465	718,458
Equipment	4,763,531	5,316,646	5,369,952
Vehicles	270,756	363,389	377,654
Computers and software	67,170	79,909	101,108
Construction in progress	<u>304,561</u>	<u>270,252</u>	<u>16,580,441</u>
	<u>\$ 63,336,954</u>	<u>\$ 66,455,706</u>	<u>\$ 64,973,550</u>

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

---

Management's Discussion and Analysis  
December 31, 2020 and 2019

**Debt Administration**

At December 31, 2020, the Authority had \$76,692,524 of Guaranteed Revenue Bonds and notes payable, compared to \$79,821,778 and \$83,183,891 at the years ended December 31, 2019 and 2018, 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.

**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  
A Component Unit of the City of Reading**

Statement of Net Position - Enterprise Fund

	December 31,	
	2020	2019
<b>Assets</b>		
<b>Current Assets, Unrestricted</b>		
Cash	\$ 16,436,716	\$ 13,894,351
Accounts receivable, water billings, net of allowance 2020 \$2,820,082; 2019 \$2,204,145	4,157,344	4,124,000
Accounts receivable, trash and recycling billings, net of allowance 2020 \$78,819; 2019 \$85,477	8,978	12,334
Unbilled water usage	995,687	1,084,997
Inventory	114,583	160,309
Prepaid expenses	-	54,600
<b>Total Current Assets, Unrestricted</b>	<b>21,713,308</b>	<b>19,330,591</b>
<b>Current Assets, Restricted</b>		
Trust accounts, cash and investments		
Clearing Account	9	676
Construction Account	2	1,879,990
Debt Service Account	29	224,546
Debt Service Reserve Account	8,513,344	7,367,428
<b>Total Current Assets, Restricted</b>	<b>8,513,384</b>	<b>9,472,640</b>
<b>Capital Assets</b>		
Capital assets not being depreciated, construction in progress	304,561	270,252
Capital assets being depreciated		
Leasehold improvements	80,754,706	79,754,801
Acquired systems	879,745	879,745
Equipment	12,589,754	12,325,315
Vehicles	3,153,520	3,110,443
Computers and software	933,646	908,307
	98,311,371	96,978,611
Accumulated depreciation	(35,278,978)	(30,793,157)
	63,032,393	66,185,454
<b>Capital Assets, Net</b>	<b>63,336,954</b>	<b>66,455,706</b>
<b>Other Asset</b>		
Leased land rights	883,620	917,715
<b>Deferred Outflow of Resources, Refinancing Loss</b>	<b>785,490</b>	<b>917,612</b>
<b>Total Assets and Deferred Outflow of Resources</b>	<b>95,232,756</b>	<b>97,094,264</b>

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

Statement of Net Position - Enterprise Fund (continued)

	December 31,	
	<u>2020</u>	<u>2019</u>
<b><i>Liabilities</i></b>		
<b>Current Liabilities</b>		
Accounts payable, trade	\$ 217,447	\$ 376,075
Accrued payroll, compensated absences, and deferred compensation	749,792	790,915
Accrued interest payable	187,971	297,398
Other	3,282	2,158
Due to City of Reading	81,525	224,755
Current maturities of long-term debt	<u>3,866,579</u>	<u>3,379,254</u>
<b>Total Current Liabilities</b>	<b>5,106,596</b>	5,070,555
<b>Long-Term Debt, Less Current Maturities</b>	<u>73,689,519</u>	<u>77,462,829</u>
<b>Total Liabilities</b>	<u>78,796,115</u>	<u>82,533,384</u>
<b><i>Net Position</i></b>		
<b>Net Position</b>		
Net investment in capital assets	(13,433,654)	(13,468,765)
Restricted for debt service	8,513,382	7,592,650
Restricted for capital assets	2	1,879,990
Unrestricted	<u>21,356,911</u>	<u>18,557,005</u>
<b>Total Net Position</b>	<u>\$ 16,436,641</u>	<u>\$ 14,560,880</u>

