

**WARWICK TOWNSHIP WATER
AND SEWER AUTHORITY**

**COMPONENT UNIT OF THE
TOWNSHIP OF WARWICK**

FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
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DECEMBER 31, 2019 AND 2018**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Warwick Township Water and Sewer Authority

We have audited the accompanying financial statements of Warwick Township Water and Sewer Authority (the Authority), a Component Unit of the Township of Warwick, Pennsylvania, 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 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 Warwick Township Water and Sewer Authority, Component Unit of the Township of Warwick, Pennsylvania, as of December 31, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 28 and 29 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 audits 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 Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements as a whole. The Schedules of Operating Expenses on page 27 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedules of Operating Expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits 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, the Schedules of Operating Expenses are fairly stated in all material respects in relation to the basic financial statements as a whole.



Brinker Simpson & Company, LLC
Springfield, Pennsylvania
May 18, 2020

Warwick Township Water & Sewer Authority
Component Unit of the Township of Warwick
Management's Discussion and Analysis
December 31, 2019 and 2018

This section of Warwick Township Water & Sewer Authority's, hereafter referred to as "Authority" annual financial report presents management's analysis of the Authority's financial condition for the years ended December 31, 2019 and 2018.

Financial Highlights

- July 31, 2019, the WTWSA redeemed the outstanding bonds from its 2012 Water and Sewer Municipal Bond issue, in the amount of \$4,950,221 (\$4,940,000 Principal and \$10,221 Interest), in accordance with the terms of the Official Statement related to the Bonds.
- There was no Water or Sewer rate increase for 2019.
- For fiscal year 2019, the Authority delivered 249.0 million gallons of water and treated 324.8 million gallons of wastewater, compared to 245.5 million gallons of water and treated 375.0 million gallons of wastewater in the previous year. The Authority purchased 274.6 million gallons of water in 2019, which represented a daily average of 752,276 gallons, while 2018 purchases totaled 260.7 million gallons, an average of 791,233 gallons per day. Unaccounted for water increased to 9.27% in 2019 from 5.82% in 2018, due to additional hydrant flushing in 2019.
- Total assets at year-end were \$36 million and exceeded liabilities in the amount of \$35 million (i.e. net position). Total assets decreased dramatically from 2018 due to the 2012 Bond payoff in July 2019. Deferred outflows of resources were \$0 in 2019 compared to \$165,554 in 2018.
- Operating revenues increased by 1.04 % from \$3,473,339 in 2018 to \$3,509,410 in 2019, and were under budget projections by \$10,590. Water revenues by existing customers increased from 2018 to 2019 by approximately .83% and sewer revenues increased by 1.28%. Non-operating revenue decreased over 2018 by \$61,540.
- Operating expenses before depreciation for 2019 were \$2,844,077 and were \$135,940 under the budget projection. Operating expenses increased \$44,549 or 1.59%, from the previous calendar year.
- The Operating income before depreciation for the year totaled \$665,333. Operating income before depreciation decreased from 2018 by \$8,478 or 1.26%.
- There were no developer contributions of infrastructure for 2019. These contributions vary from year-to-year with fluctuations in completed and dedicated developer projects.

Warwick Township Water & Sewer Authority
Component Unit of the Township of Warwick
Management's Discussion and Analysis
December 31, 2019 and 2018

Overview of Annual Financial Statements

Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with the independent auditor's report at the front of this report and the Authority's audited financial statements and supplementary information, which follow this section.

This annual report consists of four parts – management's discussion and analysis, the basic financial statements, notes explaining some of the information in the financial statements and supplementary information.

The financial statements report information about the Authority using full accrual accounting methods similar to those used by the private sector. However, rate-regulated accounting principles applicable to private sector utilities are not used by government utilities.

The financial statements include the statements of net assets; statements of revenues, expenses and changes in net position; statements of cash flows; notes to the financial statements; and supplementary information.

The **statements of net position** present the financial position of the Authority on a full accrual historical cost basis. The statements of net position present information on all the Authority's assets and liabilities, with the difference reported as net position.

While the statement of net position provides information about the nature and amount of resources and obligations at year-end, the **statements of revenues, expenses and changes in net position** presents the results of the business activities over the course of the fiscal year and the amount by which the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the Authority's recovery of its costs. Rate setting policies use different methods of cost recovery not fully provided for by generally accepted accounting principles. The primary objective of a rate model is to improve financial position among customer classes and to ensure that capital costs are allocated on the basis of long-term capacity needs, ensuring that growth pays for growth.

The **statements of cash flows** report changes in cash and cash equivalents resulting from operating, capital, financing, and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The **notes to the financial statements** provide required disclosures and other information that are essential to a full understanding of the financial data provided in the statements. The notes present information about the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

Warwick Township Water & Sewer Authority
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Supplementary information includes schedules of operating expenses and also provides statements of revenues and expenses compared to budget.

The financial statements were prepared by the Authority's staff from detailed books and records of the Authority and audited during the annual independent external audit.

Summary of Organization and Business

The Authority is a body created pursuant to an ordinance of the Board of Supervisors of Warwick Township, Bucks County, Pennsylvania under an Act of the General Assembly of the State, approved May 2, 1945, P.L. 382, as amended and supplemented, known as the Municipal Authority Act of 1945, as amended. The Secretary of the Commonwealth of Pennsylvania issued the certificate to incorporation of the Authority on May 1, 1969. The charter was amended on July 3, 1991 to extend the term of existence of the Authority to fifty (50) years from such date.

The governing body of the Authority is a Board consisting of five members appointed by the Township Board of Supervisors. It has been determined that the Authority is a component unit of Warwick Township. The terms of the members of the Board are five years and have been staggered so that the term of one member expires annually. The Authority has broad powers under the Act, including among others, the following: to acquire, hold, construct, improve, maintain and operate, own, lease, either in the capacity of lessor or lessee, sewers, sewer systems or parts thereof, sewage treatment works, including works of treating and disposing of industrial waste, water works, water supply works, water distribution systems, and all facilities necessary and incidental thereto.

The Authority employs ten (10) full time staff.

