

EAST COCALICO TOWNSHIP AUTHORITY

**YEARS ENDED
DECEMBER 31, 2019 AND 2018**



CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

A Professional Corporation

EAST COCALICO TOWNSHIP AUTHORITY

YEARS ENDED DECEMBER 31, 2019 AND 2018

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Independent Auditor's Report

Members of the Board
East Cocalico Township Authority
Denver, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of East Cocalico Township Authority (the Authority) as of and for the years ended December 31, 2019 and 2018 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 of 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 Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of East Cocalico Township Authority as of December 31, 2019 and 2018, and the changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the East Cocalico Township Authority's basic financial statements taken as a whole. The budgetary comparison information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The budgetary comparison information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit, the budgetary comparison information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Brown Schultz Steidman & Fritz

Camp Hill, Pennsylvania
June 24, 2020

EAST COCALICO TOWNSHIP AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)

DECEMBER 31, 2019 and 2018

East Cocalico Township Authority (ECTA) management's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the ECTA's financial activity, (c) identify changes in the ECTA's financial position, (d) identify any material deviations from the financial plan and (e) identify individual issues or concerns. As management of ECTA, we offer readers of ECTA's financial statements this narrative overview and analysis of the financial activities of ECTA for the calendar year ended December 31, 2019. We encourage you to read the information presented here in conjunction with additional information that we have furnished in ECTA's financial statements, which follow this narrative.

Financial highlights

ECTA's total assets and deferred outflows of resources exceeded its liabilities by \$27,415,680 at the close of the calendar year ended December 31, 2019 compared to \$26,449,705 for the previous year. This was an increase of 3.65% over the previous calendar year.

Total net position increased by \$965,975 (3.65%) for the year ended December 31, 2019 compared to \$737,166 (2.87%) for the year ended December 31, 2018. During 2019, total current and other assets increased by \$1,098,007 compared to 2018 primarily due to an increase of \$1,132,605 in cash and cash equivalents associated with the water fund and an increase of \$3,416,928 in cash and cash equivalents associated with the sewer fund, net of a total certificates of deposit decrease of \$3,427,000. During the same time period, total utility plant and equipment decreased by \$363,006 due primarily to additions of \$585,370 to construction in progress net of an increase of \$1,244,958 in overall accumulated depreciation. Overall, the Authority's total assets increased by \$735,001 (2.32%) compared to the previous year.

ECTA's total deferred outflows of resources decreased \$10,872 for the year ended December 31, 2019 due to the annual amortization expense associated with the deferred loss on refunding related to the advanced refunding of the Water Revenue Bonds, Series of 2013 with the issuance of the Water Revenue Note, Series of 2017.

ECTA's total liability decreased \$241,846 (4.41%) during the year ended December 31, 2019 compared to a decrease of \$46,662 (0.84%) during the year ended December 31, 2018. The decrease in 2019 is mostly attributable to a \$249,840 decrease in total unearned tapping fees, a \$60,000 decrease in long-term debt, a \$28,438 decrease in customer deposits and a \$92,575 increase in accounts payable. The \$46,662 liability decrease in 2018 was mostly attributable to a \$63,238 decrease in trade accounts payable.

EAST COCALICO TOWNSHIP AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)

DECEMBER 31, 2019 and 2018

Overview of the financial statements

ECTA's primary mission is to provide high quality, safe water delivery and wastewater collection services to the rate payers of East Cocalico Township at the lowest possible cost. ECTA does not provide other general government types of services or programs. ECTA's operations, capital expansion programs and debt payments are funded almost entirely through rates, fees and other charges for water and wastewater treatment services. As such, ECTA is considered to be, and therefore, presents its financial reports as a stand-alone enterprise fund.

As a stand-alone enterprise fund, ECTA's basic financial statements consist of the statements of net position; statements of revenues, expenses and changes in fund net position and statements of cash flows. These statements, together with the management's discussion and analysis, provide both short-term and long-term financial information and implications for ECTA's financial position. To further illuminate this information, notes to the financial statements, as well as statements of revenues, expenses and changes in fund net position-actual vs. budget, appear immediately following the basic financial statements.

Statements of net position. The statements of net position presents the financial position of the Authority. It presents information on the Authority's assets, deferred outflows of resources, liabilities and net position. The difference between the sum of (1) assets and (2) deferred outflows of resources and liabilities is 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.

Statements of revenues, expenses and changes in fund net position. The statements of revenues, expenses and changes in fund net position is similar to private sector income statements and provides information regarding ECTA's total economic resource inflow and outflow (accrual method of accounting). The difference between these inflows and outflows represents the change in net position, which links these statements to the statements of net position.

Statements of cash flows. The statements of cash flows deals specifically with the flow of cash and cash equivalents arising from operating, noncapital financing, capital and related financing and investing activities. Because ECTA's statements of revenues, expenses and changes in net position is a measurement of the flow of total economic resources, operating income usually differs from net cash flow from operations. To enhance the reader's understanding of this difference, the statement of cash flows also includes reconciliation between these two amounts. In accordance with accounting principles generally accepted in the United States of America, a reconciliation of cash and cash equivalents is also presented in this statement. The notes to the financial statements provide additional information critical to the understanding of the basic financial statements.

EAST COCALICO TOWNSHIP AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)

DECEMBER 31, 2019 and 2018

Financial analysis

Table 1
Net Position

	Period ended		Increase (decrease)	
	12/31/2019	12/31/2018	Amount	Percentage
Assets:				
Current and other assets	\$ 9,454,420	\$ 8,356,413	\$ 1,098,007	13.14 %
Utility plant and equipment, net	22,945,822	23,308,828	(363,006)	(1.56)
Total assets	32,400,242	31,665,241	735,001	2.32
Deferred outflows of resources, deferred loss on refunding	260,487	271,359	(10,872)	(4.01)
Total assets and deferred outflows of resources	\$ 32,660,729	\$ 31,936,600	\$ 724,129	2.27 %
Liabilities:				
Current liabilities	\$ 680,049	\$ 856,895	\$ (176,846)	(20.64) %
Long-term liabilities	4,565,000	4,630,000	(65,000)	(1.40)
Total liabilities	5,245,049	5,486,895	(241,846)	(4.41)
Net position:				
Invested in capital assets, net of related debt	18,614,093	18,918,369	(304,276)	(1.61)
Unrestricted	8,801,587	7,531,336	1,270,251	16.87
Total net position	27,415,680	26,449,705	965,975	3.65
Total liabilities and net position	\$ 32,660,729	\$ 31,936,600	\$ 724,129	2.27 %

EAST COCALICO TOWNSHIP AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)

DECEMBER 31, 2019 and 2018

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets of ECTA exceeded liabilities by \$27,415,680 as of December 31, 2019. ECTA's net position increased by \$965,975 for the year ended December 31, 2019. The largest portion of total net position (67.90%) reflects ECTA's investment in capital assets (e.g., land, buildings, interceptor sewer lines, water lines, wells and equipment) less any related debt still outstanding that was issued to acquire those items. ECTA uses these capital assets to provide services to rate payers; consequently, these assets are not available for future spending. Although ECTA's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources since the capital assets cannot be used to liquidate these liabilities. Unrestricted net position totaling \$8,801,587 may be used to pay down debt, fund pay-as-you go capital projects, replace reserves or be used for any other legal purpose. ECTA's overall financial position improved marginally during the calendar year that ended December 31, 2019 as total net position grew by 3.65%.

ECTA placed into service a total of \$296,582 worth of capital assets during 2019. Major capital assets in the water division include \$140,689 associated with the water treatment facility including the purchase of 25 EDUs for \$88,325 for the disposal of the plant's wastewater. Other major capital assets in the water division include \$20,500 for digital cylinder scales; \$5,536 for an electric hookup for a cleaning tank at the water treatment plant and \$4,110 of computer hardware. Major capital assets in the sewer division included \$124,397 to the sewer collection system, which includes a developer contribution of \$88,086, and \$1,350 of computer hardware.

During 2019, there were additions to construction in progress of \$585,370. Depending on the particular project, funding for improvements can come from restricted or unrestricted cash, water and sewer rents, contributions from developers and proceeds from user tapping fees.

Compared to the year ended December 31, 2018, current and other assets for the year ended December 31, 2019 increased by \$1,098,007 (13.14%) due primarily to an increase in cash and cash equivalents and a decrease in certificates of deposit with both the water and sewer divisions. The Authority's total liabilities at the end of 2019 decreased by \$241,846 (4.41%) compared to the prior year ended December 31, 2018. This was primarily due to a decrease in unearned tapping fees in both the water and sewer division, a decrease in revenue note debt offset by an increase in accounts payable in both the water and sewer division.

EAST COCALICO TOWNSHIP AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS
(unaudited)

DECEMBER 31, 2019 and 2018

ECTA's changes in revenues, expenses and net position as shown in Table 2 provides information concerning what contributed to the net changes reported in Table 1. Several factors were attributable to the increase in net position from \$26,449,705 to \$27,415,680 as highlighted below:

Table 2
Changes in Revenues, Expenses and Net Position

	Period ended		Increase (decrease)	
	12/31/2019	12/31/2018	Amount	Percentage
Operating revenues, charges for services	\$ 3,691,851	\$ 3,619,150	\$ 72,701	2.01 %
Operating expenses:				
Costs incurred for others	57,409	105,338	(47,929)	(45.50)
Operating and maintenance expenses	3,065,772	3,021,704	44,068	1.46
Transportation expenses	41,762	30,712	11,050	35.98
General and administrative expenses	484,245	493,062	(8,817)	(1.79)
Total operating expenses	3,649,188	3,650,816	(1,628)	(0.04)
Operating income (loss)	42,663	(31,666)	74,329	234.73
Non-operating revenue (expenses):				
Other income	267,911	195,351	72,560	37.14
Other deductions	(140,785)	(146,589)	5,804	(3.96)
Total nonoperating revenue (expenses)	127,126	48,762	78,364	160.71
Income before tapping fees, capital contribution fees, and developer contributions	169,789	17,096	152,693	893.15
Tapping fees, capital contributions fees and developer contributions:				
Tapping fees	690,197	501,480	188,717	37.63
Capital contribution fees	17,903	159,901	(141,998)	(88.80)
Developer contributions	88,086	58,689	29,397	50.09
Total tapping fees, capital contributions fees and developer contributions	796,186	720,070	76,116	10.57
Increase in net position	965,975	737,166	228,809	31.04
Total net position:				
Beginning of year	26,449,705	25,712,539	737,166	2.87
End of year	\$ 27,415,680	\$ 26,449,705	\$ 965,975	3.65 %

EAST COCALICO TOWNSHIP AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)

DECEMBER 31, 2019 and 2018

Review of operations

Operating revenues

Comparing the years ended December 31, 2019 and 2018, operating revenues increased by \$72,701 (2.01%) from the beginning to the end of 2019. The majority of the change is attributable to an increase in the water and sewer utility rents. In 2015, the water division began paying utility rents to the sewer division for wastewater produced by the new water treatment plant. Included in the sewer division's 2019 operating revenue is \$47,238 associated with these rents.