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

Statement of Revenues, Expenses, and Changes in Net Position - Enterprise Fund

	Years Ended December 31,	
	2020	2019
<b>Operating Revenues</b>		
Water billings	\$ 31,735,206	\$ 30,958,357
Interest and penalty charges	619,149	572,094
Tampered meter and other charges	344,642	387,604
Tapping and connection fees	54,873	175,246
Abandonment fees	21,664	41,836
<b>Total Operating Revenues</b>	<b>32,775,534</b>	<b>32,135,137</b>
<b>Operating Expenses</b>		
Lease payments, City of Reading	12,543,495	12,142,535
Chemical supplies	1,156,151	1,173,058
Engineering	175,475	148,771
Legal fees	444,124	618,314
Salaries and payroll taxes	5,182,418	5,073,432
Insurance	149,321	58,234
Employee benefits	1,253,169	1,298,614
Grant expenditures	75,769	73,247
Utilities	668,639	655,444
Contracted services	928,007	907,019
Repairs and maintenance	489,663	960,752
Professional services	34,250	28,300
Bank charges	381,017	413,333
Dues and subscriptions	71,492	69,818
Advertising	17,929	33,354
Education	1,215	5,865
Supplies	444,116	396,876
Development	20,875	20,323
Bad debt expense	564,837	189,721
<b>Total Operating Expenses</b>	<b>24,601,962</b>	<b>24,267,010</b>
<b>Operating Income before Depreciation and Amortization</b>	<b>8,173,572</b>	<b>7,868,127</b>
<b>Depreciation and Amortization</b>	<b>4,519,916</b>	<b>4,311,994</b>
<b>Operating Income</b>	<b>3,653,656</b>	<b>3,556,133</b>

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

Statement of Revenues, Expenses, and Changes in Net Position - Enterprise Fund (continued)

	<b>Years Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Nonoperating Revenues (Expenses)</b>		
Grant income	\$ 129,567	\$ 125,000
Investment income	507,638	597,173
Miscellaneous income	256,209	581,974
Interest expense	(2,194,472)	(3,768,727)
Miscellaneous expense	(561,678)	(562,177)
Trash and recycling collections, net	84,841	68,728
	<u>(1,777,895)</u>	<u>(2,958,029)</u>
<b>Nonoperating Revenues (Expenses), Net</b>		
	<b>1,875,761</b>	598,104
<b>Increase in Net Position</b>		
	<b>1,875,761</b>	598,104
<b>Net Position at Beginning of Year</b>	<b>14,560,880</b>	13,962,776
	<u>14,560,880</u>	<u>13,962,776</u>
<b>Net Position at End of Year</b>	<b>\$ 16,436,641</b>	\$ 14,560,880
	<u>\$ 16,436,641</u>	<u>\$ 14,560,880</u>

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

Statement of Cash Flows - Enterprise Fund

	Years Ended December 31,	
	2020	2019
<b>Cash Flows from Operating Activities</b>		
Cash receipts from water customers	\$ 32,266,663	\$ 34,038,966
Cash receipts from trash and recycling customers	88,394	72,992
Cash payments to suppliers for goods and services	(19,055,313)	(19,173,040)
Cash payments to employees for services	(5,223,541)	(5,015,402)
Other receipts	385,776	706,974
Other payments	(561,678)	(562,177)
	<u>7,900,301</u>	<u>10,068,313</u>
<b>Net Cash Provided by Operating Activities</b>		
<b>Cash Flows from Capital and Related Financing Activities</b>		
Acquisition and construction of capital assets	(1,247,094)	(7,804,833)
Principal proceeds on long-term debt	50,195,000	-
Principal paid on long-term debt	(53,324,254)	(3,362,113)
Costs to acquire long-term debt	(285,724)	-
Interest paid on long-term debt	(2,162,758)	(3,820,581)
	<u>(6,824,830)</u>	<u>(14,987,527)</u>
<b>Net Cash Used in Capital and Related Financing Activities</b>		
<b>Cash Flows from Investing Activities</b>		
(Increase) decrease in restricted assets, net	959,256	(114,049)
Investment income received	507,638	597,173
	<u>1,466,894</u>	<u>483,124</u>
<b>Net Cash Provided by Investing Activities</b>		
<b>Net Increase (Decrease) in Cash</b>		
	<u>2,542,365</u>	<u>(4,436,090)</u>
<b>Cash at Beginning of Year</b>	<u>13,894,351</u>	<u>18,330,441</u>
<b>Cash at End of Year</b>	<u>\$ 16,436,716</u>	<u>\$ 13,894,351</u>

