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A Component Unit of the City of Reading



Financial Statements

December 31, 2021 and 2020



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

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December 31, 2021 and 2020

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Independent Auditor's Report

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

Opinion

We have audited the financial statements of the business-type activities and the aggregate remaining fund information of the Reading Area Water Authority (the Authority), Berks County, Pennsylvania, as of and for the years ended December 31, 2021 and 2020, the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective statement of net position - enterprise fund and fiduciary fund of the Authority as of December 31, 2021 and 2020, and the respective statements of revenues, expenses, and changes in net position - enterprise fund, cash flows - enterprise fund, and changes in fiduciary net position - fiduciary fund for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on Pages 4 to 9 to be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Handwritten signature in black ink that reads "RKL LLP". The letters are cursive and somewhat stylized.

June 29, 2022
Wyomissing, Pennsylvania

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

Management's Discussion and Analysis
December 31, 2021 and 2020

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, 2021 and 2020.

Financial Highlights

- Current unrestricted assets exceeded current liabilities by \$17,700,335 at the close of the year. This is compared to \$16,606,712 and \$14,260,036 at the close of 2020 and 2019, respectively.
- Total net position increased by \$1,298,467, \$1,875,761, and \$598,104 for the years ended 2021, 2020, and 2019, respectively. The 2021 increase is due to an increase in operating revenues, while expense remained stable. 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 Authority had net operating income of \$3,942,963 for 2021, compared to net operating income of \$3,653,656 and \$3,556,133 for 2020 and 2019, 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.

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Basic Financial Statements (continued)

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.

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, 2021, 2020, and 2019:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Assets			
Unrestricted current assets	\$ 22,846,789	\$ 21,713,308	\$ 19,330,591
Restricted current assets	2,511,972	4,018,608	9,472,640
Capital assets, net	61,048,731	63,336,954	66,455,706
Other asset	849,525	883,620	917,715
Deferred Outflow of Resources	<u>5,100,539</u>	<u>5,280,266</u>	<u>917,612</u>
Total Assets and Deferred Outflow of Resources	<u>\$ 92,357,556</u>	<u>\$ 95,232,756</u>	<u>\$ 97,094,264</u>
Liabilities			
Current liabilities	\$ 5,146,454	\$ 5,106,596	\$ 5,070,555
Long-term debt	<u>69,475,994</u>	<u>73,689,519</u>	<u>77,462,829</u>
Total Liabilities	<u>\$ 74,622,448</u>	<u>\$ 78,796,115</u>	<u>\$ 82,533,384</u>
Net Position			
Net investment in capital assets	\$ (7,370,817)	\$ (8,938,878)	\$ (13,468,765)
Restricted for debt service	2,511,972	4,018,606	7,592,650
Restricted for capital assets	-	2	1,879,990
Unrestricted	<u>22,593,953</u>	<u>21,356,911</u>	<u>18,557,005</u>
Total Net Position	<u>\$ 17,735,108</u>	<u>\$ 16,436,641</u>	<u>\$ 14,560,880</u>

Current liabilities increased by 0.1% in 2021 compared to an increase by 0.7% and 32.4% in 2020 and 2019, respectively.

Reading Area Water Authority
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Management's Discussion and Analysis
 December 31, 2021 and 2020

Financial Information - Enterprise Fund (continued)

Revenues - The following schedule presents a summary of revenues for the years ended December 31, 2021, 2020, and 2019:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Operating Revenues			
Water billings	\$ 31,847,547	\$ 31,735,206	\$ 30,958,357
Tampered meter and other charges	535,209	344,642	387,604
Interest and penalty charges	452,716	619,149	572,094
Tapping and connection fees	167,474	54,873	175,246
Abandonment fees	<u>17,604</u>	<u>21,664</u>	<u>41,836</u>
Total Operating Revenues	<u>\$ 33,020,550</u>	<u>\$ 32,775,534</u>	<u>\$ 32,135,137</u>

The 2021 fiscal year's total operating revenue increased by 0.7% compared to 2020, and increased by 2.5% and 5.1% in 2020 and 2019, respectively.

