



DOWNINGTOWN MUNICIPAL WATER AUTHORITY
(A Component Unit of the Borough of Downingtown)
DOWNINGTOWN, PENNSYLVANIA

BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

DECEMBER 31, 2020

DOWNTOWN MUNICIPAL WATER AUTHORITY
(A Component Unit of Borough of Downingtown)
DOWNTOWN, PENNSYLVANIA

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INDEPENDENT AUDITOR'S REPORT

July 26, 2021

To the Board of Directors
Downingtown Municipal Water Authority
Downingtown, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the Downingtown Municipal Water Authority ("the Authority"), a component unit of the Borough of Downingtown, Downingtown, Pennsylvania, as of and for the year ended December 31, 2020, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

To the Board of Directors
Downingtown Municipal Water Authority

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 the Downingtown Municipal Water Authority, Downingtown, Pennsylvania, as of December 31, 2020, and the respective changes in financial position and cash flows thereof for the year 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 on pages 4 through 8 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 Authority's financial statements. The combining schedule of net position; combining schedule of revenues, expenses, and changes in net position; and schedule of operating revenues and expenses - budget to actual are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining schedule of net position; combining schedule of revenues, expenses, and changes in net position; and schedule of operating revenues and expenses - budget to actual 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.

To the Board of Directors
Downingtown Municipal Water Authority

Such 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, the combining schedule of net position; combining schedule of revenues, expenses, and changes in net position; and schedule of operating revenues and expenses - budget to actual are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 26, 2021, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Barbacane, Thornton & Company LLP

BARBACANE, THORNTON & COMPANY LLP

DOWNINGTOWN MUNICIPAL WATER AUTHORITY
(A Component Unit of the Borough of Downingtown)
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED
DECEMBER 31, 2020

Our discussion and analysis of the Downingtown Municipal Water Authority's ("the Authority") financial performance provides an overview of the Authority's financial activities for the year ended December 31, 2020. Please read it in conjunction with the Authority's financial statements that begin on page 9 and the accompanying notes to those statements. Responsibility for both the accuracy of the presented data and the thoroughness of the presentation rests with the Authority. We believe that the data, as presented herein, is accurate in all material respects and presented in a manner designed to fairly set forth the financial position and results of operations of the Authority. We believe that all disclosures necessary to enable the reader to gain the maximum understanding of the Authority's financial affairs have been included.

Profile of the Downingtown Municipal Water Authority

The Downingtown Municipal Water Authority, a component unit of the Borough of Downingtown, is a water authority incorporated on July 13, 1987, under the provisions of the Pennsylvania Municipality Authorities Act of 1945, as amended, pursuant to the ordinance of the Council of the Borough of Downingtown, Chester County, Pennsylvania. The Authority was formed principally to acquire, hold, construct, improve, maintain, own, and operate a water system for the Borough of Downingtown and other territories it may be authorized to serve. The Authority's Board is empowered with legislative functions that include enacting ordinances and resolutions, adopting a budget, and establishing water rates.

FINANCIAL HIGHLIGHTS

- The net position (assets minus liabilities) of the Authority as of December 31, 2020 was \$10,292,978. Of this amount, \$5,084,361 is unrestricted and is available to meet the Authority's ongoing obligations in accordance with the Authority's policies. In comparison, the Authority's net position at December 31, 2019 was \$8,857,455.
- The Authority's net position increased by \$1,435,523 or 16.2 percent in 2020, compared to \$840,013 or 10.5 percent for the year ended December 31, 2019.
- The Authority's total assets were \$15,274,904 at December 31, 2020, compared to \$14,977,197 at December 31, 2019.
- The Authority's total liabilities were \$4,981,926 at December 31, 2020, compared to \$6,119,742 at December 31, 2019.
- Revenue for the year ended December 31, 2020 totaled \$4,855,895, compared to \$4,629,372 for the year ended December 31, 2019. The major sources of revenue for the Authority were water revenue charges and fees.