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

Statement of Cash Flows - Enterprise Fund (continued)

	Years Ended December 31,	
	2020	2019
<b>Reconciliation of Operating Income to Net Cash</b>		
<b>Provided by Operating Activities</b>		
Operating income	\$ 3,653,656	\$ 3,556,133
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	4,519,916	4,311,994
Trash and recycling, net	84,840	68,728
Miscellaneous income	385,776	706,974
Miscellaneous expenses	(561,678)	(562,177)
(Increase) decrease in assets		
Accounts receivable, water billings	(33,344)	(121,585)
Unbilled water usage	89,310	85,174
Accounts receivable, trash and recycling billings	3,356	4,264
Accounts receivable, other	-	2,129,961
Inventory	45,726	29,234
Prepaid expenses	54,600	(7,532)
Increase (decrease) in liabilities		
Accounts payable	(158,628)	(392,243)
Accrued payroll and compensated absences	(41,123)	58,030
Due to City of Reading	(143,230)	201,455
Other liabilities	1,124	(97)
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 7,900,301</b>	<b>\$ 10,068,313</b>

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

Statement of Net Position - Fiduciary Fund

	December 30, 2020		
	Custodial Fund	Trust Fund	Total
<b>Assets</b>			
<b>Current Assets</b>			
Developer escrow deposits, cash	\$ 290,417	\$ -	\$ 290,417
Other receivables	36,152	-	36,152
Investments	-	2,178,032	2,178,032
<b>Total Assets</b>	<b>\$ 326,569</b>	<b>\$ 2,178,032</b>	<b>\$ 2,504,601</b>
<b>Net Position</b>			
Assets held in trust for pension benefits	\$ -	\$ 2,178,032	\$ 2,178,032
Funds held in escrow	326,569	-	326,569
<b>Total Net Position</b>	<b>\$ 326,569</b>	<b>\$ 2,178,032</b>	<b>\$ 2,504,601</b>

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

Statement of Net Position - Fiduciary Fund (continued)

	<b>December 31, 2019</b>		
	<b>Custodial Fund</b>	<b>Trust Fund</b>	<b>Total</b>
<b>Assets</b>			
<b>Current Assets, Unrestricted</b>			
Developer escrow deposits, cash	\$ 9,429	\$ -	\$ 9,429
Other receivables	97,816	-	97,816
Investments	-	1,738,916	1,738,916
<b>Total Assets</b>	<b>\$ 107,245</b>	<b>\$ 1,738,916</b>	<b>\$ 1,846,161</b>
<b>Net Position</b>			
Assets held in trust for pension benefits	\$ -	\$ 1,738,916	\$ 1,738,916
Funds held in escrow	107,245	-	107,245
<b>Total Net Position</b>	<b>\$ 107,245</b>	<b>\$ 1,738,916</b>	<b>\$ 1,846,161</b>