Expenses - The following schedule presents a summary of expenses for the years ended December 31, 2021, 2020, and 2019:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Operating Expenses			
Lease payments, City of Reading	\$ 12,538,372	\$ 12,543,495	\$ 12,142,535
Salaries, payroll taxes, and employee benefits	6,299,337	6,435,587	6,372,046
Chemical supplies	1,198,734	1,156,151	1,173,058
Contracted services	1,038,313	928,007	907,019
Other	<u>3,585,132</u>	<u>3,538,722</u>	<u>3,672,352</u>
Total Operating Expenses	<u>\$ 24,659,888</u>	<u>\$ 24,601,962</u>	<u>\$ 24,267,010</u>

The \$57,926 increase in expenses is primarily due to an increase in repairs and maintenance in 2021.

**Reading Area Water Authority
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Management's Discussion and Analysis
December 31, 2021 and 2020

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, 2021, 2020, and 2019:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Operating revenues	\$ 33,020,550	\$ 32,775,534	\$ 32,135,137
Operating expenses	<u>24,659,888</u>	<u>24,601,962</u>	<u>24,267,010</u>
Operating Income before Depreciation and Amortization	8,360,662	8,173,572	7,868,127
Depreciation and amortization	<u>4,417,699</u>	<u>4,519,916</u>	<u>4,311,994</u>
Operating Income	3,942,963	3,653,656	3,556,133
Nonoperating revenues (expenses), net	<u>(2,644,496)</u>	<u>(1,777,895)</u>	<u>(2,958,029)</u>
Increase in Net Position	<u>\$ 1,298,467</u>	<u>\$ 1,875,761</u>	<u>\$ 598,104</u>

**Statement of Changes in Net Position
Year Ended December 31, 2021**

	<u>Beginning Balance</u>	<u>Increase (Decrease)</u>	<u>Ending Balance</u>
Net investment in capital assets	\$ (8,938,878)	\$ 1,568,061	\$ (7,370,817)
Restricted for debt service	4,018,606	(1,506,634)	2,511,972
Restricted for capital assets	2	(2)	-
Unrestricted	<u>21,356,911</u>	<u>1,237,042</u>	<u>22,593,953</u>
Total Net Position	<u>\$ 16,436,641</u>	<u>\$ 1,298,467</u>	<u>\$ 17,735,108</u>

**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)	\$ 4,529,887	\$ (8,938,878)
Restricted for debt service	7,592,650	(3,574,044)	4,018,606
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>
Total Net Position	<u>\$ 14,560,880</u>	<u>\$ 1,875,761</u>	<u>\$ 16,436,641</u>

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Financial Information - Enterprise Fund (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>

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, 2021, 2020, and 2019, net of accumulated depreciation, amounted to \$61,048,731, \$63,336,954, and \$66,455,706, respectively. For the year ended December 31, 2021, this amount represents a net decrease (including additions, deletions, and depreciation) of \$2,288,223 from the prior year. See Note 7 for more information on capital assets.

Capital Assets at December 31
(Net of Accumulated Depreciation)

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Leasehold improvements	\$ 55,433,815	\$ 57,256,465	\$ 59,729,045
Acquired systems	693,647	674,471	696,465
Equipment	4,568,209	4,763,531	5,316,646
Vehicles	225,102	270,756	363,389
Computers and software	46,007	67,170	79,909
Construction in progress	<u>81,951</u>	<u>304,561</u>	<u>270,252</u>
	\$ <u>61,048,731</u>	\$ <u>63,336,954</u>	\$ <u>66,455,706</u>