The Authority does not have taxing power; ongoing operations are funded from customer revenues. The Authority's customer connection base as of December 31, 2019 consisted of approximately 4,090 single-family residential, 7 multi-family residential and 134 commercial customer connections.

The Authority's Water and Sewer Systems

The Sewer System

The Authority currently operates two (2) separate sewage collection, conveyance and treatment systems within the Township serving two distinct watershed areas. The Fish Creek Wastewater Treatment Facility and Sewage Collection and Conveyance System (the "Fish Creek System"), located in the northern portion of the Township, discharges into Fish Creek, a small tributary of Neshaminy Creek. The Country Crossing Wastewater Treatment Facility and Sewage Collection and Conveyance System (the "Country Crossing System"), located in the southern portion of the Township, discharges into an unnamed tributary of the Little Neshaminy Creek.

Warwick Township Water & Sewer Authority
Component Unit of the Township of Warwick
Management's Discussion and Analysis
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Fish Creek Watershed Area

The Fish Creek System collects sanitary sewage from the northern portion of the Township and in the area surrounding the village of Jamison and transmits it to the Fish Creek Wastewater Treatment Facility (the "Fish Creek Plant"). The Fish Creek System collects sanitary sewage through approximately 300,000 lineal feet of eight (8) inch, ten (10) inch, and eighteen (18) inch polyvinyl chloride (PVC) and ductile iron pipe with precast concrete manhole structures. The Authority operates eight (8) raw sewage pumping stations where gravity flow to the Fish Creek plant is not possible. All of these pumping stations contain emergency generators or back-up diesel pumps.

The Fish Creek Plant was designed to treat an average flow of 0.85 million gallons per day (mgd) using a sequencing batch reactor activated sludge wastewater treatment facility most recently updated in 2018. The plant uses four concrete reactors which alternately treat batches of wastewater. Disinfection is provided by an ultraviolet light system with a capacity of 5.0 mgd. A cascade aerations outfall is provided immediately prior to discharge of the treated effluent into Fish Creek, providing increased dissolved oxygen in the effluent.

Little Neshaminy Creek Watershed Area

The Country Crossing System collects sanitary sewage primarily from the Country Crossing and Heritage Creek residential developments, located in the southern portion of the Township. This system was originally constructed in 1996 and 1997 by a private developer under Authority supervision, and ownership was subsequently transferred to the Authority. The Country Crossing System collects sanitary sewage through approximately 60,000 lineal feet of eight (8) inch diameter PVC and ductile iron pipe with precast concrete manhole structures. Three (3) pumping stations are operated within the service area where gravity flow to the Country Crossing Wastewater Treatment Facility (the "Country Crossing Plant") is not possible.

The Country Crossing Plant uses a sequencing batch reactor secondary and tertiary treatment system consisting of four rectangular reinforced concrete reactors and an ultraviolet light disinfection system to treat up to 0.32 mgd of municipal wastewater. An on-site equalization basin is used to provide the treatment system with a steady flow of waste. Treated effluent from the Country Crossing Wastewater Treatment Facility is processed through a sand filter and discharged into an unnamed tributary of the Little Neshaminy Creek.

The Water System

The Authority purchases water in bulk from Aqua Pennsylvania Inc. and the North Wales Water Authority, and distributes it to residents of Warwick Township. The distribution system consists of ductile iron water mains ranging in size from four (4) to twelve (12) inch in diameter. The Authority maintains various booster stations, storage tanks and wells throughout the Township. The Authority has terminated its docket with the DRBC and no longer utilizes the ground water sources within the Township.

Warwick Township Water & Sewer Authority
Component Unit of the Township of Warwick
Management's Discussion and Analysis
December 31, 2019 and 2018

The Authority provides reliable high-quality potable water used for drinking, fire protection and other purposes to residential and commercial customers. The Authority has a long-term agreement with Aqua PA and North Wales Water Authority to purchase 100 percent of the Townships current and future water needs at a very reasonable price. These guaranteed supply agreements insure an adequate supply of water for our customers. Rate increases from Aqua PA are generally tied to the Consumer Price Index.

The interconnection with NWWA provides a redundant supply of water for WTWSA with approximately 100,000 gallons per day on an annual average with peak demands of up to 800,000 gallons per day.

Operations of the Water and Sewer Systems

<i>Ten Largest Water Users</i>		
<u>System User</u>	<u>Property Description</u>	<u>2019 Charges</u>
BRIDGES OF WARWICK	Senior Living	\$16,097
LIBERTY VILLAGE	Apartments	\$13,565
BRIDGE VALLEY ELEMENTARY	School	\$6,953
OUTBACK STEAKHOUSE	Restaurant	\$5,824
HERITAGE CREEK Bld 4	Apartments	\$5,027
CAR WASH GROUP LLC	Car Wash	\$4,928
MIDDLE BUCKS VO TECH	School	\$4,678
WAWA	Convenience Store	\$4,491
TD BANK	Bank	\$4,099
HERITAGE CREEK Bld 1	Apartments	\$4,055
<i>Ten Largest Sewer Users</i>		
<u>System User</u>	<u>Property Description</u>	<u>2019 Charges</u>
BRIDGES OF WARWICK	Senior Living	\$21,010
LIBERTY VILLAGE	Apartments	\$17,743
CAR WASH GROUP LLC	Car Wash	\$10,496
BRIDGE VALLEY ELEMENTARY	School	\$9,212
OUTBACK STEAKHOUSE	Restaurant	\$7,755
HERITAGE CREEK Bld 4	Apartments	\$6,726
CAR WASH GROUP LLC	Car Wash	\$6,599
MIDDLE BUCKS VO TECH	School	\$6,276
WAWA	Convenience Store	\$6,035
TD BANK	Bank	\$5,507

Financial Condition

Total assets decreased \$6,418,228 or 15.18% from 2018, mainly due to the redemption of the 2012 Bond Issue. Net position decreased \$967,586 in 2019 from 2018. Unrestricted net position decreased \$4,763,498 or 76.80% in 2019.

Accounts receivable at year-end was \$74,360 more than year-end 2018 or approximately 8.72%. The Authority's billing department methodically pursues delinquent customer accounts; all accounts receivable are considered collectible since the Authority liens all customers' property for non-payment.