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

Statement of Changes in Fiduciary Net Position - Fiduciary Funds

	Year Ended December 31, 2020		
	Custodial Fund	Trust Fund	Total
<b>Additions</b>			
Escrow assessment	\$ 484,216	\$ -	\$ 484,216
Contributions			
Employee	-	169,469	169,469
Employer	-	130,021	130,021
Rollover	-	-	-
Total contributions	-	299,490	299,490
Investment earnings	-	203,463	203,463
Miscellaneous	30,547	-	30,547
<b>Total Additions</b>	<b>514,763</b>	<b>502,953</b>	<b>1,017,716</b>
<b>Deductions</b>			
Engineering	236,412	-	236,412
Legal fees	53,289	-	53,289
Benefit payments	-	63,737	63,737
Administrative expenses	-	100	100
Supplies	4,365	-	4,365
Bad debt expense	1,373	-	1,373
<b>Total Deductions</b>	<b>295,439</b>	<b>63,837</b>	<b>359,276</b>
<b>Change in Net Position Income</b>	<b>219,324</b>	<b>439,116</b>	<b>658,440</b>
<b>Net Position of Assets Held for Benefits at Beginning of Year</b>	<b>107,245</b>	<b>1,738,916</b>	<b>1,846,161</b>
<b>Net Position of Assets Held for Benefits at End of Year</b>	<b>\$ 326,569</b>	<b>\$ 2,178,032</b>	<b>\$ 2,504,601</b>

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

Statement of Changes in Fiduciary Net Position - Fiduciary Fund (continued)

	Year Ended December 31, 2019		
	Custodial Fund	Trust Fund	Total
<b>Additions</b>			
Escrow assessment	\$ 350,066	\$ -	\$ 350,066
Contributions			
Employee	-	144,749	144,749
Employer	-	117,166	117,166
Rollover	-	11,498	11,498
Total contributions	-	273,413	273,413
Miscellaneous	-	-	-
Investment earnings	-	250,101	250,101
<b>Total Additions</b>	<b>350,066</b>	<b>523,514</b>	<b>873,580</b>
<b>Deductions</b>			
Engineering	233,452	-	233,452
Legal fees	26,680	-	26,680
Benefit payments	-	61,667	61,667
Administrative expenses	-	327	327
Supplies	100	-	100
Bad debt expense	13,008	-	13,008
<b>Total Deductions</b>	<b>273,240</b>	<b>61,994</b>	<b>335,234</b>
<b>Change in Net Position Income</b>	<b>76,826</b>	<b>461,520</b>	<b>538,346</b>
<b>Net Position of Assets Held for Benefits at Beginning of Year</b>	<b>30,419</b>	<b>1,277,396</b>	<b>1,307,815</b>
<b>Net Position of Assets Held for Benefits at End of Year</b>	<b>\$ 107,245</b>	<b>\$ 1,738,916</b>	<b>\$ 1,846,161</b>

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

---

Notes to Financial Statements  
December 31, 2020 and 2019

### **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, 2020 and 2019

**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.

The Authority also reports the following fiduciary fund types:

**Custodial Fund** - is used to account for the escrow cash deposits received from developers and held in a separate account. The fund will be utilized for development plan reviews and inspection fees. Any unused fund will be returned to the developers.

**Trust Fund** - is used to account for fiduciary resources legally held in trust for the receipt and distribution of retirement benefits. The Authority sponsors a salary deferral retirement plan for those employees who meet the eligibility requirements.

**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.

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

---

Notes to Financial Statements  
December 31, 2020 and 2019

**Note 2 - Summary of Significant Accounting Policies (continued)**

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

**Project Accounts (continued)**

**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.

**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, 2020 and 2019, the allowance for uncollectible accounts was \$2,898,901 and \$2,289,622, 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.

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

---

Notes to Financial Statements  
December 31, 2020 and 2019

**Note 2 - Summary of Significant Accounting Policies (continued)**

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

**Investments (continued)**

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.

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.

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

---

Notes to Financial Statements  
December 31, 2020 and 2019

**Note 2 - Summary of Significant Accounting Policies (continued)**

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

**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.

**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.

Restricted for capital assets - 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.

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

---

Notes to Financial Statements  
December 31, 2020 and 2019

**Note 2 - Summary of Significant Accounting Policies (continued)**

**Recent Accounting Pronouncements**

In January 2017, the Governmental Accounting Standards Board (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, 2018. The Authority retroactively adopted this Statement as of January 1, 2019.

In June 2017, the GASB issued Statement No. 87, *Leases*. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases, and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. GASB Statement No. 87 is effective for periods beginning after June 15, 2021. The Authority is currently evaluating what effect the adoption of this 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.