DOWNINGTOWN MUNICIPAL WATER AUTHORITY
(A Component Unit of the Borough of Downingtown)
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)
DECEMBER 31, 2020

- Expenses for the year ended December 31, 2020 totaled \$3,420,372, compared to \$3,789,359 for the year ended December 31, 2019. The major expenses for the Authority were chemical supplies, insurance, repairs and maintenance, salaries, utilities, depreciation, and interest.
- The Authority's long-term debt outstanding at December 31, 2020 was \$4,676,479, compared to \$5,792,213 at December 31, 2019.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements are designed to provide readers with a broad overview of the Authority's finances in a manner similar to private-sector businesses. The following statements are included:

Statement of Net Position – This statement reports all financial and capital resources for the Authority. The statement is presented in the format wherein assets equal liabilities and net position. Assets and liabilities are presented in order of liquidity and are classified as “current” (convertible into cash within one year) and “noncurrent” (long-term). The focus of the statement of net position is the “unrestricted net position” that is designed to represent the net available liquid (noncapital) assets, net of liabilities, for the entire Authority. Net position is reported in three broad categories:

- **Net Investment in Capital Assets** – This component of net position consists of all capital assets, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributed to the acquisition, construction, or improvement of those assets.
- **Restricted Net Position** – This component of net position consists of restricted assets when constraints are placed on the asset by creditors (such as debt covenants), grantors, contributors, laws, regulations, etc. The Authority has no restricted net position.
- **Unrestricted Net Position** – This component of net position consists of net position that does not meet the definition of “net investment in capital assets,” or “restricted net position.”

Statement of Revenues, Expenses, and Changes in Net Position – This statement reports the Authority's operating and nonoperating revenue, by major sources, along with operating and nonoperating expenses.

Statement of Cash Flows – This statement discloses net cash provided by and used for the operating activities, investing activities, and from capital and related financing activities.

Notes to the Financial Statements – The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

Supplementary Information – The Authority presents a combining schedule of net position, combining schedule of revenues, expenses, and changes in net position, and schedule of operating revenues and expenses - budget to actual for additional information.

DOWNINGTOWN MUNICIPAL WATER AUTHORITY
(A Component Unit of the Borough of Downingtown)
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)
DECEMBER 31, 2020

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

Condensed Comparative Financial Statements

Analysis of Statement of Net Position

Total Net Position for the year ended December 31, 2020 was \$10,292,978 and for the year ended December 31, 2019, the amount was \$8,857,455. This represents an overall net increase of \$1,435,523 or 16.2 percent.

Current Assets increased by \$375,631, or 7.5 percent, during 2020 primarily due to an increase in cash and cash equivalents, and investments.

Capital Assets decreased by \$77,924, or 0.8 percent, during 2020. This decrease is primarily due to current year depreciation expense exceeding current year additions.

Current Liabilities decreased by \$98,305, or 7.3 percent, during 2020. This is primarily due to a decrease in the current portion of long-term debt.

Noncurrent Liabilities decreased by \$1,039,511, or 21.7 percent, during 2020. This was mainly due to the payments made on long-term debt.

The table below illustrates our analysis:

	<u>2020</u>	<u>2019</u>
Current assets	\$ 5,389,808	\$ 5,014,177
Capital assets, net	<u>9,885,096</u>	<u>9,963,020</u>
Total Assets	<u>15,274,904</u>	<u>14,977,197</u>
Current liabilities	1,239,347	1,337,652
Noncurrent liabilities	<u>3,742,579</u>	<u>4,782,090</u>
Total Liabilities	<u>4,981,926</u>	<u>6,119,742</u>
Net Position:		
Net investment in capital assets	5,208,617	4,170,807
Unrestricted	<u>5,084,361</u>	<u>4,686,648</u>
Total Net Position	<u>\$ 10,292,978</u>	<u>\$ 8,857,455</u>

DOWNINGTOWN MUNICIPAL WATER AUTHORITY
(A Component Unit of the Borough of Downingtown)
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)
DECEMBER 31, 2020

Analysis of Statement of Revenues, Expenses, and Changes in Net Position

Total revenues increased by \$226,523 when comparing 2020 to 2019. Operating revenues totaled \$4,831,956, representing an increase of \$224,659, or 4.9 percent, compared to 2019. Water revenues, which is the primary source of revenue for the Authority, represents \$4,752,170 or 98.3 percent of operating revenues. The remaining year 2020 operating revenue is comprised of penalties and miscellaneous fees of \$79,786. Nonoperating revenues totaled \$23,939, an increase of \$1,864 from 2019.

Total expenses decreased by \$368,987 when comparing 2020 to 2019. Operating expenses totaled \$3,275,895, a decrease of \$247,530 or 7.0 percent, compared to 2019. Water system expenses of \$2,530,000 represents 77.0 percent of total operating expenses. Nonoperating expenses totaled \$144,477, a decrease of \$121,457 from 2019.