Operating expenses

Comparing the periods ended December 31, 2019 and 2018, overall operating expenses decreased by \$1,628 (0.04%). Items contributing to this change include a decrease of \$54,339 (59.88%) in engineering fees; a \$23,776 (22.58%) decrease in maintenance expenses and \$75,980 (7.76%) decrease in expenses associated with sewer treatment, sewer interceptor costs and sewer debt service. These decreases in overall operating expenses were offset by increases associated with salaries and wages of \$60,644 (10.78%); employee group insurance of \$20,946 (15.97%) and depreciation of \$64,344 (5.45%).

Total income before tapping fees, capital contribution fees and developer contributions

Operating revenues along with other income totaled \$3,959,762 for the year ended December 31, 2019. Corresponding operating expenses and other deductions totaled \$3,789,973 for the same time period. This resulted in income before tapping fees, capital contribution fees and developer contributions of \$169,789 compared to \$17,096 for the year ended December 31, 2018. This resulted in an increase of \$152,693 for the year ended December 31, 2019.

Tapping fees

For the year ended December 31, 2019, compared to the year ended December 31, 2018, overall tapping fees increased by \$188,717 (37.63%). Looking closer at this number, water tapping fees increased by \$155,485 (57.11%) in 2019 due to an increase in additional water capacity requested by local businesses and residential development. Additionally, sewer tapping fees increased by \$33,232 (14.50%) due to an increase in additional sewer capacity requested by local businesses and residential development.

EAST COCALICO TOWNSHIP AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)

DECEMBER 31, 2019 and 2018

Capital contribution fees, capital contribution fees and developer contributions

During 2019, the Authority received \$105,989 in capital contribution fees and noncash developer contributions. In 2018, capital contribution fees and noncash developer contributions totaled \$218,590. Included in the 2019 amount are funds totaling \$17,903 primarily associated with capital contribution fees earmarked to fund construction and debt service for the Authority's water treatment facility. Noncash developer contributions valued at \$88,086 in 2019 and \$58,689 in 2018 were received in the form of contributed water and sewer lines.

Utility plant and equipment and debt administration

Table 3
Utility Plant and Equipment
(Net of Depreciation)

	Period ended		Increase (decrease)	
	12/31/2019	12/31/2018	Amount	Percentage
Land and land rights	\$ 929,690	\$ 929,690		
Construction in progress	1,591,457	1,006,087	\$ 585,370	58.18 %
Water distribution system	13,758,822	14,269,794	(510,972)	(3.58)
Sewer collection system	6,494,356	6,924,551	(430,195)	(6.21)
Buildings	28,008	31,153	(3,145)	(10.10)
Machinery and equipment	86,024	74,596	11,428	15.32
Office furniture and fixtures	41,362	56,344	(14,982)	(26.59)
Trucks and cars	1,238	1,473	(235)	(15.95)
Computer hardware	14,865	15,140	(275)	(1.82)
Total utility plant and equipment, net of depreciation	<u>\$ 22,945,822</u>	<u>\$ 23,308,828</u>	<u>\$ (363,006)</u>	<u>(1.56) %</u>

Additional information related to ECTA's utility plant and equipment can be found in the notes to the financial statements.

EAST COCALICO TOWNSHIP AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)

DECEMBER 31, 2019 and 2018

Utility plant and equipment

ECTA's total investment in utility plant and equipment decreased \$363,006 (1.56%) between December 31, 2018 and December 31, 2019. As of December 31, 2019, utility plant and equipment totaled \$22,945,822 (net of accumulated depreciation) compared to \$23,308,828 (net of accumulated depreciation) at the close of the year ended December 31, 2018. Construction in progress increased by \$585,370 (58.18%). In 2019, capital assets (net of accumulated depreciation) related to the water distribution system decreased by \$510,972 (3.58%), due primarily to accumulated depreciation. Capital assets in the sewer collection system decreased by \$430,195 (6.21%) due primarily to accumulated depreciation. Utility plant and equipment items include land and land rights, construction in progress, water distribution system, sewer collection system, buildings, machinery and equipment, office furniture and fixtures, trucks and cars and computer hardware.

Long-term debt

As of December 31, 2019, the Authority's water division had long-term debt in the amount of \$4,630,000 from the Water Revenue Note - Series of 2017. Proceeds from this note issue were used to advance refund the Water Revenue Bonds, Series of 2013. There was no long-term debt associated with the sewer division in 2019.

Current debt

As of December 31, 2019, the Authority classified \$65,000 of the outstanding debt associated with the Water Revenue Note - Series of 2017 as current debt. Principal payments associated with the Water Revenue Note - Series of 2017 began on December 1, 2018. The Authority has no current debt associated with the sewer division as of December 31, 2019.

Additional information about ECTA's debt can be found in the notes to the financial statements.

Overall financial position

The overall financial position of ECTA improved during the calendar year ended December 31, 2019. Total net position increased by \$965,975 and income before tapping fees, capital contribution fees and developer contributions was \$169,789 during this period. Current liabilities payable from either restricted or unrestricted assets decreased by \$176,846 primarily due to a decrease in unearned tapping fees and customer deposits offset by an increase in accounts payable. The Authority was free of long-term debt in its sewer division, while the water division holds \$4,630,000 in debt from the Water Revenue Note - Series of 2017.

EAST COCALICO TOWNSHIP AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)

DECEMBER 31, 2019 and 2018

New year's budgets and rates

For the calendar year ending December 31, 2020, the East Cocalico Township Authority Board adopted a sewer budget projecting \$246,795 in net income before extraordinary items and requiring no increase in sewer rates. On the water side, the budget was approved with a projected year-end net income of \$110,725 before extraordinary items and requiring no increase in water rates.

The Authority's water and sewer charges are based on a one tier rate structure and billed for most customers on a quarterly basis. Large commercial and industrial customers are billed on a monthly basis. The 2020 water rate is \$6.85 per thousand gallons. The 2020 sewer rate is \$12.10 per thousand gallons and is based on total water usage. There is a flat rate sewer charge of \$157.30 per quarter for customers that are not connected to public water but discharge sewage into the ECTA collection system.

Request for information

This report is designed to provide an overview of the East Cocalico Township Authority's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to Edward Nevling, Treasurer, or Terry Reber, Administrator, at East Cocalico Township Authority, 102 Hill Road, Denver, PA 17517, or call 717-336-1731.

Please visit our website at www.eastcocalicotownshipauthority.com to learn more about ECTA.

EAST COCALICO TOWNSHIP AUTHORITY

STATEMENTS OF NET POSITION – PROPRIETARY FUND

DECEMBER 31, 2019

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	2019		Totals
	Water division	Sewer division	
Current assets:			
Cash and cash equivalents	\$ 1,849,026	\$ 3,998,901	\$ 5,847,927
Certificates of deposit	729,000	1,943,000	2,672,000
Receivables:			
From customers	251,096	404,644	655,740
From others	153		153
Note receivable	4,489		4,489
Prepaid:			
Insurance	7,909	7,908	15,817
Other	400	400	800
Total current assets	2,842,073	6,354,853	9,196,926
Current restricted assets, cash and cash equivalents	92,663	127,047	219,710
Utility plant and equipment, at cost:			
Land and land rights	698,202	231,488	929,690
Water distribution system	24,496,884		24,496,884
Sewer collection system		17,717,420	17,717,420
Buildings	45,116	46,124	91,240
Machinery and equipment	231,226	93,308	324,534
Trucks and cars	108,656	108,657	217,313
Office furniture and fixtures	18,288	16,127	34,415
Computer hardware	34,423	13,294	47,717
Construction in progress	1,156,669	434,788	1,591,457
	26,789,464	18,661,206	45,450,670
Less accumulated depreciation	(11,052,131)	(11,452,717)	(22,504,848)
Total utility plant and equipment	15,737,333	7,208,489	22,945,822
Other assets, computer software, net of amortization of \$37,804 and \$20,887, respectively	34,634	3,150	37,784
Total assets	18,706,703	13,693,539	32,400,242
Deferred outflows of resources, deferred loss on refunding	260,487		260,487
Total assets and deferred outflows of resources	\$ 18,967,190	\$ 13,693,539	\$ 32,660,729

See notes to financial statements.

EAST COCALICO TOWNSHIP AUTHORITY

STATEMENTS OF NET POSITION – PROPRIETARY FUND

DECEMBER 31, 2019

LIABILITIES AND NET POSITION

	2019		Totals
	Water division	Sewer division	
Current liabilities:			
Accounts payable:			
Trade	\$ 192,764	\$ 72,654	\$ 265,418
Employee taxes withheld and unremitted	1,989		1,989
Accrued expenses	23,272	12,457	35,729
Unearned tapping fees	55,185	37,018	92,203
Current portion of revenue note	65,000		65,000
	338,210	122,129	460,339
Current liabilities, payable from restricted assets, customer deposits	92,663	127,047	219,710
Long-term debt, net of current portion, revenue note	4,565,000		4,565,000
Total liabilities	4,995,873	249,176	5,245,049
Net position:			
Invested in capital assets, net of related debt	11,402,454	7,211,639	18,614,093
Unrestricted	2,568,863	6,232,724	8,801,587
Total net position	13,971,317	13,444,363	27,415,680
Total liabilities and net position	\$ 18,967,190	\$ 13,693,539	\$ 32,660,729

See notes to financial statements.