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Debt Administration

At December 31, 2021, the Authority had \$72,825,945 of Guaranteed Revenue Bonds and notes payable, compared to \$76,692,524 and \$79,821,778 at the years ended December 31, 2020 and 2019, 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 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,	
	2021	2020
Assets		
Current Assets, Unrestricted		
Cash	\$ 17,689,072	\$ 16,436,716
Accounts receivable, water billings, net of allowance 2021 and 2020 \$2,820,082	3,969,397	4,157,344
Accounts receivable, trash and recycling billings, net of allowance 2021 \$56,489; 2020 \$78,819	8,601	8,978
Unbilled water usage	1,033,025	995,687
Inventory	146,694	114,583
Total Current Assets, Unrestricted	22,846,789	21,713,308
Current Assets, Restricted		
Trust accounts, cash and investments		
Clearing Account	26	9
Construction Account	-	2
Debt Service Account	24	29
Debt Service Reserve Account	2,511,922	4,018,568
Total Current Assets, Restricted	2,511,972	4,018,608
Capital Assets		
Capital assets not being depreciated, construction in progress	81,951	304,561
Capital assets being depreciated		
Leasehold improvements	82,407,773	80,754,706
Acquired systems	922,519	879,745
Equipment	13,176,176	12,589,754
Vehicles	3,189,248	3,153,520
Computers and software	933,646	933,646
	100,629,362	98,311,371
Accumulated depreciation	(39,662,582)	(35,278,978)
	60,966,780	63,032,393
Capital Assets, Net	61,048,731	63,336,954
Other Asset		
Leased land rights	849,525	883,620
Deferred Outflow of Resources, Refinancing Loss	5,100,539	5,280,266
Total Assets and Deferred Outflow of Resources	92,357,556	95,232,756

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

Statement of Net Position - Enterprise Fund (continued)

	December 31,	
	2021	2020
Liabilities		
Current Liabilities		
Accounts payable, trade	\$ 79,369	\$ 217,447
Accrued payroll, compensated absences, and deferred compensation	700,950	749,792
Accrued interest payable	182,632	187,971
Other	2,120	3,282
Due to City of Reading	137,290	81,525
Current maturities of long-term debt	4,044,093	3,866,579
Total Current Liabilities	5,146,454	5,106,596
Long-Term Debt, Less Current Maturities	69,475,994	73,689,519
Total Liabilities	74,622,448	78,796,115
Net Position		
Net Position		
Net investment in capital assets	(7,370,817)	(8,938,878)
Restricted for debt service	2,511,972	4,018,606
Restricted for capital assets	-	2
Unrestricted	22,593,953	21,356,911
Total Net Position	\$ 17,735,108	\$ 16,436,641

Reading Area Water Authority
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Statement of Revenues, Expenses, and Changes in Net Position - Enterprise Fund

	Years Ended December 31,	
	2021	2020
Operating Revenues		
Water billings	\$ 31,847,547	\$ 31,735,206
Tampered meter and other charges	535,209	344,642
Interest and penalty charges	452,716	619,149
Tapping and connection fees	167,474	54,873
Abandonment fees	17,604	21,664
	<u>33,020,550</u>	<u>32,775,534</u>
Total Operating Revenues		
Operating Expenses		
Lease payments, City of Reading	12,538,372	12,543,495
Salaries and payroll taxes	5,025,425	5,182,418
Employee benefits	1,273,912	1,253,169
Chemical supplies	1,198,734	1,156,151
Contracted services	1,038,313	928,007
Repairs and maintenance	897,848	489,663
Utilities	644,695	668,639
Supplies	539,606	444,116
Bank charges	418,972	381,017
Legal fees	380,804	444,124
Bad debt expense	275,164	564,837
Insurance	138,484	149,321
Engineering	93,283	175,475
Dues and subscriptions	71,899	71,492
Grant expenditures	58,304	75,769
Advertising	32,686	17,929
Professional services	29,690	34,250
Education	3,697	1,215
Development	-	20,875
	<u>24,659,888</u>	<u>24,601,962</u>
Total Operating Expenses		
Operating Income before Depreciation and Amortization		
	8,360,662	8,173,572
Depreciation and Amortization		
	<u>4,417,699</u>	<u>4,519,916</u>
Operating Income		
	<u>3,942,963</u>	<u>3,653,656</u>