The table below illustrates our analysis:

	<u>2020</u>	<u>2019</u>
Operating revenues	\$ 4,831,956	\$ 4,607,297
Nonoperating revenues	23,939	22,075
Total Revenues	<u>4,855,895</u>	<u>4,629,372</u>
Operating expenses	3,275,895	3,523,425
Nonoperating expenses	144,477	265,934
Total Expenses	<u>3,420,372</u>	<u>3,789,359</u>
Change in Net Position	<u>\$ 1,435,523</u>	<u>\$ 840,013</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Authority's investment in capital assets as of December 31, 2020 amounted to \$9,885,096 (net of accumulated depreciation). This is a decrease of \$77,924, or 0.8 percent, from 2019. This investment in capital assets includes land, land improvements, construction-in-progress, furniture and equipment, water system, and water plant assets. Capital acquisitions are valued at historical cost or estimated historical cost if actual cost is not available. Donated capital assets are valued at their estimated fair value on the date of donation.

Major capital asset transactions/events during the year ended December 31, 2020 included upgrades to the Authority's water system in the amount of \$256,992.

DOWNINGTOWN MUNICIPAL WATER AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)
DECEMBER 31, 2020

Additional information on capital assets can be found in Note 4 to the financial statements.

Debt Administration

At December 31, 2020, the Authority's total amount of outstanding debt was \$4,676,479 compared to \$5,792,213 in 2019.

Additional information about the Authority's long-term debt can be found in Note 5 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The 2021 budget, as adopted by the Authority Board, provides the necessary resources for the Authority to achieve its goals and priorities. The Authority expects to see similar revenue to last year in the upcoming year. Operating expenses are expected to remain at the same level for the year. The Authority's budget maintained accustomed service levels and represents an accurate estimate in dollar terms of its commitment to deliver quality services to its customers. Economic conditions of the Authority are expected to remain stable, and the Authority continues to work on its capital improvement plan.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the funds it receives and disburses. If you have any questions about this report or need additional information, please contact the Authority's Executive Director at the Downingtown Municipal Water Authority, 100 Water Plant Way, Downingtown, PA 19335.

DOWNINGTOWN MUNICIPAL WATER AUTHORITY
(A Component Unit of the Borough of Downingtown)
STATEMENT OF NET POSITION
DECEMBER 31, 2020

ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 3,082,383
Investments	412,271
Accounts receivable	1,721,581
Prepaid expenses	46,545
Inventory	127,028
Total Current Assets	<u>5,389,808</u>
Noncurrent Assets:	
Land	468,785
Construction-in-progress	15,614
Capital assets, net of depreciation	9,400,697
Total Noncurrent Assets	<u>9,885,096</u>
TOTAL ASSETS	<u>\$ 15,274,904</u>
LIABILITIES AND NET POSITION	
LIABILITIES	
Current Liabilities:	
Accounts payable	\$ 142,370
Accrued payroll liabilities	11,654
Accrued interest	42,079
Escrows	109,344
Notes payable	933,900
Total Current Liabilities	<u>1,239,347</u>
Noncurrent Liabilities:	
Notes payable	3,742,579
Total Noncurrent Liabilities	<u>3,742,579</u>
TOTAL LIABILITIES	<u>4,981,926</u>
NET POSITION	
Net investment in capital assets	5,208,617
Unrestricted	5,084,361
TOTAL NET POSITION	<u>10,292,978</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 15,274,904</u>

The accompanying notes are an integral part of these financial statements.

DOWNINGTOWN MUNICIPAL WATER AUTHORITY
(A Component Unit of the Borough of Downingtown)
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2020

OPERATING REVENUES	
Water revenues	\$ 4,752,170
Penalties and miscellaneous	<u>79,786</u>
TOTAL OPERATING REVENUES	<u>4,831,956</u>
OPERATING EXPENSES	
Water system	2,530,000
Administrative	<u>745,895</u>
TOTAL OPERATING EXPENSES	<u>3,275,895</u>
NET OPERATING INCOME	<u>1,556,061</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	23,939
Interest expense	<u>(144,477)</u>
TOTAL NONOPERATING EXPENSES	<u>(120,538)</u>
CHANGE IN NET POSITION	1,435,523
NET POSITION, BEGINNING OF YEAR	<u>8,857,455</u>
NET POSITION, END OF YEAR	<u><u>\$ 10,292,978</u></u>

The accompanying notes are an integral part of these financial statements.