EAST COCALICO TOWNSHIP AUTHORITY

STATEMENTS OF NET POSITION – PROPRIETARY FUND

DECEMBER 31, 2018

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	2018		Totals
	Water division	Sewer division	
Current assets:			
Cash and cash equivalents	\$ 716,421	\$ 581,973	\$ 1,298,394
Certificates of deposit	1,466,000	4,633,000	6,099,000
Receivables:			
From customers	249,541	414,607	664,148
From others	1,363		1,363
Prepaid, insurance	8,589	8,589	17,178
Total current assets	2,441,914	5,638,169	8,080,083
Current restricted assets, cash and cash equivalents	105,663	142,485	248,148
Utility plant and equipment, at cost:			
Land and land rights	698,202	231,488	929,690
Water distribution system	24,356,195		24,356,195
Sewer collection system		17,593,023	17,593,023
Buildings	45,116	46,124	91,240
Machinery and equipment	205,190	93,308	298,498
Trucks and cars	108,656	108,657	217,313
Office furniture and fixtures	18,288	16,127	34,415
Computer hardware	30,313	11,944	42,257
Construction in progress	880,896	125,191	1,006,087
	26,342,856	18,225,862	44,568,718
Less accumulated depreciation	(10,373,542)	(10,886,348)	(21,259,890)
Total utility plant and equipment	15,969,314	7,339,514	23,308,828
Other assets, computer software, net of amortization of \$31,694 and \$20,834, respectively	28,182		28,182
Total assets	18,545,073	13,120,168	31,665,241
Deferred outflows of resources, deferred loss on refunding	271,359		271,359
Total assets and deferred outflows of resources	\$ 18,816,432	\$ 13,120,168	\$ 31,936,600

See notes to financial statements.

EAST COCALICO TOWNSHIP AUTHORITY

STATEMENTS OF NET POSITION – PROPRIETARY FUND

DECEMBER 31, 2018

LIABILITIES AND NET POSITION

	2018		
	Water division	Sewer division	Totals
Current liabilities:			
Accounts payable:			
Trade	\$ 54,672	\$ 31,170	\$ 85,842
Employee taxes withheld and unremitted	1,834		1,834
Other		87,156	87,156
Accrued expenses	21,349	10,523	31,872
Unearned tapping fees	282,936	59,107	342,043
Current portion of revenue note	60,000		60,000
	420,791	187,956	608,747
Current liabilities, payable from restricted assets, customer deposits	105,663	142,485	248,148
Long-term debt, net of current portion, revenue note	4,630,000		4,630,000
Total liabilities	5,156,454	330,441	5,486,895
Net position:			
Invested in capital assets, net of related debt	11,578,855	7,339,514	18,918,369
Unrestricted	2,081,123	5,450,213	7,531,336
	13,659,978	12,789,727	26,449,705
Total net position	13,659,978	12,789,727	26,449,705
Total liabilities and net position	\$ 18,816,432	\$ 13,120,168	\$ 31,936,600

See notes to financial statements.

EAST COCALICO TOWNSHIP AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION –
PROPRIETARY FUND

YEAR ENDED DECEMBER 31, 2019

	2019		Total
	Water division	Sewer division	
Operating revenue:			
Utility rents	\$ 1,332,927	\$ 2,171,933	\$ 3,504,860
Fire hydrant rent	59,580		59,580
Capacity reserve	3,203		3,203
Penalties on late payments	7,973	14,838	22,811
Inspection fees	9,482	16,599	26,081
Review fees	250	1,400	1,650
Miscellaneous	4,797	1,522	6,319
	1,418,212	2,206,292	3,624,504
Meters and reimbursed construction income:			
Sale of meters	21,054		21,054
Material sales	1,921	315	2,236
Legal fees	1,139	2,680	3,819
Engineering fees	17,124	19,277	36,401
Labor sales	2,060	1,059	3,119
Sub-contractor		718	718
	43,298	24,049	67,347
Total meters and reimbursed construction income	43,298	24,049	67,347
Total operating revenue	1,461,510	2,230,341	3,691,851
Operating expenses:			
Meters and costs incurred for others:			
Purchases:			
Meters	16,399		16,399
Sub-contractor		718	718
Legal costs	1,139	2,680	3,819
Engineering costs	17,124	19,277	36,401
Reimbursable costs	72		72
	34,734	22,675	57,409
Total meters and costs incurred for others	34,734	22,675	57,409

(continued)

EAST COCALICO TOWNSHIP AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION –
 PROPRIETARY FUND (CONTINUED)

YEAR ENDED DECEMBER 31, 2019

	2019		
	Water division	Sewer division	Total
Operating expenses (continued):			
Operating and maintenance:			
Salaries and wages:			
Supervision	\$ 79,308	\$ 79,308	\$ 158,616
Other	128,645	128,645	257,290
Payroll taxes	16,236	16,236	32,472
Pension	8,854	8,854	17,708
Workers' compensation insurance	4,123	4,123	8,246
Insurance	8,803	8,803	17,606
Employee group insurance	44,411	44,411	88,822
Maintenance:			
Building	2,690	616	3,306
Contents	23,436	8,761	32,197
Field items	27,356	18,680	46,036
Telemetry	2,250		2,250
Permit fees	10,578	53	10,631
Repairs to machinery and equipment	1,038	862	1,900
Sewer treatment costs, Ephrata/Adamstown		645,633	645,633
Sewer interceptor costs, Ephrata		12,967	12,967
Sewer debt service costs, Ephrata		245,075	245,075
Contracted services	5,847	1,720	7,567
Sewer charges, WTP	47,238		47,238
Electric	89,255	21,781	111,036
Laboratory testing	32,537	3,216	35,753
Chemicals	39,716		39,716
Certification	1,161	907	2,068
Telemetry		5,736	5,736
Auto allowance	80	80	160
Depreciation	665,873	558,132	1,224,005
Other operating expense	7,413	4,325	11,738
Total operating and maintenance	1,246,848	1,818,924	3,065,772

(continued)

EAST COCALICO TOWNSHIP AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION –
 PROPRIETARY FUND (CONTINUED)

YEAR ENDED DECEMBER 31, 2019

	2019		
	Water division	Sewer division	Total
Operating expenses (continued):			
Transportation expenses:			
Gasoline and motor oil	\$ 5,753	\$ 5,753	\$ 11,506
Repairs and service	5,553	5,553	11,106
Insurance	2,084	2,084	4,168
Depreciation	7,491	7,491	14,982
Total transportation expenses	20,881	20,881	41,762
General and administrative expenses:			
Salaries and wages, clerical	103,667	103,667	207,334
Payroll taxes	7,788	7,788	15,576
Pension	5,082	5,082	10,164
Insurance	1,925	1,925	3,850
Employee group insurance	31,654	31,654	63,308
Engineering fees	19,547	22,564	42,111
Legal fees	6,191	3,509	9,700
Audit fees	8,925	8,925	17,850
Bank fees	1,130	2,949	4,079
Officers expenses	2,450	2,450	4,900
Postage and office supplies	3,604	3,604	7,208
Dues and subscriptions	2,537	2,537	5,074
Public emergency notification	1,201		1,201
Advertising	134	134	268
Maintenance and repairs	1,504	1,504	3,008
Training and seminars	2,055	1,783	3,838
Telephone	5,107	5,107	10,214
Rent, building	6,375	6,375	12,750
Auto allowance	307	307	614
Water and sewer	5,345	591	5,936
Computer support	19,787	19,787	39,574
Depreciation	5,224	747	5,971
Amortization of computer software	6,110	53	6,163
Other general expense	1,777	1,777	3,554
Total general and administrative expenses	249,426	234,819	484,245
Total operating expenses	1,551,889	2,097,299	3,649,188

(continued)

EAST COCALICO TOWNSHIP AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION –
PROPRIETARY FUND (CONTINUED)

YEAR ENDED DECEMBER 31, 2019

	2019		Total
	Water division	Sewer division	
Operating income (loss)	\$ (90,379)	\$ 133,042	\$ 42,663
Other income:			
Interest income	47,977	145,467	193,444
T-Mobile rent	23,321		23,321
Health insurance rebate	25,573	25,573	51,146
Total other income	96,871	171,040	267,911
Other deductions:			
Interest expense	129,913		129,913
Amortization of deferred loss on refunding	10,872		10,872
Total other deductions	140,785		140,785
Income (loss) before tapping fees, capital contribution fees and developer contributions	(134,293)	304,082	169,789
Tapping fees, capital contribution fees and developer contributions:			
Tapping fees	427,729	262,468	690,197
Capital contribution fees	17,903		17,903
Developer contributions		88,086	88,086
Total tapping fees, capital contribution fees and developer contributions	445,632	350,554	796,186
Increase in net position	311,339	654,636	965,975
Net position:			
January 1	13,659,978	12,789,727	26,449,705
December 31	\$ 13,971,317	\$ 13,444,363	\$ 27,415,680

(continued)

EAST COCALICO TOWNSHIP AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION –
 PROPRIETARY FUND (CONTINUED)

YEAR ENDED DECEMBER 31, 2018

	2018		Total
	Water division	Sewer division	
Operating revenue:			
Utility rents	\$ 1,290,442	\$ 2,076,893	\$ 3,367,335
Fire hydrant rent	58,680		58,680
Capacity reserve	10,845	651	11,496
Penalties on late payments	9,220	16,849	26,069
Inspection fees	26,841	19,948	46,789
Review fees	1,100	1,100	2,200
Miscellaneous	2,243	948	3,191
	<u>1,399,371</u>	<u>2,116,389</u>	<u>3,515,760</u>
Meters and reimbursed construction income:			
Sale of meters	8,742	287	9,029
Material sales	1,271		1,271
Legal fees	444	1,704	2,148
Engineering fees	39,216	51,524	90,740
Labor sales	202		202
	<u>49,875</u>	<u>53,515</u>	<u>103,390</u>
Total meters and reimbursed construction income	49,875	53,515	103,390
Total operating revenue	1,449,246	2,169,904	3,619,150
Operating expenses:			
Meters and costs incurred for others:			
Purchases, meters	12,450		12,450
Legal costs	444	1,704	2,148
Engineering costs	39,216	51,524	90,740
	<u>52,110</u>	<u>53,228</u>	<u>105,338</u>
Total meters and costs incurred for others	52,110	53,228	105,338

(continued)

EAST COCALICO TOWNSHIP AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION –
 PROPRIETARY FUND (CONTINUED)