Warwick Township Water & Sewer Authority
Component Unit of the Township of Warwick
Management's Discussion and Analysis
December 31, 2019 and 2018

Results of Operations

Operating Revenue: Revenues from operations are comprised of three general categories: water service, sewer service and other charges. Other charges include meter charges, meter installation charges, administrative fees and charges for miscellaneous billed services. The Authority has three core classes of water and sewer customers: single-family residential, multi-family residential and commercial. In addition to these three classes, the Board has approved the sale of water to commercial bulk water haulers.

The Authority's water revenue increased .83% and sewer revenues increased .1.28% from the previous year. Water revenue increased \$11,707 and sewer revenue increased \$25,847 from 2018.

Total 2018 operating revenue increased by \$36,071 from the calendar year 2018. The majority of the water and sewer sales were from residential customers, approximately 91%.

Expenses: Total operating expenses of the Authority, before depreciation, increased \$44,549 from calendar year 2018 and were under budget by \$135,940. Operating income, before depreciation is \$665,333 for 2019 compared to \$673,811 for 2018.

Water operating expenses increased 3.32%, sewer operating expenses increased 4.83% and administrative expenses increased 10.14% from 2018 to 2019.

Depreciation and amortization expense for 2019 and 2018 was \$1,588,574 and \$1,536,420, respectively.

Capital Contributions: The Authority accepts additions to its collection and distribution systems from developers, commonly referred to as Developer Contributions. Prior to GASB 33 and 34 implementation, Developer Contributions were recorded as direct contributions to equity. GASB 33 and 34 define these Developer Contributions as non-operating revenues and requires reporting the amounts through the Statements of Revenues, Expenses, and Changes in Net Position.

There were no developer contributions of infrastructure for 2019.

Tapping Fees: The Authority charges all new customers a water and/or sewer tapping fee on an EDU basis for their pro-rata portion of the water and sewer facilities and report the tapping fees as non-operating income when a property goes to settlement. Residential and commercial real estate developers pay the majority of these fees in blocks upon the signing of a Developer Agreement.

Tapping fee revenues were \$156,200 for 2019 compared to \$228,700 for 2018, and for 2018 were \$204,300 under the budgeted amount of \$360,500. Tapping fees vary from year-to-year with fluctuations in development and therefore are difficult to predict.

Warwick Township Water & Sewer Authority
Component Unit of the Township of Warwick
Management's Discussion and Analysis
December 31, 2019 and 2018

Final Comments

This financial report is designed to provide a general overview of the Authority's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Warwick Township Water and Sewer Authority, Finance Department, P.O. Box 315, Jamison, Pennsylvania 18929.

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
STATEMENTS OF NET POSITION
DECEMBER 31 2019 AND 2018**

	2019	2018
<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>		
Current Assets		
Cash and cash equivalents	\$ 1,083,866	\$ 4,317,089
Accounts receivable, customers and developers	927,334	852,974
Notes receivable, current maturities	26,800	33,973
Inventory	91,518	38,974
Prepaid expenses	20,310	27,043
Total Current Assets	2,149,828	5,270,053
Restricted Assets		
Cash, escrow funds - developers	150,339	174,071
Cash, Series 2012 Bonds - trust accounts	-	2,293,180
Total Restricted Assets	150,339	2,467,251
Capital Assets		
Land and construction in progress	1,074,747	700,311
Plant and equipment, net of accumulated depreciation	32,455,125	33,783,850
Total Capital Assets	33,529,872	34,484,161
Notes receivable, net of current maturities	40,200	67,000
Total Assets	35,870,239	42,288,465
Deferred Outflows of Resources		
Deferred loss on bond refundings	-	165,554
Total Assets and Deferred Outflows of Resources	\$ 35,870,239	\$ 42,454,019
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</u>		
Current Liabilities		
Current maturities of bonds payable	\$ -	\$ 300,000
Accounts payable, vendors and developers	197,451	385,234
Accrued interest payable	-	63,504
Accrued payroll and payroll withholdings	26,041	20,041
Accrued compensated absences	14,523	12,701
Total Current Liabilities	238,015	781,480
Restricted Liabilities		
Escrow deposits, developers	150,339	174,071
Long-Term Liabilities		
Deferred income	512,900	664,600
Bonds payable, net of unamortized discount	-	4,897,297
Total Long-Term Liabilities	512,900	5,561,897
Total Liabilities	901,254	6,517,448
Deferred Inflows of Resources		
	-	-
Net Position		
Invested in capital assets, net of related debt	33,529,872	29,286,864
Restricted for debt service	-	447,096
Unrestricted	1,439,113	6,202,611
Total Net Position	34,968,985	35,936,571
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 35,870,239	\$ 42,454,019

See notes to financial statements.

WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Operating Revenues		
Water revenue	\$ 1,429,823	\$ 1,418,116
Sewer revenue	2,043,212	2,017,365
Administrative fees	5,099	4,294
Construction usage and certificate fees	12,450	13,000
Meter installations	18,651	19,289
Miscellaneous operating revenues	175	1,275
Total Operating Revenues	3,509,410	3,473,339
Operating Expenses		
Water plant operating expenses	1,054,036	1,020,125
Wastewater plant operating expenses	1,080,040	1,134,809
General and administrative expenses	710,001	644,594
Total Operating Expenses	2,844,077	2,799,528
Operating Income Before Depreciation and Amortization	665,333	673,811
Depreciation and amortization	1,631,277	1,536,420
Operating Loss	(965,944)	(862,609)
Nonoperating Revenues		
Water tapping fees	95,000	134,200
Sewer tapping fees	61,200	94,500
Interest income	54,639	63,139
Miscellaneous income	58,400	38,940
Total Nonoperating Revenues	269,239	330,779
Nonoperating Expenses		
Interest expense	105,327	128,809
Loss on bond refundings	165,554	-
Total Nonoperating Expenses	270,881	128,809
Net Nonoperating Revenues/(Expenses)	(1,642)	201,970
Loss Before Capital Contributions	(967,586)	(660,639)
Capital contributions	-	909,331
Increase (Decrease) in Net Position	(967,586)	248,692
Net position, Beginning	35,936,571	35,687,879
Net position, Ending	\$ 34,968,985	\$ 35,936,571

See notes to financial statements.