DOWNINGTOWN MUNICIPAL WATER AUTHORITY
(A Component Unit of the Borough of Downingtown)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash receipts from customers	\$ 4,784,135
Cash paid to suppliers	<u>(2,871,824)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,912,311</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchase of capital assets	(392,634)
Principal payment on long-term debt	(1,115,734)
Interest paid on long-term debt	<u>(153,580)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(1,661,948)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of investments	(5,690)
Interest income	<u>23,939</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>18,249</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	268,612
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,813,771</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 3,082,383</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	\$ 1,556,061
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	470,558
Increase in assets:	
Accounts receivable	(47,821)
Prepaid expenses	(16,362)
Inventory	(37,146)
Increase (Decrease) in liabilities:	
Accounts payable	(15,887)
Accrued payroll liabilities	<u>2,908</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 1,912,311</u></u>

The accompanying notes are an integral part of these financial statements.

DOWNTOWN MUNICIPAL WATER AUTHORITY
(A Component Unit of Borough of Downingtown)

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Downingtown Municipal Water Authority ("the Authority") have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to government units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by the Authority are described below.

Reporting Entity

The Authority, a component unit of the Borough of Downingtown, is a water authority incorporated on July 13, 1987 under the provisions of the Pennsylvania Municipality Authorities Act of 1945, as amended, pursuant to the ordinance of the Council of the Borough of Downingtown, Chester County, Pennsylvania. The Authority was formed principally to acquire, hold, construct, improve, maintain, own, and operate a water system for the Borough of Downingtown and other territories it may be authorized to serve. The Authority's revenue base consists of residential and commercial customers in the Downingtown area.

Measurement Focus and Basis of Accounting and Financial Statement Presentation

The term "measurement focus" is used to denote what is being measured and reported in the Authority's operating statement. The Authority is accounted for on the flow of economic resources measurement focus. The fundamental objective of this focus is to measure whether the Authority is better or worse off economically as a result of events and transactions of the period.

The term "basis of accounting" is used to determine when a transaction or event is recognized on the Authority's operating statement. The Authority uses the accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

The Authority adheres to the provisions of the *GASB Codification of Governmental Accounting and Financial Reporting Standards* ("GASB Codification"). The GASB Codification established standards for external financial reporting for all state and local governmental entities, which includes a statement of net position; a statement of revenues, expenses, and changes in net position; and a statement of cash flows. It requires the classification of net position into three components: net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

Net investment in capital assets – This component of net position 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

DOWNTOWN MUNICIPAL WATER AUTHORITY
(A Component Unit of Borough of Downingtown)

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets." Administrative expenses are paid with the use of unrestricted resources.

All water revenues received must be disbursed as provided in the Trust Indenture, dated June 15, 2008, the First Supplemental Trust Indenture, dated July 20, 2016, securing the Promissory Note, Series of 2016, and the Second Supplemental Trust Indenture, dated September 4, 2018, securing the Guaranteed Water Revenue Note, Series of 2018. The Trust Indenture and First Supplemental Trust Indenture provide, among other things, for the creation of various subfunds which restrict financial activities to the following:

Operating Fund – Receipt of transfers from the Revenue Fund and Construction Fund to pay for the operating expenses incurred in connection with the water system.

Revenue Fund – Receipt of revenues from the water system to be disbursed for both debt service and operations and maintenance.

Debt Service Fund – Transfers funds to the Operating fund for the payment of bond principal and interest on the water revenue bonds.

Construction Fund – Funds set aside for use in construction projects.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP 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.

DOWNTOWN MUNICIPAL WATER AUTHORITY
(A Component Unit of Borough of Downingtown)

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Cash and Cash Equivalents

Cash deposits consist of demand and time deposits and money market funds with financial institutions and are carried at cost. For purposes of the statement of cash flows, all cash deposits, and highly liquid investments with an original maturity of three months or less when acquired are considered to be cash equivalents.

Investments

Investments consist of nonnegotiable certificates of deposit. The investments are recorded at amortized cost. Nonnegotiable certificates of deposit are nonparticipating interest earning investment contracts which are exempt from measurement at fair value.

Accounts Receivable

Accounts receivable are stated at the amount the Authority expects to collect. No provision has been made for uncollectible accounts since the Authority has the ability to lien customer properties for unpaid fees.

Revenues and Expenses

Revenues and expenses are distinguished between operating and nonoperating items. Operating revenues generally result from providing services in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are lease rentals from the Borough of Downingtown and tapping fees.

Operating expenses include the costs associated with the engineering, administrative expenses, professional fees, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

Use of Restricted/Unrestricted Net Position

When an expense is incurred for purposes for which both restricted and unrestricted net position is available, the Authority's policy is to apply restricted net position first.