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

	Years Ended December 31,	
	2021	2020
Nonoperating Revenues (Expenses)		
Trash and recycling collections, net	\$ 123,405	\$ 84,841
Miscellaneous income	64,943	256,209
Investment income	15,573	507,638
Grant income	-	129,567
Miscellaneous expense	(590,451)	(561,678)
Interest expense	(2,257,966)	(2,194,472)
	<u>(2,644,496)</u>	<u>(1,777,895)</u>
Nonoperating Revenues (Expenses), Net		
	<u>(2,644,496)</u>	<u>(1,777,895)</u>
Increase in Net Position	1,298,467	1,875,761
Net Position at Beginning of Year	16,436,641	14,560,880
	<u>16,436,641</u>	<u>14,560,880</u>
Net Position at End of Year	\$ 17,735,108	\$ 16,436,641
	<u>\$ 17,735,108</u>	<u>\$ 16,436,641</u>

Reading Area Water Authority
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Statement of Cash Flows - Enterprise Fund

	Years Ended December 31,	
	2021	2020
Cash Flows from Operating Activities		
Cash receipts from water customers	\$ 32,844,829	\$ 32,266,663
Cash receipts from trash and recycling customers	126,106	88,394
Cash payments to suppliers for goods and services	(19,426,043)	(19,055,313)
Cash payments to employees for services	(5,074,267)	(5,223,541)
Other receipts	64,943	385,776
Other payments	(590,451)	(561,678)
Net Cash Provided by Operating Activities	7,945,117	7,900,301
Cash Flows from Capital and Related Financing Activities		
Acquisition and construction of capital assets	(2,095,381)	(1,247,094)
Principal proceeds on long-term debt	-	50,195,000
Principal paid on long-term debt	(3,866,579)	(53,324,254)
Costs to acquire long-term debt	-	(4,780,500)
Interest paid on long-term debt	(2,253,010)	(2,162,758)
Net Cash Used in Capital and Related Financing Activities	(8,214,970)	(11,319,606)
Cash Flows from Investing Activities		
Decrease in restricted assets, net	1,506,636	5,454,032
Investment income received	15,573	507,638
Net Cash Provided by Investing Activities	1,522,209	5,961,670
Net Increase in Cash	1,252,356	2,542,365
Cash at Beginning of Year	16,436,716	13,894,351
Cash at End of Year	\$ 17,689,072	\$ 16,436,716

Reading Area Water Authority
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Statement of Cash Flows - Enterprise Fund (continued)

	Years Ended December 31,	
	2021	2020
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities		
Operating income	\$ 3,942,963	\$ 3,653,656
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	4,417,699	4,519,916
Trash and recycling, net	123,405	84,840
Miscellaneous income	64,943	385,776
Miscellaneous expenses	(590,451)	(561,678)
(Increase) decrease in assets		
Accounts receivable, water billings	187,947	(33,344)
Unbilled water usage	(37,338)	89,310
Accounts receivable, trash and recycling billings	377	3,356
Inventory	(32,111)	45,726
Prepaid expenses	-	54,600
Increase (decrease) in liabilities		
Accounts payable	(138,078)	(158,628)
Accrued payroll and compensated absences	(48,842)	(41,123)
Due to City of Reading	55,765	(143,230)
Other liabilities	(1,162)	1,124
Net Cash Provided by Operating Activities	\$ 7,945,117	\$ 7,900,301

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

Statement of Net Position - Fiduciary Fund

	December 31, 2021		
	Custodial Fund	Trust Fund	Total
Assets			
Current Assets			
Developer escrow deposits, cash	\$ 71,604	\$ -	\$ 71,604
Other receivables	3,207	-	3,207
Investments	-	2,494,175	2,494,175
Total Assets	\$ 74,811	\$ 2,494,175	\$ 2,568,986
Net Position			
Assets held in trust for pension benefits	\$ -	\$ 2,494,175	\$ 2,494,175
Funds held in escrow	74,811	-	74,811
Total Net Position	\$ 74,811	\$ 2,494,175	\$ 2,568,986

Reading Area Water Authority
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Statement of Net Position - Fiduciary Fund (continued)

	December 31, 2020		
	Custodial Fund	Trust Fund	Total
Assets			
Current Assets			
Developer escrow deposits, cash	\$ 290,417	\$ -	\$ 290,417
Other receivables	36,152	-	36,152
Investments	-	2,178,032	2,178,032
Total Assets	\$ 326,569	\$ 2,178,032	\$ 2,504,601
Net Position			
Assets held in trust for pension benefits	\$ -	\$ 2,178,032	\$ 2,178,032
Funds held in escrow	326,569	-	326,569
Total Net Position	\$ 326,569	\$ 2,178,032	\$ 2,504,601