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019	2018
Cash Flows From Operating Activities		
Cash received from customers and developers	\$ 3,509,410	\$ 3,651,218
Cash paid to suppliers and developers	(2,149,905)	(1,625,050)
Cash paid to employees	(959,636)	(907,072)
Net Cash and Cash Equivalents Provided by Operating Activities	399,869	1,119,096
Cash Flows From Capital and Related Financing Activities		
Tapping fees received	4,500	248,400
Acquisition of capital assets	(634,285)	(717,923)
Interest paid on Series 2012 Bonds	(168,831)	(130,609)
Principal paid on Series 2012 Bonds	(5,240,000)	(300,000)
Net Cash and Cash Equivalents Used in Capital and Related Financing Activities	(6,038,616)	(900,132)
Cash Flows From Investing Activities		
Interest income received	54,639	63,139
Payments received on notes receivable	33,973	40,520
Net Cash and Cash Equivalents Provided by Investing Activities	88,612	103,659
Net Change in Cash and Cash Equivalents	(5,550,135)	322,623
Cash and Cash Equivalents, Beginning	6,784,340	6,461,717
Cash and Cash Equivalents, Ending	\$ 1,234,205	\$ 6,784,340
Reconciliation of Operating Loss to Net Cash and Cash Equivalents Provided by Operating Activities		
Operating loss	\$ (965,944)	\$ (862,609)
Adjustments to reconcile operating loss to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	1,631,277	1,536,420
Miscellaneous income	58,400	38,940
Loss on bond refundings	165,554	-
Change in:		
Accounts receivable, customers and developers	(74,360)	177,879
Inventory	(52,544)	15,835
Prepaid expenses	6,733	14,419
Deferred outflow of resources - deferred loss on bond refundings	(165,554)	-
Accounts payable, vendors and developers	(187,783)	221,572
Escrow deposits, developers	(23,732)	(17,665)
Accrued payroll and payroll withholdings	6,000	(4,291)
Accrued compensated absences	1,822	(1,404)
Net Cash and Cash Equivalents Provided by Operating Activities	\$ 399,869	\$ 1,119,096
Supplemental Disclosure of Noncash Capital and Related Financing Activities		
Assets acquired through capital contributions	\$ -	\$ 909,331

See notes to financial statements.

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018**

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Warwick Township Water and Sewer Authority (the Authority) is located in the County of Bucks, Pennsylvania, and was incorporated on May 1, 1969 under the Municipal Authorities Act of 1945. The Authority is a municipal corporation with a five-member board of directors. The Authority supplies water and sewer services to certain residents of the Township of Warwick (the Township).

The criteria used in determining the scope of the reporting entity for financial reporting purposes is consistent with the guidance contained in Governmental Accounting Standards Board (GASB) Statement No. 39, Determining Whether Certain Organizations are Component Units. These criteria are:

- *Selection of the governing authority:*

The members of the Authority's Board of Directors are appointed to five-year terms by the Township supervisors. While there is continuing communication with the Township, there is little linkage to elected Township officials after appointment.

- *Designation of management:*

The Authority's management and employees, who are responsible for the Authority's operations, are appointed by, and are held accountable to, the Authority's Board of Directors.

- *Ability to significantly influence operations:*

The Authority reviews and approves all budgetary actions, signs contracts as the contracting agency, hires and controls key management personnel, and exercises control over facilities, property, and policies relating to the services provided by the Authority. The Township assumes no responsibility for the Authority's day-to-day operations.

- *Accountability for fiscal matters:*

Budgetary authority and control over collection and disbursement of funds, fiscal management, and funding deficits rests with the Authority.

Based on these criteria, the Authority is a Component Unit of the Township of Warwick. The Authority's relationship with the Township is so significant that its exclusion would render the Township's financial statements misleading, even though financial accountability to the Township is absent.

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (continued)**

Basis of Accounting

The Authority's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Accounting policies are based on generally accepted accounting principles for self-supporting governmental enterprise funds, a proprietary fund-type. Accordingly, revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows.

New Accounting Pronouncements

GASB Statement No. 83 – In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital asset should recognize a liability based on the guidance in this Statement. This Statement also requires disclosure of information about the nature of a government's ARO, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. This pronouncement does not impact the Authority for the year ended December 31, 2019.

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The Statement is effective for the reporting periods beginning after December 15, 2019. The Authority has not determined the effect of this pronouncement.

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
 COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
 POLICIES (continued)**

Budgetary Data

The Authority's management prepares the Authority's operating budget with input from the Finance Committee. The Authority follows these procedures in establishing the budgetary data included in the financial statements:

- A preliminary budget is presented to the Board of Directors in an October public meeting
- The operating budget includes proposed expenditures and the means of financing them
- At the November public meeting, the Board of Directors reviews the budget
- Prior to December 31st, the Authority holds a public meeting, after which the budget is legally adopted through passage of a resolution
- The budget is certified by the Authority's Engineer that proposed rates for water and sewer services will achieve the 110% (or 1.1 times) debt service coverage requirement
- All budget revisions require the approval of the Board of Directors
- The budget lapses at the end of each year

Excess of Expenditures Over Budgeted Amounts

For the year ended December 31, 2019, expenditures exceeded budgeted amounts in the following categories:

Water Plant Operating Expenses:	
Personnel expenses	\$ 34,528
Administrative expenses	9,070
Wastewater Plant Operating Expenses:	
Personnel expenses	229
General and Administrative Expenses:	
Personnel expenses	12,540
Other	15,388

For the year ended December 31, 2018, expenditures exceeded budgeted amounts in the following categories:

Water Plant Operating Expenses:	
Personnel expenses	\$ 1,912
Administrative expenses	6,471
Wastewater Plant Operating Expenses:	
Personnel expenses	24,256

The excess of expenditures over budgeted amounts was financed with revenues.

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
 COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED DECEMBER 31, 2019 AND 2018**

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Cash and Cash Equivalents

The Authority considers all highly liquid investments (including restricted assets separately held) with a maturity of three months or less when purchased to be cash equivalents.