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

Notes to Financial Statements  
 December 31, 2020 and 2019

**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>2020</u>	<u>2019</u>
Petty cash	\$ 930	\$ 930
Demand deposit accounts	20,930,562	13,893,421
Mutual funds	2,179,032	1,738,916
Money market mutual funds	2,819,107	8,273,139
U.S. Treasury securities	1,199,501	1,199,501
	<u>\$ 27,129,132</u>	<u>\$ 25,105,907</u>

**Reconciliation to Statement of Net Position**

	<u>2020</u>	<u>2019</u>
<b>Enterprise Fund</b>		
<b>Cash and Investments</b>		
Current assets, unrestricted	\$ 16,436,716	\$ 13,894,351
Restricted, trust accounts, cash and investments	8,513,384	9,472,640
	<u>\$ 24,950,100</u>	<u>\$ 23,366,991</u>
<b>Fiduciary Fund</b>		
<b>Investments</b>		
Mutual fund, equity	\$ 2,133,436	\$ 1,701,481
Mutual fund, fixed income	44,596	37,435
	<u>\$ 2,178,032</u>	<u>\$ 1,738,916</u>
	<u>\$ 27,129,123</u>	<u>\$ 25,105,907</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, 2020 and 2019, the carrying amounts of the Authority's bank deposits were \$16,435,786 and \$13,893,421, respectively, and the bank balances were \$16,370,569 and \$14,559,093, respectively, of which \$250,000 and \$457,025 were covered by Federal Depository Insurance, respectively. The remaining deposits of \$16,370,569 and \$14,102,068 at December 31, 2020 and 2019, 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.

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

Notes to Financial Statements  
 December 31, 2020 and 2019

**Note 5 - Cash and Investments (continued)**

**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:

<b>2020</b>	<b>Fair Value</b>	<b>Less than One Year</b>
Federated Treasury Obligation Funds	<u><u>\$ 8,513,384</u></u>	<u><u>\$ 8,513,384</u></u>
<b>2019</b>		
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><u>\$ 9,472,640</u></u>	<u><u>\$ 9,472,640</u></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, 2020 and 2019, \$4,018,608 and \$9,472,640, 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.

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

Notes to Financial Statements  
 December 31, 2020 and 2019

**Note 6 - Fair Value Measurements (continued)**

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.

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

	2020			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>Enterprise Fund</b>				
<b>Investments Measured at Fair Value</b>				
U.S. Treasury securities, Federal Home Loan Bank Note	\$ -	\$ -	\$ -	\$ -
<b>Investment Measured at Net Asset Value (NAV)</b>				
Federated Treasury Obligation Funds				8,513,384
				<u>\$ 8,513,384</u>
<b>Fiduciary Fund</b>				
<b>Investments Measured at Fair Value</b>				
<b>Mutual Funds</b>				
<b>Equity</b>				
Large blend	\$ 2,015,555	\$ -	\$ -	\$ 2,015,555
Large growth	61,750	-	-	61,750
Small growth	23,767	-	-	23,767
Mid-cap growth	15,653	-	-	15,653
Mid-cap blend	13,182	-	-	13,182
Small blend	3,529	-	-	3,529
<b>Fixed Income</b>				
Inflation protected	15,656	-	-	15,656
Short term	14,249	-	-	14,249
High yield	7,488	-	-	7,488
Intermediate core	7,203	-	-	7,203
	<u>\$ 2,178,032</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,178,032</u>