Reading Area Water Authority
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Statement of Changes in Fiduciary Net Position - Fiduciary Funds

	Year Ended December 31, 2021		
	Custodial Fund	Trust Fund	Total
Additions			
Escrow assessment	\$ 219,289	\$ -	\$ 219,289
Contributions			
Employee	-	186,125	186,125
Employer	-	145,979	145,979
Total contributions	-	332,104	332,104
Investment earnings	-	225,446	225,446
Total Additions	219,289	557,550	776,839
Deductions			
Engineering	464,984	-	464,984
Legal fees	6,063	-	6,063
Benefit payments	-	240,957	240,957
Administrative expenses	-	450	450
Total Deductions	471,047	241,407	712,454
Change in Net Position	(251,758)	316,143	64,385
Net Position of Assets Held for Benefits at Beginning of Year	326,569	2,178,032	2,504,601
Net Position of Assets Held for Benefits at End of Year	\$ 74,811	\$ 2,494,175	\$ 2,568,986

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, 2020		
	Custodial Fund	Trust Fund	Total
Additions			
Escrow assessment	\$ 484,216	\$ -	\$ 484,216
Contributions			
Employee	-	169,469	169,469
Employer	-	130,021	130,021
Total contributions	-	299,490	299,490
Miscellaneous	30,547	-	30,547
Investment earnings	-	203,463	203,463
Total Additions	514,763	502,953	1,017,716
Deductions			
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
Total Deductions	295,439	63,837	359,276
Change in Net Position	219,324	439,116	658,440
Net Position of Assets Held for Benefits at Beginning of Year	107,245	1,738,916	1,846,161
Net Position of Assets Held for Benefits at End of Year	\$ 326,569	\$ 2,178,032	\$ 2,504,601

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

Notes to Financial Statements
December 31, 2021 and 2020

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, 2021 and 2020

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, 2021 and 2020

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.

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, 2021 and 2020

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, 2021 and 2020

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, 2021 and 2020

Note 2 - Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncement

In June 2017, the Governmental Accounting Standards Board (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. The 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 Statement 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>2021</u>	<u>2020</u>
Petty cash	\$ 1,000	\$ 930
Demand deposit accounts	17,759,676	16,724,703
Mutual funds	2,377,675	2,078,325
Money market mutual funds	2,628,472	4,119,815
	<u>\$ 22,766,823</u>	<u>\$ 22,923,773</u>

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

Notes to Financial Statements
 December 31, 2021 and 2020

Note 5 - Cash and Investments (continued)

Reconciliation to Statement of Net Position

	<u>2021</u>	<u>2020</u>
Enterprise Fund		
Cash and Investments		
Current assets, unrestricted	\$ 17,689,072	\$ 16,436,716
Restricted, trust accounts, cash and investments	<u>2,511,972</u>	<u>4,018,568</u>
	<u>20,201,044</u>	<u>20,455,284</u>
Fiduciary Fund		
Cash	71,604	290,417
Investments	<u>2,494,175</u>	<u>2,178,032</u>
	<u>2,565,779</u>	<u>2,468,449</u>
	<u>\$ 22,766,823</u>	<u>\$ 22,923,733</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, 2021 and 2020, the carrying amounts of the Authority's bank deposits were \$17,688,072 and \$16,435,786, respectively, and the bank balances were \$17,825,260 and \$16,370,569, respectively, of which \$250,000 and \$250,000 were covered by Federal Depository Insurance, respectively. The remaining deposits of \$17,575,260 and \$16,370,569 at December 31, 2021 and 2020, 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.