Accounts Receivable

Customer billings are computed from meter readings and billed quarterly based on the amount consumed in the previous quarter. All bills are due and payable within thirty days after the end of the service period covered. If not paid by the due date, the bills are considered delinquent.

No allowance for uncollectible accounts has been provided since management considers all accounts to be collectible. The Authority is permitted to lien the customer's property if the customer does not remit payment timely.

Inventory

Inventory held by the Authority consists of materials, supplies, chemicals and water meters. Inventory is stated at cost, which is determined using the first-in, first-out method.

Capital Assets

Capital assets are stated at cost or fair market value at time of contribution to the Authority. Land and construction in progress is not depreciated. When construction projects are complete, the cost is transferred to the plant and equipment accounts. Plant additions and improvements are capitalized and depreciated. Replacements, maintenance and repairs, which do not improve or extend the life of the asset are expensed currently. Depreciation is provided for on a straight-line basis. Depreciation expense for 2019 and 2018 totaled \$1,588,574 and \$1,521,868, respectively.

Depreciable lives of plant and equipment are estimated as follows:

<u>Asset</u>	<u>Years</u>
Plant and improvements	20 - 50
Collection lines	50
Machinery and equipment	10
Vehicles	5

The minimum capitalization threshold is an individual item with a cost of more than \$500 and a useful life exceeding one year.

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (continued)**

Restricted Assets

Restricted assets include amounts held in trust accounts for the Series 2012 Bonds, which were to be used for repayment of the bonds and the construction of capital assets. The Authority's "net position restricted for debt service" includes the excess of assets over certain liabilities restricted for debt service on the bonds outstanding.

Restricted assets also include developer escrows. Developer deposits held by the Authority are to be used to pay for engineering, legal, inspection costs and administrative fees associated with the respective developers' projects. Upon receipt of the funds, the Authority records the cash and corresponding liability, and when the Authority receives invoices for expenses on behalf of the developer, it disburses the funds and reduces the liability.

Capitalization of Interest

Interest expense that relates to the cost of acquiring or constructing capital assets is capitalized. Because the Authority's debt proceeds are not restricted to specified assets, interest expense incurred in connection with construction of capital assets is not reduced by interest earned on the investment of funds borrowed for construction. No interest has been capitalized for the years ended December 31, 2019 and 2018.

Financing Costs

Bond issuance costs are written off in the year incurred.

Capital Contributions

Distribution and collection lines, pumping stations, wells and storage and treatment facilities constructed and installed by developers and dedicated to the Authority are recorded as capital contributions and depreciated over their estimated useful lives upon acceptance of the dedication. Capital contributions totaled \$-0- and \$909,331 during the years ended December 31, 2019 and 2018, respectively. Contributed capital is recorded as income in the year of dedication to the Authority.

Unamortized Bond Discounts

Bond discounts are deferred and amortized over the term of the related bonds using the bonds outstanding method, which approximates the interest method. For financial reporting purposes, bond discounts are offset against bonds payable.

Deferred Loss on Bond Refundings

Unamortized original issue discount and bond discounts on refunded bonds are deferred and amortized, using the bonds outstanding method, over the original maturity of the refunded bonds. For financial reporting purposes, these deferred refunding costs are reported as deferred outflows of resources.

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (continued)**

Deferred Income

Developers pay the Authority for tapping fees prior to the construction of distribution and collection lines. The fees are recorded as unearned revenue when received and recognized as nonoperating revenues when the developer connects the water and sewer lines to the Authority's system.

Net Position

Net position comprises the various net earnings from operating and nonoperating revenues, expenses and contributions of capital. Net position is classified in the following four components: invested in capital assets, net of related debt; restricted for capital activity; restricted for debt service; and unrestricted.

Net position invested in capital assets, net of related debt consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets.

Net position restricted for debt service consists of net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates, less any related liabilities.

Unrestricted net position consists of all other assets not included in the above categories.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes 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 a future period or periods and so will not be recognized as an outflow of resources (expense/expenditure) until that time.

In addition to liabilities, the statement of financial position will sometimes report a separate section of deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period or periods and so will not be recognized as an inflow of resources (revenues) until that time.

Revenue Recognition

The Authority distinguishes between operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Authority's ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

For expenses that could be paid by either restricted or unrestricted resources, it is the Authority's policy to use restricted revenues first, and then unrestricted resources as they are needed.

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (continued)**

Revenues and Rate Structure

Revenues from water and sewer services are recognized on the accrual basis as earned. Services are supplied to customers under a rate structure designed to produce revenues sufficient to provide for operating and maintenance costs, capital outlay, debt service reserves and debt coverage.

Deferred Compensation Plan

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits the Authority's employees to defer a portion of their salary until future years. Compensation deferred is not available to employees until termination, retirement, death, or unforeseeable emergency. The Authority's contributions are made each pay. The Authority matches 50% of an employee's contributions, up to 10% of their compensation. For the years ended December 31, 2019 and 2018, the Authority's matching contribution was \$28,414 and \$25,709, respectively.

Compensated Absences

Unpaid vacation and sick time is recorded as an expense in the period it is earned and considered payable from current financial resources. The Authority does not compensate unpaid sick time upon employees' termination or retirement. The estimated value of vacation time owed to employees who may be paid in subsequent years or upon termination or retirement and, therefore, payable from future resources is recorded in the current year.

NOTE 2: RESTRICTED ASSETS

Bond Trust Accounts

In accordance with the terms of the Series 2012 Bond Trust Indenture, the Authority was required to maintain funds in various trust accounts, segregated for specific use and security of the bondholders. The trust accounts were maintained by an independent trustee in accordance with the Trust Indenture.

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
 COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED DECEMBER 31, 2019 AND 2018**

NOTE 2: RESTRICTED ASSETS (continued)

Deposits in the trust accounts must be insured or secured as described in Note 3, and may be invested as provided by law and the Trust Indenture. Deposits in the trust accounts consist of cash and cash equivalents. Income received on amounts deposited, other than Construction Fund deposits, was transferred to the Revenue Fund and is available to pay operating costs. As a result of the redemption of the Series 2012 Bond Trust Indenture, these accounts are no longer required.