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

Notes to Financial Statements  
 December 31, 2020 and 2019

**Note 6 - Fair Value Measurements (continued)**

	2019			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>Enterprise Fund</b>				
<b>Investments Measured at Fair Value</b>				
U.S. Treasury securities, Federal Home Loan Bank Note	\$ -	\$ 1,199,501	\$ -	\$ 1,199,501
<b>Investment Measured at Net Asset Value (NAV)</b>				
Federated Treasury Obligation Funds				8,273,139
				<u>\$ 9,472,640</u>
<b>Fiduciary Fund</b>				
<b>Investments Measured at Fair Value</b>				
<b>Mutual Funds</b>				
<b>Equity</b>				
Large blend	\$ 1,622,907	\$ -	\$ -	\$ 1,622,907
Large growth	43,720	-	-	43,720
Small growth	16,322	-	-	16,322
Mid-cap growth	6,361	-	-	6,361
Mid-cap blend	9,837	-	-	9,837
Small blend	2,334	-	-	2,334
<b>Fixed Income</b>				
Inflation protected	12,723	-	-	12,723
Short term	12,456	-	-	12,456
High yield	5,915	-	-	5,915
Intermediate core	6,341	-	-	6,341
	<u>\$ 1,738,916</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,738,916</u>

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

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**  
**A Component Unit of the City of Reading**

Notes to Financial Statements  
December 31, 2020 and 2019

**Note 7 - Capital Assets**

Capital assets activity was as follows at December 31:

	Balance January 1, 2020	Additions	Transfers/ Deletions	Balance December 31, 2020
Capital assets not being depreciated				
Construction in progress	\$ 270,252	\$ 1,014,871	\$ (980,562)	\$ 304,561
Capital assets being depreciated				
Leasehold improvements	79,754,801	19,343	980,562	80,754,706
Acquired systems	879,745	-	-	879,745
Equipment	12,325,315	264,439	-	12,589,754
Vehicles	3,110,443	43,077	-	3,153,520
Computers and software	908,307	25,339	-	933,646
Total capital assets being depreciated	96,978,611	352,198	980,562	98,311,371
Less accumulated depreciation for				
Leasehold improvements	20,025,756	3,472,485	-	23,498,241
Acquired systems	183,280	21,994	-	205,274
Equipment	7,008,669	817,554	-	7,826,223
Vehicles	2,747,054	135,710	-	2,882,764
Computers and software	828,398	38,078	-	866,476
Total accumulated depreciation	30,793,157	4,485,821	-	35,278,978
Total capital assets being depreciated, net	66,185,454	(4,133,623)	980,562	63,032,393
Total capital assets, net	\$ 66,455,706	\$ (3,118,752)	\$ -	\$ 63,336,954

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

Notes to Financial Statements  
December 31, 2020 and 2019

**Note 7 - Capital Assets (continued)**

	<u>Balance January 1, 2019</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance December 31, 2019</u>
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	<u>74,908,367</u>	<u>938,883</u>	<u>21,131,361</u>	<u>96,978,611</u>
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	<u>26,515,258</u>	<u>4,277,899</u>	<u>-</u>	<u>30,793,157</u>
Total capital assets being depreciated, net	<u>48,393,109</u>	<u>(3,339,016)</u>	<u>21,131,361</u>	<u>66,185,454</u>
Total capital assets, net	<u>\$ 64,973,550</u>	<u>\$ 1,482,156</u>	<u>\$ -</u>	<u>\$ 66,455,706</u>

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

Notes to Financial Statements  
 December 31, 2020 and 2019

**Note 8 - Long-Term Debt**

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

	Balance Outstanding January 1, 2020	Additions (Payments)	Balance Outstanding December 31, 2020	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%, paid in full during 2020	\$ 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	3,686,778	(284,254)	3,402,524	291,579
Water Revenue Bonds, Series of 2011, initial issue \$50,000,000, various interest rates ranging from 2.35% to 5.25%, Advance repayment in full with proceeds from Water Revenue Bonds, Series of 2020. Bonds to be satisfied in full by escrow agent on December 1, 2021	49,090,000	(49,090,000)	-	-
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	24,355,000	(305,000)	24,050,000	3,000,000