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

Notes to Financial Statements
December 31, 2021 and 2020

Note 5 - Cash and Investments (continued)

Interest Rate Risk (continued)

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

	2021			
	Fair Value	Investment Maturity (in Years)		
		Less than One Year	One to Five Years	Six to Ten Years
Money Market Funds	\$ 2,628,472	\$ 2,628,472	\$ -	\$ -
Fixed Income Mutual Funds	45,949	-	39,458	6,491
	<u>\$ 2,674,421</u>	<u>\$ 2,628,472</u>	<u>\$ 39,458</u>	<u>\$ 6,491</u>
	2020			
Money Market Funds	\$ 4,119,815	\$ 4,119,815	\$ -	\$ -
Fixed Income Mutual Funds	44,596	-	21,737	22,859
	<u>\$ 4,164,411</u>	<u>\$ 4,119,815</u>	<u>\$ 21,737</u>	<u>\$ 22,859</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 both December 31, 2021 and 2020, \$4,018,608 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
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Notes to Financial Statements
 December 31, 2021 and 2020

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:

	2021			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investment Measured at Net Asset Value (NAV)				
Federated Treasury Obligation Funds				<u>\$ 2,511,972</u>
Fiduciary Fund				
Investments Measured at Fair Value				
Mutual Funds				
Equity				
Large blend	\$ 2,174,590	\$ -	\$ -	\$ 2,174,590
Large growth	11,405	-	-	11,405
Large value	74,250	-	-	74,250
Mid-cap growth	11,826	-	-	11,826
Mid-cap blend	16,344	-	-	16,344
Small blend	43,311	-	-	43,311
Fixed Income				
Inflation protected	6,008	-	-	6,008
Short term	30,375	-	-	30,375
High yield	9,084	-	-	9,084
Intermediate core	482	-	-	482
	<u>\$ 2,377,675</u>	<u>\$ -</u>	<u>\$ -</u>	<u>2,377,675</u>
Investment Measured at Net Asset Value (NAV)				
Money Market Funds				<u>116,500</u>
				<u>\$ 2,494,175</u>

Reading Area Water Authority
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Notes to Financial Statements
December 31, 2021 and 2020

Note 6 - Fair Value Measurements (continued)

	2020			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investment Measured at Net Asset Value (NAV)				
Federated Treasury Obligation Funds				\$ 4,020,108
Fiduciary Fund				
Investments Measured at Fair Value				
Mutual Funds				
Equity				
Large blend	\$ 1,915,848	\$ -	\$ -	\$ 1,915,848
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
Fixed Income				
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>\$ 2,078,325</u>	<u>\$ -</u>	<u>\$ -</u>	2,078,325
Investment Measured at Net Asset Value (NAV)				
Money Market Funds				99,707
				<u>\$ 2,178,032</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
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Notes to Financial Statements
December 31, 2021 and 2020

Note 7 - Capital Assets

Capital assets activity was as follows at December 31:

	Balance January 1, 2021	Additions	Transfers/ Deletions	Balance December 31, 2021
Capital assets not being depreciated				
Construction in progress	\$ 304,561	\$ 1,410,502	\$ (1,633,112)	\$ 81,951
Capital assets being depreciated				
Leasehold improvements	80,754,706	19,955	1,633,112	82,407,773
Acquired systems	879,745	42,774	-	922,519
Equipment	12,589,754	586,422	-	13,176,176
Vehicles	3,153,520	35,728	-	3,189,248
Computers and software	933,646	-	-	933,646
Total capital assets being depreciated	98,311,371	684,879	1,633,112	100,629,362
Less accumulated depreciation for				
Leasehold improvements	23,498,241	3,475,717	-	26,973,958
Acquired systems	205,274	23,598	-	228,872
Equipment	7,826,223	781,744	-	8,607,967
Vehicles	2,882,764	81,382	-	2,964,146
Computers and software	866,476	21,163	-	887,639
Total accumulated depreciation	35,278,978	4,383,604	-	39,662,582
Total capital assets being depreciated, net	63,032,393	(3,698,725)	1,633,112	60,966,780
Total capital assets, net	\$ 63,336,954	\$ (2,288,223)	\$ -	\$ 61,048,731

Reading Area Water Authority
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Notes to Financial Statements
 December 31, 2021 and 2020

Note 7 - Capital Assets (continued)