	2019	2018
<u>Water and Sewer Revenue Bonds - Series 2012</u>		
Restricted Cash and Cash Equivalents:		
Revenue Account	\$ -	\$ 39,076
Revenue Account - Electronic Deposits	-	8,508
Bond Revenue Fund	-	1,798,303
Debt Service Reserve	-	439,609
Construction Fund	-	197
Debt Service Fund	-	7,487
Total Restricted Trust Accounts - Series 2012	\$ -	\$ 2,293,180

Developer Escrow Accounts

At December 31, 2019 and 2018, cash and cash equivalents include \$150,339 and \$174,071, respectively, held as developer escrow funds. These funds are held by the Authority to guarantee the completion of projects by developers as required by the development agreements and to pay professional fees related to the respective projects.

NOTE 3: CREDIT RISK

Cash and Cash Equivalents

Custodial credit risk - deposits: Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. Balances exceeding federal depository insurance limits are exposed to custodial credit risk. However, under Pennsylvania Act 72, all amounts in excess of insurance limits are collateralized by securities held by the pledging financial institution, but not in the Authority's name. As of December 31, 2019 and 2018, \$619,746 and \$5,409,415, respectively, was exposed to custodial credit risk.

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
 COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED DECEMBER 31, 2019 AND 2018**

NOTE 3: CREDIT RISK (continued)

A reconciliation of amounts exposed to custodial credit risk to total cash and cash equivalents held by the Authority follows:

	<u>2019</u>	<u>2018</u>
Uninsured and collateral held by the pledging bank's trust department, but not in the Authority's name	\$ 619,746	\$ 5,409,415
Plus: Insured amounts	650,914	1,383,224
Carrying Amounts - Bank Balances	1,270,660	6,792,639
Plus: Petty cash	100	100
Plus: Deposit in transit	1,500	-
Less: Outstanding checks	(38,055)	(8,399)
Total Cash and Cash Equivalents Per Financial Statements	<u>\$ 1,234,205</u>	<u>\$ 6,784,340</u>

Total cash and cash equivalents include:

	<u>2019</u>	<u>2018</u>
Operating accounts - unrestricted	\$ 1,083,866	\$ 4,317,089
Restricted accounts - bond trust accounts	-	2,293,180
Restricted accounts - developer escrow accounts	150,339	174,071
	<u>\$ 1,234,205</u>	<u>\$ 6,784,340</u>

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
 COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED DECEMBER 31, 2019 AND 2018**

NOTE 5: NOTES RECEIVABLE

Notes receivable relate to tapping and connection fees billed to residential customers. The notes accrue interest at 6%.

Scheduled future maturities of notes receivable at December 31, 2019 are:

Year Ending December 31	Amount
2020	\$ 26,800
2021	40,200
	\$ 67,000

NOTE 6: BONDS PAYABLE

On July 31, 2019, the Authority redeemed all outstanding Water and Sewer Revenue Bonds, Series of 2012.

On December 3, 2012, the Authority issued Water and Sewer Revenue Bonds, Series of 2012, in the principal amount of \$6,905,000. The proceeds of the Series 2012 Bonds were used (1) to provide funds for the Authority's capital improvement program, (2) to refund the Authority's Series 2007 Bonds, (3) to fund the Debt Service Reserve Fund in an amount equal to maximum annual debt service on the Series 2012 Bonds, and (4) to pay costs of issuance of the Series 2012 Bonds. The Series 2007 Bonds were defeased on December 3, 2012. The Authority recorded a deferred loss on the refunding of the Series 2007 Bonds, which was recorded as a deferred outflow of resources and amortized. As a result of the redemption of the Series 2012 Bond, on July 31, 2019 these costs in the amount of \$165,554 have been recognized as deferred loss on bond refundings. The Authority refunded the Series 2007 Bonds at no accounting loss, and to obtain an economic gain (the difference between the present values of the old and new debt service payments) of \$627,068. The Authority in effect reduced its aggregate debt service payments on the Series 2007 Bonds in the amount of \$741,793.

In accordance with the 2012 Trust Indenture, the Authority was required (1) to generate revenues to pay the operating expenses of the Authority, and (2) to provide an amount equal to at least 1.1 times the maximum annual debt service requirements (the rate covenant). For the year ended December 31, 2018, the Authority's debt service coverage was 2.33 times, which exceeded the rate covenant requirement.

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
 COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED DECEMBER 31, 2019 AND 2018**

NOTE 6: BONDS PAYABLE (continued)

The Series 2012 Bonds were subject to redemption prior to maturity at the Authority's option, in whole or in part, on January 1, 2018 or thereafter upon payment of principal plus accrued interest to redemption date.

Changes in bonds payable for the years ended December 31, 2019 and 2018 are:

	<u>Balance at January 1, 2019</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance at December 31, 2019</u>
Series 2012	\$ 5,240,000	\$ -	\$(5,240,000)	\$ -
	Balance at January 1, 2018	Increase	Decrease	Balance at December 31, 2018
Series 2012	<u>\$ 5,540,000</u>	<u>\$ -</u>	<u>\$(300,000)</u>	<u>\$ 5,240,000</u>

NOTE 7: COMMITMENTS

Lease

The Authority leases office space from the Township under a lease extension that expires on December 31, 2023. The current monthly rent is \$4,000. Rent expense totaled \$48,000 for each of the years ended December 31, 2019 and 2018.

The future minimum lease payments are as follows:

<u>Year Ending December 31</u>	<u>Amount</u>
2020	\$ 48,000
2021	48,000
2022	48,000
2023	48,000
	<u>\$ 192,000</u>

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018**

NOTE 7: COMMITMENTS (continued)

Construction in Progress

In August 2017, WTWSA entered into a Cooperative Agreement with the United States Navy to design, construct and operate certain facilities to extend public water connections to six property locations with private wells that are above the United States Environmental Protection Agency (EPA) Health Advisory (HA) levels of Perflourinated Compounds known as Perfluorooctane Sulfonic Acid (PFOS) and Perfluorooctanoic Acid (PFOA). The construction of the water main extension was complete in 2019 and the project should be closed out by mid-2020.