YEAR ENDED DECEMBER 31, 2018

	2018		
	Water division	Sewer division	Total
Operating expenses (continued):			
Operating and maintenance:			
Salaries and wages:			
Supervision	\$ 77,079	\$ 77,079	\$ 154,158
Other	103,711	103,711	207,422
Payroll taxes	14,085	14,084	28,169
Pension	7,266	7,266	14,532
Workers' compensation insurance	4,082	4,082	8,164
Insurance	8,859	8,859	17,718
Employee group insurance	35,602	35,602	71,204
Maintenance:			
Building	5,319	2,530	7,849
Contents	32,882	19,359	52,241
Field items	19,135	26,090	45,225
Permit fees	602	77	679
Repairs to machinery and equipment	2,903	3,852	6,755
Sewer treatment costs, Ephrata/Adamstown		712,682	712,682
Sewer interceptor costs, Ephrata		16,022	16,022
Sewer debt service costs, Ephrata		250,951	250,951
Contracted services	3,158	1,849	5,007
Sewer charges, WTP	57,008		57,008
Electric	88,106	25,099	113,205
Laboratory testing	30,266	2,912	33,178
Chemicals	37,975		37,975
Certification	313	568	881
Telemetry		5,637	5,637
Auto allowance	63	63	126
Depreciation	604,232	560,019	1,164,251
Other operating expense	7,030	3,635	10,665
Total operating and maintenance	1,139,676	1,882,028	3,021,704

(continued)

EAST COCALICO TOWNSHIP AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION –
 PROPRIETARY FUND (CONTINUED)

YEAR ENDED DECEMBER 31, 2018

	2018		Total
	Water division	Sewer division	
Operating expenses (continued):			
Transportation expenses:			
Gasoline and motor oil	\$ 5,296	\$ 5,296	\$ 10,592
Repairs and service	2,701	2,701	5,402
Insurance	2,082	2,082	4,164
Depreciation	5,277	5,277	10,554
Total transportation expenses	15,356	15,356	30,712
General and administrative expenses:			
Salaries and wages, clerical	100,508	100,508	201,016
Payroll taxes	7,678	7,678	15,356
Pension	4,991	4,991	9,982
Insurance	1,980	1,980	3,960
Employee group insurance	29,990	29,990	59,980
Engineering fees	29,654	21,430	51,084
Legal fees	5,387	3,569	8,956
Audit fees	8,705	8,705	17,410
Bank fees	1,787	6,149	7,936
Officers expenses	2,450	2,450	4,900
Postage and office supplies	3,967	3,967	7,934
Dues and subscriptions	2,129	2,129	4,258
Public emergency notification	1,180		1,180
Advertising	2,942	2,942	5,884
Maintenance and repairs	1,707	1,707	3,414
Training and seminars	2,489	1,839	4,328
Telephone	6,759	6,759	13,518
Rent, building	6,300	6,300	12,600
Auto allowance	252	252	504
Water and sewer	5,011	441	5,452
Computer support	19,914	19,102	39,016
Depreciation	4,261	1,548	5,809
Amortization of computer software	5,405		5,405
Other general expense	1,590	1,590	3,180
Total general and administrative expenses	257,036	236,026	493,062
Total operating expenses	1,464,178	2,186,638	3,650,816

(continued)

EAST COCALICO TOWNSHIP AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION –
 PROPRIETARY FUND (CONTINUED)

YEAR ENDED DECEMBER 31, 2018

	2018		Total
	Water division	Sewer division	
Operating loss	\$ (14,932)	\$ (16,734)	\$ (31,666)
Other income:			
Interest income	28,573	76,901	105,474
T-Mobile rent	22,641		22,641
Health insurance rebate	33,618	33,618	67,236
Total other income	84,832	110,519	195,351
Other deductions:			
Interest expense	135,719		135,719
Amortization of deferred loss on refunding	10,870		10,870
Total other deductions	146,589		146,589
Income (loss) before tapping fees, capital contribution fees and developer contributions	(76,689)	93,785	17,096
Tapping fees, capital contribution fees and developer contributions:			
Tapping fees	272,244	229,236	501,480
Capital contribution fees	159,901		159,901
Developer contributions	38,463	20,226	58,689
Total tapping fees, capital contribution fees and developer contributions	470,608	249,462	720,070
Increase in net position	393,919	343,247	737,166
Net position:			
January 1	13,266,059	12,446,480	25,712,539
December 31	\$ 13,659,978	\$ 12,789,727	\$ 26,449,705

See notes to financial statements.

EAST COCALICO TOWNSHIP AUTHORITY

STATEMENTS OF CASH FLOWS - PROPRIETARY FUND

YEAR ENDED DECEMBER 31, 2019

	2019		
	Water division	Sewer division	Totals
Cash flows from operating activities:			
Receipts from customers	\$ 1,448,165	\$ 2,224,866	\$ 3,673,031
Payments for:			
Supplies and other operating activities	(417,044)	(1,264,647)	(1,681,691)
Salaries and wages	(309,686)	(309,686)	(619,372)
Net cash provided by operating activities	721,435	650,533	1,371,968
Cash flows from noncapital financing activities:			
Tapping fees received	199,978	240,379	440,357
Capital contribution fees	17,903		17,903
T-Mobile rent	23,321		23,321
Health insurance rebate	25,573	25,573	51,146
Net cash provided by noncapital financing activities	266,775	265,952	532,727
Cash flows from capital and related financing activities:			
Purchase of:			
Utility plant and equipment	(446,607)	(347,259)	(793,866)
Computer software	(12,562)	(3,203)	(15,765)
Principal paid on note	(60,000)		(60,000)
Interest paid on note	(129,924)		(129,924)
Net cash used in capital and related financing activities	(649,093)	(350,462)	(999,555)
Cash flows from investing activities:			
Interest income	47,977	145,467	193,444
Issuance of note receivable	(4,489)		(4,489)
Net sales of certificates of deposit	737,000	2,690,000	3,427,000
Net cash provided by investing activities	780,488	2,835,467	3,615,955
Net increase in cash and cash equivalents	1,119,605	3,401,490	4,521,095
Cash and cash equivalents (including restricted):			
Beginning of year	822,084	724,458	1,546,542
End of year	\$ 1,941,689	\$ 4,125,948	\$ 6,067,637
Reconciliation with financial statements:			
Unrestricted cash and cash equivalents	\$ 1,849,026	\$ 3,998,901	\$ 5,847,927
Restricted cash and cash equivalents	92,663	127,047	219,710
Total cash and cash equivalents	\$ 1,941,689	\$ 4,125,948	\$ 6,067,637

(continued)

EAST COCALICO TOWNSHIP AUTHORITY

STATEMENTS OF CASH FLOWS - PROPRIETARY FUND (CONTINUED)

YEAR ENDED DECEMBER 31, 2019

	2019		
	Water division	Sewer division	Totals
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ (90,379)	\$ 133,042	\$ 42,663
Adjustments:			
Depreciation	678,588	566,370	1,244,958
Amortization	6,110	53	6,163
Changes in assets and liabilities:			
(Increase) decrease in:			
Receivables:			
Customers	(1,555)	9,963	8,408
Others	1,210		1,210
Prepaid:			
Insurance	680	681	1,361
Other	(400)	(400)	(800)
Increase (decrease) in:			
Accounts payable:			
Trade	138,092	41,484	179,576
Other		(87,156)	(87,156)
Employee taxes	155		155
Accrued expenses	1,934	1,934	3,868
Customer deposits	(13,000)	(15,438)	(28,438)
Net cash provided by operating activities	\$ 721,435	\$ 650,533	\$ 1,371,968
Supplemental schedule of noncash capital and related financing activities, developer contributions		\$ 88,086	\$ 88,086

(continued)

EAST COCALICO TOWNSHIP AUTHORITY

STATEMENTS OF CASH FLOWS - PROPRIETARY FUND (CONTINUED)

YEAR ENDED DECEMBER 31, 2018

	2018		Totals
	Water division	Sewer division	
Cash flows from operating activities:			
Receipts from customers	\$ 1,482,009	\$ 2,208,424	\$ 3,690,433
Payments for supplies and other operating activities	(708,597)	(1,257,628)	(1,966,225)
Payments for salaries and wages	(280,528)	(280,528)	(561,056)
Net cash provided by operating activities	492,884	670,268	1,163,152
Cash flows from noncapital financing activities:			
Tapping fees received	301,284	225,691	526,975
Capital contribution fees	159,901		159,901
T-Mobile rent	22,641		22,641
Health insurance rebate	33,618	33,618	67,236
Net cash provided by noncapital financing activities	517,444	259,309	776,753
Cash flows from capital and related financing activities:			
Purchase of utility plant and equipment	(891,294)	(27,929)	(919,223)
Principal paid on bonds	(70,000)		(70,000)
Interest paid on bonds	(124,893)		(124,893)
Net cash used in capital and related financing activities	(1,086,187)	(27,929)	(1,114,116)
Cash flows from investing activities:			
Interest income	28,573	76,901	105,474
Net purchase of certificates of deposit	(727,000)	(1,189,000)	(1,916,000)
Net cash used in investing activities	(698,427)	(1,112,099)	(1,810,526)
Net decrease in cash and cash equivalents	(774,286)	(210,451)	(984,737)
Cash and cash equivalents (including restricted):			
Beginning of year	1,596,370	934,909	2,531,279
End of year	\$ 822,084	\$ 724,458	\$ 1,546,542
Reconciliation with financial statements:			
Unrestricted cash	\$ 716,421	\$ 581,973	\$ 1,298,394
Restricted cash	105,663	142,485	248,148
Total cash and cash equivalents	\$ 822,084	\$ 724,458	\$ 1,546,542

(continued)

EAST COCALICO TOWNSHIP AUTHORITY

STATEMENTS OF CASH FLOWS - PROPRIETARY FUND (CONTINUED)

YEAR ENDED DECEMBER 31, 2018

	2018		
	Water division	Sewer division	Totals
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	\$ (14,932)	\$ (16,734)	\$ (31,666)
Adjustments:			
Depreciation	613,770	566,844	1,180,614
Amortization	5,405		5,405
Changes in assets and liabilities:			
(Increase) decrease in:			
Receivables:			
Customers	3,161	559	3,720
Others	99	7,308	7,407
Prepaid insurance	(394)	(394)	(788)
Increase (decrease) in:			
Accounts payable:			
Trade	(144,397)	(5,894)	(150,291)
Other		87,156	87,156
Employee taxes	(103)		(103)
Accrued expenses	770	770	1,540
Customer deposits	29,505	30,653	60,158
Net cash provided by operating activities	\$ 492,884	\$ 670,268	\$ 1,163,152
Supplemental schedule of noncash capital and related financing activities, developer contributions	\$ 38,463	\$ 20,226	\$ 58,689

See notes to financial statements.