	<u>Balance January 1, 2020</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance December 31, 2020</u>
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	<u>96,978,611</u>	<u>352,198</u>	<u>980,562</u>	<u>98,311,371</u>
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	<u>30,793,157</u>	<u>4,485,821</u>	<u>-</u>	<u>35,278,978</u>
Total capital assets being depreciated, net	<u>66,185,454</u>	<u>(4,133,623)</u>	<u>980,562</u>	<u>63,032,393</u>
Total capital assets, net	<u>\$ 66,455,706</u>	<u>\$ (3,118,752)</u>	<u>\$ -</u>	<u>\$ 63,336,954</u>

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

Notes to Financial Statements
 December 31, 2021 and 2020

Note 8 - Long-Term Debt

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

	Balance Outstanding January 1, 2021	Additions (Payments)	Balance Outstanding December 31, 2021	Due Within One Year
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	\$ 3,402,524	\$ (291,579)	\$ 3,110,945	\$ 299,093
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	24,050,000	(3,000,000)	21,050,000	3,155,000
Water Revenue Bonds, Series of 2020, initial issue \$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	49,240,000	(575,000)	48,665,000	590,000
	\$ 76,692,524	\$ (3,866,579)	\$ 72,825,945	\$ 4,044,093

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

Notes to Financial Statements
 December 31, 2021 and 2020

Note 8 - Long-Term Debt (continued)

	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	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
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Notes to Financial Statements
December 31, 2021 and 2020

Note 8 - Long-Term Debt (continued)

	Balance Outstanding January 1, 2020	Additions (Payments)	Balance Outstanding December 31, 2020	Due Within One Year
Water Revenue Bonds, Series of 2020, initial issue \$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	\$ -	\$ 49,240,000	\$ 49,240,000	\$ 575,000
	<u>\$ 79,821,778</u>	<u>\$ (3,129,254)</u>	<u>\$ 76,692,524</u>	<u>\$ 3,866,579</u>

Aggregate maturities required on the long-term debt at December 31, 2021 are as follows:

	Principal	Interest	Total Debt Service
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	1,601,936	6,154,753
2026	4,721,135	1,438,175	6,159,310
2027-2031	24,856,392	5,328,914	30,185,306
2032-2036	26,065,000	2,103,486	28,168,486
	<u>\$ 72,825,945</u>	<u>\$ 16,226,395</u>	<u>\$ 89,052,340</u>
		<u>2021</u>	<u>2020</u>
Total long-term debt		\$ 72,825,945	\$ 76,692,524
Current maturities		(4,044,093)	(3,866,579)
Unamortized bond premium		950,127	1,133,507
Unamortized bond discount		(157,397)	(165,973)
Unamortized bond insurance		(98,588)	(103,960)
		<u>\$ 69,475,994</u>	<u>\$ 73,689,519</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, 2021 and 2020.

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Notes to Financial Statements
December 31, 2021 and 2020

Note 8 - Long-Term Debt (continued)

Note Payable

The Authority's outstanding notes from direct borrowings related to business-type activities 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, 2021, 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 2021 and 2020 was \$9,941,372 and \$9,794,456, 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, 2021 and 2020 was \$12,538,372 and \$12,543,495, respectively, net of forfeitures.

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Notes to Financial Statements
December 31, 2021 and 2020

Note 9 - Operating Lease (continued)

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, 2021:

2022	\$ 10,090,493
2023	10,241,850
2024	10,395,478
2025	10,551,410
2026	10,709,681
Thereafter	<u>251,361,819</u>
	<u>\$ 303,350,731</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, 2021 and 2020, \$145,979 and \$130,021, respectively, was contributed to the plan.

Note 11 - Commitment and Contingencies

Commitment

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.

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Notes to Financial Statements
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Note 11 - Commitment and Contingencies (continued)

Commitment (continued)

Trash and Recycling Billing Agreement (continued)

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, 2021 and 2020 was \$123,405 and \$84,841, 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, 2021, 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, 2021.

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Notes to Financial Statements
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Note 12 - 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 13 - Reclassification

Certain items on the financial statements for the year ended December 31, 2020 have been reclassified to conform with the presentation for the year ended December 31, 2021.

Note 14 - Subsequent Events

The Authority has evaluated subsequent events through June 29, 2022. This date is the date the financial statements were available to be issued. No material events subsequent to December 31, 2021 were noted.