The WTWSA is in the planning stages of a water main extension to provide a complete loop of the water system and to aid in the interconnection of the northern and southern water system for the Authority. The project will extend the line from Edddows Road through the Moland House property to an existing connection point at York Road. The WTWSA has applied for the PA Small Water Grant to help offset the cost of the project.

Bond Series 2012

On July 31, 2019, the WTWSA redeemed the remaining bonds from its 2012 Water and Sewer Municipal Bond issue, in the amount of \$4,950,221.56 (\$4,940,000 Principal and \$10,221.56 Interest), in accordance with the terms of the Official Statement related to the Bonds.

The Authority's Finance Committee prepared a savings analysis related to the Bond Redemption for the Boards consideration which highlighted the following:

- Savings of \$1.1 million interest and bond cost.
- Elimination of Bond trust indenture providing for greater flexibility of the Authority reserve funds and a reduction of management and regulatory costs related to the Bond Issue.
- Provided long term savings to the Authority rate payers by using existing capital reserve funds that were producing very little interest income to reduce higher interest long-term debt.

Water Service Contract

Effective November 1, 1998, the Authority signed a twenty-five (25) year contract with Aqua Pennsylvania, Inc. to provide water to its service area.

For the period November 28, 2018 through November 27, 2019, the monthly charge was \$45,721 for up to 600,000 gallons per day, and \$2.21 for every thousand gallons in excess of 600,000 gallons per day up to 800,000 gallons per day, and \$2.15 for every thousand gallons in excess of 80,000 gallons per day. Aqua increased its rates to \$45,721 for up to 600,000 gallons per day, and \$2.21 for every thousand gallons in excess of 600,000 gallons per day up to 800,000 gallons per day, and \$2.15 for every thousand gallons in excess of 80,000 gallons per day effective November 28, 2019.

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018**

NOTE 7: COMMITMENTS (continued)

North Wales Water Authority - Water Supply Agreement

In November 2011, the Authority signed a ten (10) year agreement (with a five (5) year renewal option) with the North Wales Water Authority for the supply of water to the Authority for sale to customers. The agreement has a minimum daily consumption rate of 100,000 gallons per day and a maximum of 800,000 gallons per day. In addition, the Authority is required to purchase on an annual basis an average of 200,000 gallons per day from North Wales Water Authority. The Authority is charged \$2.50 (the base rate) per thousand gallons up to 800,000 gallons per day, and 1.5 times the base rate per thousand gallons over 800,000 gallons per day for a period of 48 months, at which point the base rate will be adjusted.

NOTE 8: 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 and natural disaster for which the Authority carries commercial insurance.

NOTE 9: SUBSEQUENT EVENTS

Subsequent events have been evaluated by management through May 18, 2020, the date on which the financial statements were available to be issued. There were no significant subsequent events to report.

In March 2020, the World Health Organization recognized the novel strain of coronavirus, COVID-19, as a pandemic. This coronavirus outbreak has severely restricted the level of economic activity around the world. In response to this coronavirus outbreak, the governments of many countries, states, cities and other geographic regions have taken preventative or protective actions, such as imposing restrictions on travel and business operations and advising or requiring individuals to limit or forego their time outside of their homes. Temporary closures of businesses have been ordered and numerous other businesses have temporarily closed voluntarily. These actions have expanded significantly in the past several weeks and are expected to continue to expand. Given the uncertainty regarding the spread of this coronavirus, the related financial impact on the Authority cannot be reasonably estimated at this time.

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
 COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
 OPERATING EXPENSES
 YEAR ENDED DECEMBER 31, 2019
 WITH SUMMARIZED FINANCIAL INFORMATION
 FOR YEAR ENDED DECEMBER 31, 2018**

	<u>Water</u>	<u>Sewer</u>	<u>Administrative</u>	<u>2019 Total Expenses</u>	<u>2018 Total Expenses</u>
Operating Expenses					
Personnel Expenses:					
Payroll	\$ 158,393	\$ 189,213	\$ 373,127	\$ 720,733	\$ 697,866
Employee benefits	27,592	51,189	64,175	142,956	130,037
Payroll taxes	12,857	15,578	31,276	59,711	59,155
Pension	4,913	7,466	16,035	28,414	25,709
Total Personnel Expenses	<u>203,755</u>	<u>263,446</u>	<u>484,613</u>	<u>951,814</u>	<u>912,767</u>
Direct Expenses:					
Contract water purchases	694,853	-	-	694,853	685,014
Sludge transportation	-	315,492	-	315,492	358,086
Utilities	20,396	184,250	-	204,646	211,848
Chemicals	-	97,372	-	97,372	78,115
Meter expense	25,312	19,009	-	44,321	77,603
System repairs and maintenance	21,525	67,268	-	88,793	73,349
Plant repairs and maintenance	-	50,374	-	50,374	42,963
Testing	17,564	15,941	-	33,505	28,141
Truck expenses	5,500	8,246	-	13,746	22,830
Operating supplies	3,493	4,267	-	7,760	13,872
Monitoring and regulating	4,799	-	-	4,799	4,799
Ground maintenance	1,628	1,990	-	3,618	10,243
Road maintenance	-	-	-	-	887
Uniforms	1,655	1,606	-	3,261	4,053
PA One Call	366	366	-	732	810
Permits and licenses	20,120	1,987	-	22,107	2,236
Total Direct Expenses	<u>817,211</u>	<u>768,168</u>	<u>-</u>	<u>1,585,379</u>	<u>1,614,849</u>
Administrative Expenses:					
Insurance	19,590	34,559	4,964	59,113	75,606
Legal	-	-	65,102	65,102	36,889
Auditing and accounting	-	-	14,000	14,000	13,500
Payroll service	-	-	5,550	5,550	5,607
Computer support	-	-	16,036	16,036	16,204
Trust and bank fees	-	-	4,500	4,500	4,500
Office rent	-	-	48,000	48,000	48,000
Office expenses	-	-	34,147	34,147	29,519
Postage	-	-	9,758	9,758	8,163
Telephone	-	-	9,439	9,439	10,019
Meetings, seminars and conferences	-	-	1,718	1,718	344
Dues and memberships	-	-	8,598	8,598	4,706
Education and training	-	-	3,576	3,576	3,578
Engineering	13,480	13,867	-	27,347	15,277
Total Administrative Expenses	<u>33,070</u>	<u>48,426</u>	<u>225,388</u>	<u>306,884</u>	<u>271,912</u>
Total Operating Expenses	<u><u>\$ 1,054,036</u></u>	<u><u>\$ 1,080,040</u></u>	<u><u>\$ 710,001</u></u>	<u><u>\$ 2,844,077</u></u>	<u><u>\$ 2,799,528</u></u>