EAST COCALICO TOWNSHIP AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

1. Nature of operations and summary of significant accounting policies:

East Cocalico Township Authority (the Authority) is a corporate body created pursuant to an ordinance of the Board of Supervisors of the East Cocalico Township under an Act of the General Assembly of the Commonwealth of Pennsylvania, known as the Municipal Authorities Act.

East Cocalico Township Authority was organized to acquire, construct, improve, maintain and operate a water and sanitary sewer system. The Authority provides water and sanitary sewer service to portions of East Cocalico Township (the Township).

The East Cocalico Township Authority's governing board consists of nine members appointed by the Township's Board of Supervisors. The Authority serves as an operating authority for the Township. Since the Authority does not impose a specific financial burden on the Township, it is not considered to be a component unit of the Township for financial reporting purposes. The Authority is considered to be a related organization to the Township because the Township appoints a voting majority of the Authority's governing board.

Reporting entity:

Accounting principles generally accepted in the United States of America require that the reporting entity include (1) primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria provided by the Governmental Accounting Standards Board (GASB) have been considered, and there are no agencies or entities which should be presented with the Authority. The Authority is fiscally independent.

Basis of presentation, measurement focus and accounting:

The Authority complies with accounting principles generally accepted in the United States of America (GAAP). The Authority's reporting entity applies all relevant GASB pronouncements.

The financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operations are included on the statements of net position. Under the accrual basis of accounting, revenues are recognized in the accounting period they are earned and become measurable; expenses are recognized in the accounting period incurred.

EAST COCALICO TOWNSHIP AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

1. Nature of operations and summary of significant accounting policies (continued):

Basis of presentation, measurement focus and accounting:

The accounts of the Authority are organized on the basis of a proprietary fund type, specifically an enterprise fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The activities of each proprietary fund are summarized by providing a separate set of self-balancing accounts, which include its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues and expenses.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses consist of those revenues and expenses that result from the Authority's ongoing principal activities. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from non-exchange transactions or ancillary activities.

Net position classifications:

Net position is classified and displayed in three components:

Net investment in capital assets. Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvements of those assets and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.

Restricted. Consists of net position with constraints placed on the use by either of external groups, such as creditors, granters, contributors or laws and regulations of other governments, or law through constitutional provisions or enabling legislation.

Unrestricted. All other net position that does not meet the definition of "restricted" or "net investment in capital assets".

EAST COCALICO TOWNSHIP AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

1. Nature of operations and summary of significant accounting policies (continued):

Net position classifications:

When an expense is incurred for purposes for which there are restricted and unrestricted net position available, it is the Authority's policy to apply those expenses to restricted net position to the extent such are available, and then to unrestricted net position.

Use of estimates:

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources 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.

Cash and cash equivalents:

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits and external investment pools held by Pennsylvania Local Government Investment Trust (PLGIT) with original maturities of three months or less. External investment pools are reported at amortized cost, which approximates fair value. The amortized cost method involves valuing a security at its cost on the date of purchase and recording a constant amortization or accretion to maturity of any discount or premium. Cash on hand and demand deposits are reported at carrying amounts, which reasonably approximate fair value.

For purposes of the statements of cash flows, the Authority considers all highly-liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Certificates of deposit:

Consists of certificates of deposits with maturities, when purchased, of more than three months. Certificates of deposits are reported at carrying amounts, which reasonably approximate fair value.

EAST COCALICO TOWNSHIP AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

1. Nature of operations and summary of significant accounting policies (continued):

Accounts receivable:

The Authority considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. In reviewing aged receivables, management considers their knowledge of customers, historical activity and current economic conditions in determining whether the receivable is uncollectible. If amounts become uncollectible, they will be charged to operations when that determination is made.

Internal balances:

During the course of its operations, the Authority has numerous transactions between funds to finance operations and provide services.

Prepaid items:

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Utility plant and equipment:

Utility plant and equipment are stated at cost, less depreciation accumulated to date. Cost includes engineering/consulting fees, interest and other expenses incurred during the period of construction as required by generally accepted accounting principles. Major additions and improvements are capitalized, while expenditures for maintenance and repairs, which do not improve or extend the lives of the respective assets, are expensed.

Water and sewer lines contributed by contractors are dedicated at acquisition value. Acquisition value is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date. Depreciation is provided on the straight-line method over the estimated useful lives of the various assets.

Computer software:

The Authority is amortizing the cost of computer software over a three- or five-year period using the straight-line method.

EAST COCALICO TOWNSHIP AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

1. Nature of operations and summary of significant accounting policies (continued):

Amortization:

Deferred loss on refunding is amortized over the life of the related debt using the straight-line method. Amortization expense for the years ended December 31, 2019 and 2018 was \$10,872 and \$10,870, respectively.

Deferred outflows of resources:

The statements of net position – proprietary fund report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and, thus, will not be recognized as an outflow of resources (expense) until then. The Authority has one item that qualifies for report in this category; it is deferred charge on refunding report in the statements of net position – proprietary fund. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Unearned tapping fees:

Tapping fees collected are reported as unearned until the customer connects to the water/sewer system. Unearned tapping fees are reported as a current liability on the statements of net position – proprietary fund, and could be refunded upon request from the customer.

Long-term debt:

The debt obtained to finance the construction projects and used to refund previously issued debt are being accounted for by the Authority as required by generally accepted accounting principles for proprietary fund types. The Authority applies the provisions of the GASB for the refunding of the Authority's debt.

Pending GASB statements:

GASB issued Statement No. 84, *Fiduciary Activities*. This Statement improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The provisions of GASB Statement No. 84 are effective for the Authority's December 31, 2020 financial statements.

EAST COCALICO TOWNSHIP AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

1. Nature of operations and summary of significant accounting policies (continued):

Pending GASB statements:

GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This Statement is to improve the information that is disclosed in the notes to the financial statements related to debt, including direct borrowings and direct placements. The provisions of GASB Statement No. 88 are effective for the Authority's December 31, 2020 financial statements.

In June 2017, the GASB issued Statement No. 87, *Leases*. This Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The provisions of GASB Statement No. 87 are effective for the Authority's December 31, 2022 financial statements.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This Statement is to enhance the relevance and comparability of information about capital assets and cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. The provisions of GASB Statement No. 89 are effective for the Authority's December 31, 2021 financial statements.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. This Statement is to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice. The provisions of GASB Statement No. 91 are effective for the Authority's December 31, 2022 financial statements.

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. This Statement is to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The provisions of GASB Statement No. 92 are effective for the Authority's December 31, 2022 financial statements.

The effect of implementation of these statements has not yet been determined.

EAST COCALICO TOWNSHIP AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

2. Deposits and investments:

In accordance with the Municipal Authorities Act, the Authority is authorized to designate one or more banks or bank and trust companies as a depository or depositories for its funds. If funds are fully insured by the Federal Deposit Insurance Corporation (FDIC), the Authority shall not require any additional bond, insurance or security to cover the amounts of deposits so insured. If these funds are not fully insured by the FDIC, the funds shall be continuously secured by a pledge of direct obligations of the United States of America, of the Commonwealth or of the municipality creating the authority, having an aggregate market value, exclusive of accrued interest, at all times at least equal to the balance on deposit.

Statutes authorize the Authority to invest in the following:

- United States treasury bills
- Obligations of the United States government and federal agencies
- Insured savings and checking accounts and certificates of deposits in banks, savings and loan associations and credit unions
- General obligation bonds of the federal government, Commonwealth of Pennsylvania or any state agency or of any Pennsylvania political subdivision
- Shares of mutual funds whose investments are restricted to the above categories
- Repurchase agreements collateralized by United States treasury bills or federal agency securities
- Commercial paper issued by corporations or other business entities organized in accordance with federal and state law, with a maturity not to exceed 270 days and the issuing corporation or business entity is rated in the top short-term category by at least two nationally recognized statistical ratings organizations
- Bankers' acceptances that do not exceed 180 days' maturity and the accepting bank is rated in the top short-term category by at least two nationally recognized statistical ratings organizations
- Negotiable certificates of deposit with a remaining maturity of three years or less, issued by a nationally or state-chartered bank, a federal or state savings and loan association or a state-licensed branch of a foreign bank.

EAST COCALICO TOWNSHIP AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

2. Deposits and investments (continued):

Cash, cash equivalents and certificates of deposit as of December 31, 2019 and 2018 are classified in the accompanying financial statements as follows:

	<u>2019</u>	<u>2018</u>
Statements of net position:		
Cash and cash equivalents	\$ 5,847,927	\$ 1,298,394
Certificates of deposit	2,672,000	6,099,000
Restricted cash and cash equivalents	<u>219,710</u>	<u>248,148</u>
	<u><u>\$ 8,739,637</u></u>	<u><u>\$ 7,645,542</u></u>

Cash, cash equivalents and certificates of deposit as of December 31, 2019 and 2018 consists of the following:

	<u>2019</u>	<u>2018</u>
Water division:		
Cash on hand	\$ 50	\$ 50
Deposits with financial institutions	312,532	525,115
PLGIT:		
State investment pool	1,629,107	296,919
Certificates of deposit	<u>729,000</u>	<u>1,466,000</u>
Total water division	<u>2,670,689</u>	<u>2,288,084</u>
Sewer division:		
Deposits with financial institutions	167,351	396,403
PLGIT:		
State investment pool	3,958,597	328,055
Certificates of deposit	<u>1,943,000</u>	<u>4,633,000</u>
Total sewer division	<u>6,068,948</u>	<u>5,357,458</u>
Total cash, cash equivalents and certificates of deposit	<u><u>\$ 8,739,637</u></u>	<u><u>\$ 7,645,542</u></u>

EAST COCALICO TOWNSHIP AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

2. Deposits and investments (continued):

Custodial credit risk and deposits:

For deposits, custodial credit risk is the risk that, in the event of bank failure, the Authority's deposits may not be returned to it. For investments, 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 investment or collateral security that is in the possession of an outside party.

As of December 31, 2019, \$220,214 of the Authority's bank balance of \$507,710 was not covered by the Federal Deposit Insurance Corporation, but was collateralized in accordance with Act 72. As of December 31, 2018, \$660,610 of the Authority's bank balance of \$966,223 was not covered by the Federal Deposit Insurance Corporation, but was collateralized in accordance with Act 72. This Act requires the institution to pool collateral for all its government deposits and to have the collateral held by an approved custodian in the institution's name.

