

Benner Township Water Authority

Financial Statements

December 31, 2018 and 2017



Benner Township Water Authority

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Independent Auditors' Report

To the Board of Directors of
Benner Township Water Authority

Report on the Financial Statements

We have audited the accompanying financial statements of Benner Township Water Authority (the "Authority"), which comprise the statements of net position as of December 31, 2018 and 2017, and the related statements of revenues, expenses, and change in net position, and cash flows for the years then ended, and the related notes to the financial statements.

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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Benner Township Water Authority as of December 31, 2018 and 2017, and the change in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters - Required Supplementary Information

Management has omitted a Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Baker Tilly Virchow Krause, LLP

State College, Pennsylvania
June 5, 2019

Benner Township Water Authority

Statements of Net Position

December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 215,531	\$ 271,825
Accounts receivable, trade	33,772	35,328
Inventory	3,140	3,010
Total current assets	252,443	310,163
Noncurrent Assets		
Capital assets, net	1,214,482	1,213,970
Total	<u>\$ 1,466,925</u>	<u>\$ 1,524,133</u>
Liability and Net Position		
Current Liability		
Accounts payable	\$ 9,388	\$ 8,723
Net Position		
Net investment in capital assets	1,214,482	1,213,970
Unrestricted	243,055	301,440
Total net position	1,457,537	1,515,410
Total	<u>\$ 1,466,925</u>	<u>\$ 1,524,133</u>

See notes to financial statements

Benner Township Water Authority

Statements of Revenues, Expenses, and Change in Net Position
Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Revenues		
Water system usage charges	\$ 107,554	\$ 107,900
Other operating income	30,060	140
Penalty for late payment	1,024	887
Connection fees	-	2,640
	<u>138,638</u>	<u>111,567</u>
Total operating revenues	<u>138,638</u>	<u>111,567</u>
Operating Expenses		
Purchased services	118,879	87,953
Other operating expense	41,509	19,362
Depreciation expense	38,488	38,488
	<u>198,876</u>	<u>145,803</u>
Total operating expenses	<u>198,876</u>	<u>145,803</u>
Operating Loss	(60,238)	(34,236)
Nonoperating Revenue		
Interest income	2,365	1,618
	<u>2,365</u>	<u>1,618</u>
Change in net position	(57,873)	(32,618)
Net Position, Beginning	<u>1,515,410</u>	<u>1,548,028</u>
Net Position, Ending	<u>\$ 1,457,537</u>	<u>\$ 1,515,410</u>

See notes to financial statements

Benner Township Water Authority

Statements of Cash Flows

Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Cash received from customers	\$ 140,194	\$ 109,744
Cash paid to vendors	<u>(159,853)</u>	<u>(103,112)</u>
Net cash (used in) provided by operating activities	(19,659)	6,632
Cash Flows Used in Capital Activities		
Purchase of property and equipment	(39,000)	-
Cash Flows Provided by Investing Activities		
Interest received	<u>2,365</u>	<u>1,618</u>
(Decrease) increase in cash and cash equivalents	(56,294)	8,250
Cash and Cash Equivalents, Beginning	<u>271,825</u>	<u>263,575</u>
Cash and Cash Equivalents, Ending	<u><u>\$ 215,531</u></u>	<u><u>\$ 271,825</u></u>
Reconciliation of Operating Loss to Net Cash (Used in) Provided by Operating Activities		
Operating loss	\$ (60,238)	\$ (34,236)
Adjustments to reconcile operating loss to net cash (used in) provided by operating activities:		
Depreciation	38,488	38,488
Changes in assets and liabilities:		
Accounts receivable, trade	1,556	(1,823)
Inventory	(130)	334
Accounts payable	<u>665</u>	<u>3,869</u>
Net cash (used in) provided by operating activities	<u><u>\$ (19,659)</u></u>	<u><u>\$ 6,632</u></u>

See notes to financial statements

Benner Township Water Authority

Notes to Financial Statements
December 31, 2018 and 2017

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Benner Township Water Authority (the "Authority") was organized under the Pennsylvania Municipality Authorities Act of 1945 to form a water system serving the residents of Benner Township, Pennsylvania.

The Authority evaluated subsequent events for recognition or disclosure through June 5, 2019, the date the financial statements were available to be issued.

Reporting Entity

The reporting entity has been defined in accordance with the criteria established in Governmental Accounting Standards Board ("GASB") Statement 14, as amended by GASB Statement Nos. 39, 61 and 80. The specific criteria used in determining whether other organizations should be included in the Authority's financial reporting entity are financial accountability, fiscal dependency and legal separation.

The Authority is a basic level of government that has oversight responsibility and control of a water system. The Authority receives funding from customer fees. Members of the board are appointed by the Township of Benner. The Authority is not included in any other governmental "reporting entity" as defined in GASB pronouncements, since Board members have decision making authority, the authority to establish fees, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters. No other entities are included in these financial statements.