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
REVENUES AND EXPENSES
BUDGET (GAAP BUDGETARY BASIS) AND ACTUAL
YEAR ENDED DECEMBER 31, 2019**

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Operating Revenues			
Water revenue	\$ 1,430,000	\$ 1,429,823	\$ (177)
Sewer revenue	2,045,000	2,043,212	(1,788)
Administrative fees	8,500	5,099	(3,401)
Construction usage and certificate fees	12,000	12,450	450
Meter installations	23,500	18,651	(4,849)
Miscellaneous operating revenues	1,000	175	(825)
Total Operating Revenues	<u>3,520,000</u>	<u>3,509,410</u>	<u>(10,590)</u>
Operating Expenses			
Water Plant Operating Expenses:			
Personnel expenses	169,227	203,755	(34,528)
Direct expenses	877,000	817,211	59,789
Administrative expenses	24,000	33,070	(9,070)
Total Water Plant Operating Expenses	<u>1,070,227</u>	<u>1,054,036</u>	<u>16,191</u>
Wastewater Plant Operating Expenses:			
Personnel expenses	263,217	263,446	(229)
Direct expenses	899,500	768,168	131,332
Administrative expenses	65,000	48,426	16,574
Total Wastewater Plant Operating Expenses	<u>1,227,717</u>	<u>1,080,040</u>	<u>147,677</u>
General and Administrative Expenses:			
Personnel expenses	472,073	484,613	(12,540)
Other	210,000	225,388	(15,388)
Total General and Administrative Expenses	<u>682,073</u>	<u>710,001</u>	<u>(27,928)</u>
Total Operating Expenses	<u>2,980,017</u>	<u>2,844,077</u>	<u>135,940</u>
Operating Income Before Depreciation and Amortization	539,983	665,333	125,350
Depreciation and amortization	1,480,000	1,631,277	(151,277)
Operating Loss	<u>(940,017)</u>	<u>(965,944)</u>	<u>(25,927)</u>
Nonoperating Revenues			
Water tapping fees	175,700	95,000	(80,700)
Sewer tapping fees	184,800	61,200	(123,600)
Interest income	40,000	54,639	14,639
Miscellaneous income	2,500	58,400	55,900
Total Nonoperating Revenues	<u>403,000</u>	<u>269,239</u>	<u>(133,761)</u>
Nonoperating Expenses			
Interest expense	124,834	105,327	19,507
Miscellaneous expense	1,000	165,554	(164,554)
Total Nonoperating Expenses	<u>125,834</u>	<u>270,881</u>	<u>(145,047)</u>
Net Nonoperating Revenues (Expenses)	<u>277,166</u>	<u>(1,642)</u>	<u>(278,808)</u>
Loss Before Capital Contributions	<u>\$ (662,851)</u>	<u>\$ (967,586)</u>	<u>\$ (304,735)</u>

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
REVENUES AND EXPENSES
BUDGET (GAAP BUDGETARY BASIS) AND ACTUAL
YEAR ENDED DECEMBER 31, 2018**

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Operating Revenues			
Water revenue	\$ 1,430,000	\$ 1,418,116	\$ (11,884)
Sewer revenue	2,045,000	2,017,365	(27,635)
Administrative fees	8,500	4,294	(4,206)
Construction usage and certificate fees	15,000	13,000	(2,000)
Meter installations	23,500	19,289	(4,211)
Miscellaneous operating revenues	5,500	1,275	(4,225)
Total Operating Revenues	<u>3,527,500</u>	<u>3,473,339</u>	<u>(54,161)</u>
Operating Expenses			
Water Plant Operating Expenses:			
Personnel expenses	189,174	191,086	(1,912)
Direct expenses	837,000	800,568	36,432
Administrative expenses	22,000	28,471	(6,471)
Total Water Plant Operating Expenses	<u>1,048,174</u>	<u>1,020,125</u>	<u>28,049</u>
Wastewater Plant Operating Expenses:			
Personnel expenses	239,611	263,867	(24,256)
Direct expenses	944,500	814,281	130,219
Administrative expenses	67,000	56,661	10,339
Total Wastewater Plant Operating Expenses	<u>1,251,111</u>	<u>1,134,809</u>	<u>116,302</u>
General and Administrative Expenses:			
Personnel expenses	462,717	457,814	4,903
Other	203,500	186,780	16,720
Total General and Administrative Expenses	<u>666,217</u>	<u>644,594</u>	<u>21,623</u>
Total Operating Expenses	<u>2,965,502</u>	<u>2,799,528</u>	<u>165,974</u>
Operating Income Before Depreciation and Amortization	561,998	673,811	111,813
Depreciation and amortization	1,470,000	1,536,420	(66,420)
Operating Loss	<u>(908,002)</u>	<u>(862,609)</u>	<u>45,393</u>
Nonoperating Revenues			
Water tapping fees	179,000	134,200	(44,800)
Sewer tapping fees	170,100	94,500	(75,600)
Interest income	20,000	63,139	43,139
Miscellaneous income	2,500	38,940	36,440
Total Nonoperating Revenues	<u>371,600</u>	<u>330,779</u>	<u>(40,821)</u>
Nonoperating Expenses			
Interest expense	128,809	128,809	-
Miscellaneous expense	4,000	-	4,000
Total Nonoperating Expenses	<u>132,809</u>	<u>128,809</u>	<u>4,000</u>
Net Nonoperating Revenues (Expenses)	238,791	201,970	(36,821)
Loss Before Capital Contributions	<u>\$ (669,211)</u>	<u>\$ (660,639)</u>	<u>\$ 8,572</u>