	<u>2019</u>	<u>2018</u>
Deposits:		
Collateral held by pledging bank under Act 72 but not in the Authority's name	\$ 220,214	\$ 660,610
Insured by Federal Deposit Insurance Corporation	287,496	305,613
Outstanding checks	(114,716)	(109,223)
Deposits in transit	86,889	64,518
Petty cash	<u>50</u>	<u>50</u>
Total deposits	479,933	921,568
Cash equivalents, Pennsylvania Local Government Investment Trust	<u>8,259,704</u>	<u>6,723,974</u>
	<u>\$ 8,739,637</u>	<u>\$ 7,645,542</u>

EAST COCALICO TOWNSHIP AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

2. Deposits and investments (continued):

External investment pool:

The Authority uses an external investment pool to ensure safety and maximize efficiency, liquidity and yield for Authority funds. The external investment pool is valued at amortized cost, which approximates fair value. The amortized cost method involves valuing a security at its cost on the date of purchase and recording a constant amortization or accretion to maturity of any discount or premium. The fair value of securities, held by the external investment pool, are evaluated on at least a weekly basis using prices supplied from an independent pricing service. These values are compared to the amortized cost of the securities.

PLGIT separately issues audited financial statements that are available to the public via their website. The Commonwealth of Pennsylvania provides external regulatory oversight for the external investment pools. At December 31, 2019 and 2018, PLGIT carries an AAAM rating and has an average maturity of less than one year.

The Authority has the following recurring amortized cost measurement as of December 31, 2019 and 2018, including unfunded commitments and redemption terms as follows:

	2019			
	Amortized cost	Unfunded commitments	Redemption frequency	Redemption notice period
Cash equivalents measured at amortized cost, external investment pool, PLGIT ¹	\$ 8,259,704	\$ -	Weekly	5 days
	2018			
	Amortized cost	Unfunded commitments	Redemption frequency	Redemption notice period
Cash equivalents measured at amortized cost, external investment pool, PLGIT ¹	\$ 6,723,974	\$ -	Weekly	5 days

¹ External investment pool: This type includes pooled investments in bank repurchase agreements, certificates of deposit, U.S. treasuries and U.S. government obligations. The fair value of the investments in this type have been determined using amortized cost, which approximates fair value. Distributions from the fund will be received as the underlying investments of the funds are liquidated, which is expected to occur weekly.

EAST COCALICO TOWNSHIP AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

2. Deposits and investments (continued):

Interest rate risk:

The Authority permits investments as authorized by law and requires that maturities of investments are consistent with cash flow requirements.

Credit risk:

The Authority's selection of depository institutions, brokers, custodians, investment advisors, local government investment pools and money market mutual funds are based on legality, performance, quality of services, creditworthiness, reputation and integrity. In addition, the investment companies used by the Authority must be rated in the highest category by a nationally recognized rating agency.

3. Cash and cash equivalents:

Cash and cash equivalents at December 31, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Water division:		
Cash on hand	\$ 50	\$ 50
Ephrata National Bank	213,042	398,741
Fulton Bank	6,827	20,711
Pennsylvania Local Government Investment Trust	<u>1,629,107</u>	<u>296,919</u>
Total water division	<u>1,849,026</u>	<u>716,421</u>
Sewer division:		
Ephrata National Bank	40,304	253,918
Pennsylvania Local Government Investment Trust	<u>3,958,597</u>	<u>328,055</u>
Total sewer division	<u>3,998,901</u>	<u>581,973</u>
Total cash and equivalents	<u><u>\$ 5,847,927</u></u>	<u><u>\$ 1,298,394</u></u>

EAST COCALICO TOWNSHIP AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

4. Restricted assets, cash and cash equivalents:

Restricted cash and cash equivalents consisted of the following:

	<u>2019</u>	<u>2018</u>
Held for construction:		
Colonel Howard Boulevard		\$ 6,673
Construction escrow	\$ 219,710	<u>241,475</u>
	<u>\$ 219,710</u>	<u>\$ 248,148</u>

These monies are invested as follows:

	<u>2019</u>	<u>2018</u>
Deposits with financial institutions	<u>\$ 219,710</u>	<u>\$ 248,148</u>

5. Accounts receivable:

The accounts receivable balance represents amounts due from customers for water and sewer services that have been provided as of December 31 by the Authority.

Accounts receivable includes the following amounts that are 90 days or more past the invoice date of the related purchases:

	<u>2019</u>	<u>2018</u>
Over 90 days	<u>\$ 1,253</u>	<u>\$ 1,562</u>

EAST COCALICO TOWNSHIP AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

6. Utility plant, equipment and provisions for depreciation:

The Authority computes depreciation using the straight-line method. The charge to operations for depreciation amounted to \$1,244,958 and \$1,180,614 for 2019 and 2018, respectively. Additions to the water and sewer systems are valued at cost and amounted to \$881,952 and \$977,912 for 2019 and 2018, respectively. Additions and useful lives assigned to the various assets for depreciation purposes are as follows:

<u>Asset classification</u>	<u>Useful lives</u>
Water distribution system	7 - 50 years
Sewer collection system	5 - 50 years
Buildings	12 - 50 years
Machinery and equipment	4 - 20 years
Trucks and cars	5 - 10 years
Office furniture and fixtures	5 - 10 years
Computer hardware	4 - 10 years

EAST COCALICO TOWNSHIP AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

6. Utility plant, equipment and provisions for depreciation (continued):

A summary of the change to capital assets for 2019 follows:

2019	Beginning balance	Additions	Ending balance
Capital assets not being depreciated:			
Land and land rights	\$ 929,690		\$ 929,690
Construction in progress	1,006,087	\$ 585,370	1,591,457
Total capital assets not being depreciated	1,935,777	585,370	2,521,147
Other capital assets at historical cost:			
Water distribution system	24,356,195	140,689	24,496,884
Sewer collection system	17,593,023	124,397	17,717,420
Buildings	91,240		91,240
Machinery and equipment	298,498	26,036	324,534
Trucks and cars	217,313		217,313
Office furniture and fixtures	34,415		34,415
Computer hardware	42,257	5,460	47,717
Total other assets at historical costs	42,632,941	296,582	42,929,523
Accumulated depreciation:			
Water distribution system	10,086,401	651,661	10,738,062
Sewer collection system	10,668,472	554,592	11,223,064
Buildings	60,087	3,145	63,232
Machinery and equipment	223,902	14,608	238,510
Trucks and cars	160,969	14,982	175,951
Office furniture and fixtures	32,942	235	33,177
Computer hardware	27,117	5,735	32,852
Total accumulated depreciation	21,259,890	1,244,958	22,504,848
Other capital assets, net	21,373,051	(948,376)	20,424,675
Capital assets, net	\$ 23,308,828	\$ (363,006)	\$ 22,945,822

EAST COCALICO TOWNSHIP AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

6. Utility plant, equipment and provisions for depreciation (continued):

A summary of the change to capital assets for 2018 follows:

2018	Beginning balance	Additions	Reclassifications	Ending balance
Capital assets not being depreciated:				
Land and land rights	\$ 929,690			\$ 929,690
Construction in progress	1,930,784	\$ 716,241	\$ (1,640,938)	1,006,087
Total capital assets not being depreciated	2,860,474	716,241	(1,640,938)	1,935,777
Other capital assets at historical cost:				
Water distribution system	22,554,937	160,320	1,640,938	24,356,195
Sewer collection system	17,572,797	20,226		17,593,023
Buildings	79,626	11,614		91,240
Machinery and equipment	282,890	15,608		298,498
Trucks and cars	173,069	44,244		217,313
Office furniture and fixtures	34,415			34,415
Computer hardware	32,598	9,659		42,257
Total other assets at historical costs	40,730,332	261,671	1,640,938	42,632,941
Accumulated depreciation:				
Water distribution system	9,493,787	592,614		10,086,401
Sewer collection system	10,112,695	555,777		10,668,472
Buildings	57,634	2,453		60,087
Machinery and equipment	210,496	13,406		223,902
Trucks and cars	150,415	10,554		160,969
Office furniture and fixtures	30,908	2,034		32,942
Computer hardware	23,341	3,776		27,117
Total accumulated depreciation	20,079,276	1,180,614		21,259,890
Other capital assets, net	20,651,056	(918,943)	1,640,938	21,373,051
Capital assets, net	\$ 23,511,530	\$ (202,702)	\$ -	\$ 23,308,828

EAST COCALICO TOWNSHIP AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

7. Long-term debt:

The following is a summary of long-term debt transactions of the Authority for the years ended December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Long-term debt payable, beginning	\$ 4,690,000	\$ 4,760,000
Water revenue note principal repayment	<u>(60,000)</u>	<u>(70,000)</u>
Long-term debt payable, ending	<u><u>\$ 4,630,000</u></u>	<u><u>\$ 4,690,000</u></u>

Debt payable at December 31 is comprised of the following:

	<u>2019</u>	<u>2018</u>
Water Revenue Note, Series of 2017	<u><u>\$ 4,630,000</u></u>	<u><u>\$ 4,690,000</u></u>

Debt service requirements in future years are:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 65,000	\$ 128,251	\$ 193,251
2021	65,000	126,451	191,451
2022	65,000	124,650	189,650
2023	65,000	122,850	187,850
2024	65,000	121,049	186,049
2025-2029	460,000	333,586	793,586
2030-2034	1,125,000	128,475	1,253,475
2035-2039	1,410,000	81,487	1,491,487
2040-2043	<u>1,310,000</u>	<u>25,012</u>	<u>1,335,012</u>
Total payments	<u><u>\$ 4,630,000</u></u>	<u><u>\$ 1,191,811</u></u>	<u><u>\$ 5,821,811</u></u>

EAST COCALICO TOWNSHIP AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

8. Water Revenue Note, Series of 2017:

Water Revenue Note, Series of 2017:

On December 20, 2017, the Authority issued the Water Revenue Note, Series of 2017 in the maximum principal amount of \$4,760,000. Principal maturities begin on December 1, 2018 and continue annually through December 1, 2043. Interest rates range from 1.30% to 3.75%. Interest is payable in semi-annual installments beginning December 1, 2018 and continuing in December and June of each year thereafter. The average debt service cost is \$238,716.

The note is secured by the pledge of all receipts and revenues from or in connection with the water system, including receipts from tapping fees. The purpose of this note issue is to advance refund the Water Revenue Bonds, Series of 2013.

Loss on refunding:

On December 20, 2017, the Authority issued the Water Revenue Note, Series of 2017, to advance refund the Water Revenue Bond, Series of 2013. The refunding resulted in a deferred loss on refunding. The balance of the deferred loss on refunding, net of accumulated amortization, is \$260,487 and \$271,359 as of December 31, 2019 and 2018, respectively.