Basis of Presentation, Fund Accounting

Proprietary Fund Type

Proprietary funds are used to account for activities that are similar to those often found in the private sector. The measurement focus is upon determination of net income and capital maintenance. Proprietary funds distinguish operating revenues from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The following is the Authority's proprietary fund:

Enterprise Fund

Enterprise funds are used for activities that are financed and operated in a manner similar to private business enterprise, where the intent of the governing body is that the costs of providing services to the public on a continuing basis be financed or recovered primarily through user charges. Enterprise funds are also used in situations where the governing body has determined that periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability and other purposes. The Authority's enterprise fund type consists of its water operations.

Benner Township Water Authority

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Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting refers to the timing of the measurement made, regardless of the measurement focus being applied.

The proprietary fund type is accounted for on an economic resources management focus, using the accrual basis of accounting. Revenues are recorded when earned, including unbilled water services, which are accrued. Expenses are recorded at the time liabilities are incurred.

Accounts Receivable, Trade

Accounts receivable, trade are reported at amounts management expects to collect on balances outstanding at year-end. Accounts are charged to bad debt expense when deemed uncollectible based upon a periodic review of individual accounts. Accounts receivable are considered fully collectible by management and, accordingly, no allowance for doubtful accounts is considered necessary.

Capital Assets, Net

Capital assets are stated at cost. Depreciation is computed over the estimated useful lives of the assets using the straight-line method. Repairs and maintenance are expensed in the period when incurred.

Use of Estimates

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

Inventory

Parts and supplies are stated at the lower of cost or market (net realizable value).

Operating Revenues and Expenses

Operating revenues of the Authority consist of usage charges, connection fees, penalties, and other operating income. Interest income is considered non-operating revenue. All expenses are recorded as operating expenses.

Cash Equivalents

The Authority considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

New Accounting Principle

The Authority adopted GASB Statement No. 85, *Omnibus 2017*, for the year ended December 31, 2018. GASB 85 enhances consistency in application of accounting and financial reporting requirements. Consistent reporting will improve the usefulness of information for users of state and local government financial statements. The adoption of this standard did not have significant impact on the Authority's financial statements.

Benner Township Water Authority

Notes to Financial Statements
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2. Custodial Credit Risk-Deposits

Under the Municipality Authorities Act, the Authority can invest in U.S. Treasury bills, other short-term U.S. and Pennsylvania government obligations or their agencies or instrumentalities and insured or collateralized time deposits and certificates of deposit.

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned. The Authority does not have a formal deposit policy for custodial credit risk. As of December 31, 2018, the Authority's total bank deposits were \$215,470, all of which was insured by the FDIC. As of December 31, 2017, the Authority's total bank deposits were \$271,875, of which \$250,000 was insured by the FDIC with the remainder collateralized with securities held by the pledging institution, but not in the Authority's name.

3. Capital Assets, Net

The useful lives of capital assets are as follows:

	<u>Useful Life</u>
Water system	40-50 years

Capital assets activity for the years ended December 31, 2018 and 2017 is as follows:

	<u>January 1, 2018</u>	<u>Additions</u>	<u>December 31, 2018</u>
Capital assets:			
Land, not depreciated	\$ 50,000	\$ -	\$ 50,000
Water system	1,485,154	39,000	1,524,154
Total capital assets	1,535,154	39,000	1,574,154
Accumulated depreciation, Water system	(321,184)	(38,488)	(359,672)
Capital assets, net	<u>\$ 1,213,970</u>	<u>\$ 512</u>	<u>\$ 1,214,482</u>
	<u>January 1, 2017</u>	<u>Additions</u>	<u>December 31, 2017</u>
Capital assets:			
Land, not depreciated	\$ 50,000	\$ -	\$ 50,000
Water system	1,485,154	-	1,485,154
Total capital assets	1,535,154	-	1,535,154
Accumulated depreciation, Water system	(282,696)	(38,488)	(321,184)
Capital assets, net	<u>\$ 1,252,458</u>	<u>\$ (38,488)</u>	<u>\$ 1,213,970</u>

Benner Township Water Authority

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4. Pending Changes in Accounting Principles

In June 2017, the GASB issued Statement No. 87, *Leases*. The primary objective of this statement is to enhance the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases previously classified as operating leases. This statement establishes a single model for lease accounting based on the foundational principle that are long-term leases (those with lease terms greater than 12 months) are financings of the right to use an underlying asset. The Authority is required to adopt Statement No. 87 for its fiscal 2020 financial statements.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The primary objective of this statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The Authority is required to adopt Statement No. 88 for its 2019 financial statements.

In June 2019, the GASB issued Statement No. 89, *Accounting for Interest Incurred Before the End of a Construction Period*. The objectives of this statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The Authority is required to adopt Statement No. 89 for its 2020 financial statements.