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

Notes to Financial Statements  
December 31, 2020 and 2019

**Note 8 - Long-Term Debt (continued)**

	<b>Balance Outstanding January 1, 2020</b>	<b>Additions (Payments)</b>	<b>Balance Outstanding December 31, 2020</b>	<b>Due Within One Year</b>
Water Revenue Bonds, Series of 2020, initial issue \$50,195,000, various interest rates ranging from 1.5% to 3.00%, maturing in amounts ranging from \$575,000 to \$6,245,000 through 2027. Proceeds to pay principal and interest of Water Revenue Bonds, Series of 2011 through December 1, 2021 via Escrow agent	\$ -	\$ 49,240,000	\$ 49,240,000	\$ 575,000
	<b>\$ 79,821,778</b>	<b>\$ (3,129,254)</b>	<b>\$ 76,692,524</b>	<b>\$ 3,866,579</b>
	<b>Balance Outstanding January 1, 2019</b>	<b>Payments</b>	<b>Balance Outstanding December 31, 2019</b>	<b>Due Within One Year</b>
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

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

Notes to Financial Statements  
 December 31, 2020 and 2019

**Note 8 - Long-Term Debt (continued)**

	<u>Balance Outstanding January 1, 2019</u>	<u>Payments</u>	<u>Balance Outstanding December 31, 2019</u>	<u>Due Within One Year</u>
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
	<u>\$ 83,183,891</u>	<u>\$ (3,362,113)</u>	<u>\$ 79,821,778</u>	<u>\$ 3,379,254</u>

Aggregate maturities required on the long-term debt at December 31, 2020 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
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	4,552,817	412,762	4,965,579
2026-2030	24,708,236	5,939,052	30,647,288
2031-2035	27,879,291	2,841,339	30,720,630
2036	3,055,000	90,184	3,145,184
	<u>\$ 76,692,524</u>	<u>\$ 17,289,480</u>	<u>\$ 93,982,004</u>

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

Notes to Financial Statements  
December 31, 2020 and 2019

**Note 8 - Long-Term Debt (continued)**

	<u>2020</u>	<u>2019</u>
Total long-term debt	\$ 76,692,524	\$ 79,821,778
Current maturities	(3,866,579)	(3,379,254)
Unamortized bond premium	1,133,507	1,324,168
Unamortized bond discount	(165,973)	(183,889)
Unamortized bond insurance	(103,960)	-
Unamortized interest on capital appreciation bonds	-	(119,974)
	<u>\$ 73,689,519</u>	<u>\$ 77,462,829</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, 2020 and 2019.

**Note Payable**

The Authority's outstanding notes from direct borrowings related to business-type activities of \$3,402,524 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.

**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, 2020, the Authority was in compliance with these financial and operational covenants.

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

---

Notes to Financial Statements  
December 31, 2020 and 2019

**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 2020 and 2019 was \$9,794,456 and \$9,649,710, 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, 2020 and 2019 was \$12,543,495 and \$12,142,535, 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, 2020:

2021	\$ 9,941,372
2022	10,090,493
2023	10,241,850
2024	10,395,478
2025	10,551,410
Thereafter	<u>262,071,500</u>
	<u>\$ 313,292,103</u>

**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, 2020 and 2019, \$130,021 and \$111,567, respectively, was contributed to the plan.

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

---

Notes to Financial Statements  
December 31, 2020 and 2019

**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 \$1,559,555 as of December 31, 2020.

**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, 2020 and 2019 was \$84,841 and \$68,728, respectively.

**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 \$77,609. The Authority is the beneficiary of a letter of credit of \$697,406 in connection with capital improvement projects. The maximum amount of letters of credit the Authority can issue is \$4,500,000. At December 31, 2020, 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.

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

---

Notes to Financial Statements  
December 31, 2020 and 2019

**Note 11 - Commitments and Contingencies (continued)**

**Contingencies (continued)**

**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, 2020.

**Note 12 - Reclassifications**

Certain information in the 2019 financial statements and related notes contain reclassifications necessary to make that information comparable to information presented in the 2020 financial statements.

**Note 13 - Risks and Uncertainties**

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, public support, and the geographical area in which the Authority operates. 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.

**Note 14 - Subsequent Events**

The Authority has evaluated subsequent events through June 14, 2021. This date is the date the financial statements were available to be issued. No material events subsequent to December 31, 2020 were noted.