On December 20, 2017, \$4,682,185 was deposited in a Trust Escrow Account to advance refund the Water Revenue Bonds, Series of 2013, as the bonds mature. On December 1, 2018, the balance of \$4,674,594 in the escrow account was utilized for debt service payments.

9. Related parties:

Lease rental agreement:

The Authority has entered into a rental agreement with East Cocalico Township, a related organization, dated August 21, 1989. This agreement covers the rental of office space for a year. Each year it can be renewed at an adjusted cost no greater than the Consumer Price Index rise for this area. Rentals of \$12,750 and \$12,600 were paid in 2019 and 2018, respectively.

Tapping fees:

The Authority's water division paid the Authority's sewer division \$61,697 in both 2019 and 2018 for 25 EDUs of sewer capacity for each year. The water division recorded the capacity as an addition to the water distribution system during both the years ended December 31, 2019 and 2018. The sewer division recorded \$61,697 as tapping fees on the statements of revenues, expenses and changes in fund net position – proprietary fund in both 2019 and 2018.

EAST COCALICO TOWNSHIP AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

10. Sewer service agreement, intermunicipal group:

On November 1, 1995, the Authority entered into a Sewage Service Agreement with the Borough of Ephrata and neighboring communities, whereby the Borough of Ephrata will provide sewage treatment services to neighboring communities. Costs of operation and total annual capital costs are shared by each party on the basis of their proportionate share of sewage flow to the total flow of sewage. Recognizing the partnership agreement between the Authority and the Borough of Adamstown, the agreement permits East Cocalico Township Authority to divert up to 100,000 gallons per day without any payments. The Authority is permitted to divert up to an additional 300,000 gallons per day. A diversion charge will be computed to allocate annual capital costs allocable to Plant No. 2 on the additional gallons as outlined in the agreement. This agreement shall remain in effect until terminated by consent of all parties hereto.

All facilities will be owned by the Ephrata Borough Authority. There are no minimum rentals established in the agreement.

11. Sewer service and partnership agreement:

On September 25, 1995, the Authority entered into an agreement with the Borough of Adamstown and Adamstown Borough Authority (collectively, Adamstown), whereby Adamstown grants unto East Cocalico the perpetual right to collect, transport and deliver wastewater to the Adamstown Treatment Facilities. East Cocalico connected to the Adamstown Treatment Facilities on April 16, 1997. The Authority is allocated an initial capacity of 100,000 gallons per day. The Authority paid Adamstown an initial buy-in fee of \$845,191. In addition, the Authority is responsible to pay an annual service fee and surcharges, if applicable. Calculation of surcharges is made pursuant to an amendment of the partnership agreement dated October 7, 2004.

Additional provisions of the agreement require East Cocalico to pay its proportional share of any future plant upgrades and 100% of the cost of any future solids handling facilities. Future expansion of the treatment plant is to be paid for by the municipality requiring the additional treatment capacity or proportionally if both municipalities require additional capacity.

All properties covered by this agreement are the sole property of Adamstown. Costs have been capitalized as part of the sewer collection system.

Adamstown has the option to reallocate capacity from East Cocalico to Adamstown. Adamstown is responsible to pay East Cocalico \$4.83 for each gallon of capacity reallocated to Adamstown.

EAST COCALICO TOWNSHIP AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

12. Employee group insurance:

The Authority has entered into an inter-governmental cooperation agreement with other municipalities, in order to provide health, hospitalization, medical or surgical insurance for Authority employees and their dependents. Under this agreement, the Authority is entering into a partially self-funded arrangement with a local insurance carrier. This arrangement requires monthly deposits be placed in an account from which the insurance carrier can draw for claims made. Specific individual losses for claims are limited to \$45,000 per incident per fiscal year. In total, the Authority's liability is limited for each fiscal year to the amount that the Authority is required to deposit based on individual rates established at the beginning of the year. Depending on the claims incurred by other participating municipalities, the Authority may be responsible for a portion of excess claims incurred by the other participants (but not to exceed the Authority's overall limit of liability). Although not guaranteed, the plan also allows the Authority to receive a distribution of surplus income depending upon claim experience.

For the year ended December 31, 2019, the Authority paid premiums of \$106,284. Actual claims paid for the year ended December 31, 2019 were \$80,306. The Authority also incurred a shared cost of \$1,695 and is anticipating a refund of \$51,489 in 2020. For the year ended December 31, 2018, the Authority paid premiums of \$92,576. Actual claims paid for the year ended December 31, 2018 were \$37,803. The Authority incurred a shared cost of \$3,466 and received a refund of \$51,146 in 2019.

13. Deferred compensation plan:

The Authority maintains a deferred compensation plan that is available to all full-time employees. The participating employees are required to contribute a minimum of 2% of their earnings, but have the option to contribute more. The Authority will only match contributions up to 5% for the participating employees. Funds are held in trust by Voya Financial for each employee. The deferred compensation is not available to participants until termination, retirement, death or unforeseeable emergency. Upon termination of employment, employer contributions are due to the employee in accordance with a staged vesting schedule.

All amounts of compensation deferred under the plans, all property and rights purchased with those amounts and all income attributable to these amounts, property or rights are held in trust for the exclusive benefits of participants and their beneficiaries. Deferred compensation balances of \$1,460,205 and \$1,184,288 are being held as of December 31, 2019 and 2018, respectively.

EAST COCALICO TOWNSHIP AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

14. Commitments and contingencies:

Risk management:

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Authority maintains commercial insurance covering each of these risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Authority. Settled claims have not exceeded this insurance coverage in any of the past three years.

Letters of credit:

Developers and others are periodically required to issue an irrevocable letter of credit to secure the completion of public improvements in accordance with Authority regulations. These letters of credit are released upon completion of the improvements.

Construction commitments:

In 2019, the Authority entered into an agreement with a contractor for the Gehman Basin Sanitary Sewer Investigation for \$314,740. The project was not completed as of December 31, 2019. There was \$85,340 of work and retainage remaining on the agreement at December 31, 2019.

In 2019, the Authority entered into an agreement with a contractor for the Route 272 and Church Street Water Main project for \$174,382. The project was not completed as of December 31, 2019. There was \$51,128 of work and retainage remaining on the agreement at December 31, 2019.

15. Subsequent events:

In December 2019, a novel strain of coronavirus ("COVID-19") was reported to have surfaced in China. The World Health Organization has declared COVID-19 to constitute a "Public Health Emergency of International Concern" and characterized COVID-19 as a pandemic. The U.S. government has also implemented enhanced screenings, quarantine requirements and travel restrictions in connection with the COVID-19 outbreak. The spread of this virus has the potential to cause business disruption to the Authority beginning in March 2020, due to state government-imposed shutdowns of businesses and other results of the illness. While the Authority expects this matter may negatively impact its results, the extent of the impact of the COVID-19 on the Authority's operational and financial performance will depend on future developments, including the duration and spread of the outbreak and related travel advisories and restrictions and the impact of the COVID-19 on overall demand for the Authority's services, all of which are highly uncertain and cannot be predicted.

EAST COCALICO TOWNSHIP AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

15. Subsequent events:

At the June 10, 2020 Board meeting, a motion was approved to authorize RBC Capital Markets to move forward with refinancing the Authority's current Water Revenue Note, Series of 2017 with S&T Bank. RBC Capital Markets has presented the Authority with a new refinancing option through the investment bank JP Morgan Chase. The new refinancing option assumes a \$2,000,000 principal prepayment using Sewer revenue funds. The new bank note will have a fixed 1.16% interest rate over the life of the loan with no option to prepay. The new note will have a 14-year loan life, with a maturity in 2033. The Authority will save \$2,045,240 in total debt service over the 14-year life of the new water revenue note.

Management has evaluated subsequent events through June 24, 2020, which is the date the financial statements were available to be issued.

EAST COCALICO TOWNSHIP AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION –
WATER DIVISION – ACTUAL VS BUDGET

YEAR ENDED DECEMBER 31, 2019
(See independent auditor's report)

	Actual	Budget	Over or (under) budget
Operating revenue:			
Utility rents	\$ 1,332,927	\$ 1,310,000	\$ 22,927
Fire hydrant rent	59,580	59,580	-
Capacity reserve	3,203	5,000	(1,797)
Penalties on late payments	7,973	9,500	(1,527)
Inspection fees	9,482	25,000	(15,518)
Review fees	250	1,000	(750)
Miscellaneous	4,797	2,500	2,297
	1,418,212	1,412,580	5,632
Meters and reimbursed construction income:			
Sale of meters	21,054	20,459	595
Material sales	1,921	1,500	421
Legal fees	1,139	2,000	(861)
Engineering fees	17,124	42,500	(25,376)
Reimbursable fees		200	(200)
Sub-contractor		200	(200)
Labor sales	2,060	1,500	560
	43,298	68,359	(25,061)
Total meters and reimbursed construction income	43,298	68,359	(25,061)
Total operating revenue	1,461,510	1,480,939	(19,429)
Operating expenses:			
Meters and costs incurred for others:			
Purchases, other materials	16,399	18,299	(1,900)
Legal costs	1,139	2,000	(861)
Engineering costs	17,124	42,500	(25,376)
Reimbursable costs	72	200	(128)
Purchases, sub-contractor		200	(200)
	34,734	63,199	(28,465)
Total meters and costs incurred for others	34,734	63,199	(28,465)

(continued)

EAST COCALICO TOWNSHIP AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION –
WATER DIVISION – ACTUAL VS BUDGET (CONTINUED)

YEAR ENDED DECEMBER 31, 2019
(See independent auditor's report)

	<u>Actual</u>	<u>Budget</u>	<u>Over or (under) budget</u>
Operating expenses (continued):			
Operating and maintenance:			
Salaries and wages:			
Supervision	\$ 79,308	\$ 77,965	\$ 1,343
Other	128,645	131,277	(2,632)
Payroll taxes	16,236	16,880	(644)
Pension	8,854	9,019	(165)
Workers' compensation insurance	4,123	5,066	(943)
Insurance	8,803	9,575	(772)
Employee group insurance	44,411	44,614	(203)
Maintenance:			
Building	2,690	4,000	(1,310)
Contents	23,436	25,000	(1,564)
Field items	27,356	18,000	9,356
Telemetry	2,250	500	1,750
Permit fees	10,578	11,000	(422)
Repairs to machinery and equipment	1,038	3,000	(1,962)
Contracted services	5,847	3,700	2,147
Sewer charges, WTP	47,238	49,000	(1,762)
Electric	89,255	96,000	(6,745)
Laboratory testing	32,537	28,000	4,537
Chemicals	39,716	41,000	(1,284)
Certification	1,161	700	461
Auto allowance	80	100	(20)
Depreciation	665,873	659,700	6,173
Other operating expense	7,413	6,000	1,413
Total operating and maintenance	<u>1,246,848</u>	<u>1,240,096</u>	<u>6,752</u>

(continued)

EAST COCALICO TOWNSHIP AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION –
WATER DIVISION – ACTUAL VS BUDGET (CONTINUED)

YEAR ENDED DECEMBER 31, 2019
(See independent auditor's report)

	<u>Actual</u>	<u>Budget</u>	<u>Over or (under) budget</u>
Operating expenses (continued):			
Transportation expenses:			
Gasoline and motor oil	\$ 5,753	\$ 5,500	\$ 253
Repairs and service	5,553	2,500	3,053
Insurance	2,084	2,370	(286)
Depreciation	7,491	7,491	-
Total transportation expenses	20,881	17,861	3,020
General and administrative expenses:			
Salaries and wages, clerical	103,667	102,294	1,373
Payroll taxes	7,788	8,222	(434)
Pension	5,082	5,114	(32)
Insurance	1,925	2,073	(148)
Employee group insurance	31,654	30,828	826
Engineering fees	19,547	25,000	(5,453)
Legal fees	6,191	7,000	(809)
Audit fees	8,925	9,000	(75)
Bank fees	1,130	1,458	(328)
Officers expenses	2,450	2,925	(475)
Postage and office supplies	3,604	4,500	(896)
Dues and subscriptions	2,537	2,000	537
Public emergency notification	1,201	1,200	1
Advertising	134	1,500	(1,366)
Maintenance and repairs	1,504	1,500	4
Training and seminars	2,055	2,000	55
Telephone	5,107	5,500	(393)
Rent, building	6,375	6,500	(125)
Auto allowance	307	350	(43)
Water and sewer	5,345	5,500	(155)
Computer training		100	(100)
Computer support	19,787	19,000	787
Depreciation	5,224	4,273	951
Amortization of computer software	6,110	5,405	705
Uncollectible accounts		100	(100)
Other general expense	1,777	2,500	(723)
Total general and administrative expenses	249,426	255,842	(6,416)
Total operating expenses	1,551,889	1,576,998	(25,109)

(continued)

EAST COCALICO TOWNSHIP AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION –
WATER DIVISION – ACTUAL VS BUDGET (CONTINUED)

YEAR ENDED DECEMBER 31, 2019
(See independent auditor's report)

	Actual	Budget	Over or (under) budget
Operating income (loss)	\$ (90,379)	\$ (96,059)	\$ 5,680
Other income:			
Interest income	47,977	39,935	8,042
Miscellaneous income		400	(400)
T-Mobile rent	23,321	23,321	-
Health insurance rebate	25,573	14,318	11,255
Gain on sale of assets		100	(100)
Total other income	96,871	78,074	18,797
Other deductions:			
Interest expense	129,913	129,913	-
Amortization of deferred loss on refunding	10,872	10,872	-
Total other deductions	140,785	140,785	-
Loss before tapping fees, capital contribution fees and developer contributions	(134,293)	(158,770)	24,477
Tapping fees, capital contribution fees and developer contributions:			
Tapping fees	427,729	338,468	89,261
Capital contribution fees	17,903	17,045	858
Total tapping fees, capital contribution fees and developer contributions	445,632	355,513	90,119
Increase in net position	311,339	\$ 196,743	\$ 114,596
Net position:			
January 1	13,659,978		
December 31	\$ 13,971,317		

See notes to financial statements.

EAST COCALICO TOWNSHIP AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION –
SEWER DIVISION – ACTUAL VS BUDGET

YEAR ENDED DECEMBER 31, 2019
(See independent auditor's report)

	<u>Actual</u>	<u>Budget</u>	<u>Over or (under) budget</u>
Operating revenue:			
Utility rents	\$ 2,171,933	\$ 2,058,172	\$ 113,761
Capacity reserve		500	(500)
Penalties on late payments	14,838	18,000	(3,162)
Inspection fees	16,599	25,000	(8,401)
Review fees	1,400	1,000	400
Miscellaneous	1,522	1,000	522
	<u>2,206,292</u>	<u>2,103,672</u>	<u>102,620</u>
 Reimbursed construction income:			
Material sales	315	200	115
Legal fees	2,680	2,000	680
Engineering fees	19,277	42,500	(23,223)
Reimbursable fees		200	(200)
Sub-contractor	718	200	518
Labor sales	1,059	500	559
	<u>24,049</u>	<u>45,600</u>	<u>(21,551)</u>
 Total reimbursed construction income	<u>24,049</u>	<u>45,600</u>	<u>(21,551)</u>
 Total operating revenue	<u>2,230,341</u>	<u>2,149,272</u>	<u>81,069</u>
 Operating expenses:			
Meters and costs incurred for others:			
Purchases:			
Other materials		200	(200)
Sub-contractor	718	200	518
Legal costs	2,680	2,000	680
Engineering costs	19,277	42,500	(23,223)
Reimbursable costs		200	(200)
	<u>22,675</u>	<u>45,100</u>	<u>(22,425)</u>
 Total costs incurred for others	<u>22,675</u>	<u>45,100</u>	<u>(22,425)</u>

(continued)

EAST COCALICO TOWNSHIP AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION –
SEWER DIVISION – ACTUAL VS BUDGET (CONTINUED)

YEAR ENDED DECEMBER 31, 2019
(See independent auditor's report)

	<u>Actual</u>	<u>Budget</u>	<u>Over or (under) budget</u>
Operating expenses (continued):			
Operating and maintenance:			
Salaries and wages:			
Supervision	\$ 79,308	\$ 77,965	\$ 1,343
Other	128,645	131,277	(2,632)
Payroll taxes	16,236	16,880	(644)
Pension	8,854	9,019	(165)
Workers' compensation insurance	4,123	5,066	(943)
Insurance	8,803	9,575	(772)
Employee group insurance	44,411	44,614	(203)
Maintenance:			
Building	616	1,000	(384)
Contents	8,761	15,000	(6,239)
Field items	18,680	15,000	3,680
Permit fees	53	100	(47)
Repairs to machinery and equipment	862	3,000	(2,138)
Sewer treatment costs, Ephrata/Adamstown	645,633	746,542	(100,909)
Sewer interceptor costs, Ephrata	12,967	19,817	(6,850)
Sewer debt service costs, Ephrata	245,075	260,032	(14,957)
Contracted services	1,720	2,400	(680)
Electric	21,781	22,000	(219)
Laboratory testing	3,216	3,100	116
Certification	907	500	407
Telemetry	5,736	6,200	(464)
Auto allowance	80	100	(20)
Depreciation	558,132	553,563	4,569
Other operating expense	4,325	2,500	1,825
Total operating and maintenance	<u>1,818,924</u>	<u>1,945,250</u>	<u>(126,326)</u>

(continued)

EAST COCALICO TOWNSHIP AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION –
SEWER DIVISION – ACTUAL VS BUDGET (CONTINUED)

YEAR ENDED DECEMBER 31, 2019
(See independent auditor's report)

	<u>Actual</u>	<u>Budget</u>	<u>Over or (under) budget</u>
Operating expenses (continued):			
Transportation expenses:			
Gasoline and motor oil	\$ 5,753	\$ 5,500	\$ 253
Repairs and service	5,553	2,500	3,053
Insurance	2,084	2,370	(286)
Depreciation	7,491	7,491	-
	<u>20,881</u>	<u>17,861</u>	<u>3,020</u>
Total transportation expenses			
General and administrative expenses:			
Salaries and wages, clerical	103,667	102,294	1,373
Payroll taxes	7,788	8,222	(434)
Pension	5,082	5,115	(33)
Insurance	1,925	2,073	(148)
Employee group insurance	31,654	30,828	826
Engineering fees	22,564	23,000	(436)
Legal fees	3,509	5,500	(1,991)
Audit fees	8,925	9,000	(75)
Bank fees	2,949	5,100	(2,151)
Officers expenses	2,450	2,925	(475)
Postage and office supplies	3,604	4,500	(896)
Dues and subscriptions	2,537	2,000	537
Advertising	134	1,500	(1,366)
Maintenance and repairs	1,504	1,500	4
Training and seminars	1,783	2,000	(217)
Telephone	5,107	5,500	(393)
Rent, building	6,375	6,500	(125)
Auto allowance	307	350	(43)
Water and sewer	591	750	(159)
Computer training		100	(100)
Computer support	19,787	19,000	787
Depreciation	747	408	339
Amortization of computer software	53		53
Uncollectible accounts		100	(100)
Other general expense	1,777	2,500	(723)
	<u>234,819</u>	<u>240,765</u>	<u>(5,946)</u>
Total general and administrative expenses			
Total operating expenses	<u>2,097,299</u>	<u>2,248,976</u>	<u>(151,677)</u>

(continued)

EAST COCALICO TOWNSHIP AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION –
SEWER DIVISION – ACTUAL VS BUDGET (CONTINUED)

YEAR ENDED DECEMBER 31, 2019
(See independent auditor's report)

	<u>Actual</u>	<u>Budget</u>	<u>Over or (under) budget</u>
Operating income (loss)	<u>\$ 133,042</u>	<u>\$ (99,704)</u>	<u>\$ 232,746</u>
Other income:			
Interest income	145,467	108,960	36,507
Miscellaneous income		200	(200)
Health insurance rebate	25,573	14,318	11,255
Gain on sale of assets		100	(100)
Total other income	<u>171,040</u>	<u>123,578</u>	<u>47,462</u>
Income before tapping fees and developer contributions	<u>304,082</u>	<u>23,874</u>	<u>280,208</u>
Tapping fees and developer contributions:			
Tapping fees	262,468	222,108	40,360
Developer contributions	88,086		88,086
Total tapping fees and developer contributions	<u>350,554</u>	<u>222,108</u>	<u>128,446</u>
Increase in net position	<u>654,636</u>	<u>\$ 245,982</u>	<u>\$ 408,654</u>
Net position:			
January 1	<u>12,789,727</u>		
December 31	<u>\$ 13,444,363</u>		

See notes to financial statements.