Capital Assets

The Authority defines capital assets as assets with an estimated useful life in excess of one year. Capital assets of the Authority are recorded at either their actual cost or estimated historical cost. Donated assets are valued at their estimated fair value on the date donated.

DOWNTOWN MUNICIPAL WATER AUTHORITY
(A Component Unit of Borough of Downingtown)

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Depreciation of all exhaustible capital assets is charged as an expense against their operations. Depreciation is computed using the straight-line method over estimated asset lives as follows:

Water system	20 - 40 years
Water plant	20 - 40 years
Land improvements	10 - 20 years
Furniture and equipment	5 - 20 years

Major additions and betterments are capitalized while expenses for maintenance and repairs that do not add value to the asset or materially extend asset lives are charged to operations as incurred.

NOTE 2 DEPOSITS AND INVESTMENTS

Deposits

Custodial Credit Risk

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 policy for custodial credit risk on deposits. At December 31, 2020, the carrying amount of the Authority's deposits was \$3,082,383 and the bank balance was \$3,096,603. Of the bank balance, \$352,452 was covered by federal depository insurance, and the remaining \$2,744,151 was subject to custodial credit risk because it was fully collateralized by the banks holding the funds but not in the Authority's name.

Investments

Statutes authorize the Authority to invest in obligations of the U.S. Treasury; agencies and instrumentalities; deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation ("FDIC"), the Federal Savings and Loan Insurance Corporation ("FSLIC"), or the National Credit Union Share Insurance Fund ("NCUSIF"). The Authority also is authorized to invest in obligations of the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, or the Commonwealth of Pennsylvania or any of its agencies or instrumentalities.

As of December 31, 2020, the Authority had \$412,271 invested in certificates of deposit due within one year.

DOWNTOWN MUNICIPAL WATER AUTHORITY
(A Component Unit of Borough of Downingtown)

NOTES TO FINANCIAL STATEMENTS

NOTE 2 DEPOSITS AND INVESTMENTS (cont'd)

Interest Rate Risk

The Authority does not have an investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At December 31, 2020, all of the Authority's investments had maturity dates of one year or less.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. As of December 31, 2020, none of the Authority's investments were subject to custodial credit risk.

Concentration and Credit Risk

The Authority does not have a policy that would limit the amount it may invest in any one issuer. As of December 31, 2020, all of the Authority's investments were in the form of certificates of deposit held by S&T Bank and Citadel Federal Credit Union.

NOTE 3 ACCOUNTS RECEIVABLE

Accounts receivable consist of the following at December 31, 2020:

Utility billing	\$ 1,078,750
Escrow	54,308
Other	41,510
Unbilled revenue	<u>547,013</u>
	<u>\$ 1,721,581</u>

NOTE 4 CAPITAL ASSETS

The changes in capital assets for the year ended December 31, 2020 are as follows:

	Beginning Balance 01/01/20	Additions	Deletions	Reclass- ification	Ending Balance 12/31/20
Capital assets not being depreciated:					
Land	\$ 468,785	\$ -	\$ -	\$ -	\$ 468,785
Construction-in-progress	<u>14,377</u>	<u>1,237</u>	<u>-</u>	<u>-</u>	<u>15,614</u>
Total capital assets not being depreciated	<u>483,162</u>	<u>1,237</u>	<u>-</u>	<u>-</u>	<u>484,399</u>

DOWNTOWN MUNICIPAL WATER AUTHORITY
(A Component Unit of Borough of Downingtown)

NOTES TO FINANCIAL STATEMENTS

NOTE 4 CAPITAL ASSETS (cont'd)

	Beginning Balance 01/01/20	Additions	Deletions	Reclass- ification	Ending Balance 12/31/20
Capital assets being depreciated:					
Water plant	13,172,676	79,362	-	-	13,252,038
Water system	6,179,195	256,992	-	-	6,436,187
Land improvements	11,536	-	-	-	11,536
Furniture and equipment	667,245	55,043	-	-	722,288
Total capital assets being depreciated	20,030,652	391,397	-	-	20,422,049
Accumulated depreciation	(10,550,794)	(470,558)	-	-	(11,021,352)
Capital assets being depreciated, net	9,479,858	(79,161)	-	-	9,400,697
CAPITAL ASSETS, NET	\$ 9,963,020	\$ (77,924)	\$ -	\$ -	\$ 9,885,096

NOTE 5 LONG-TERM DEBT

In July 2016, the Authority obtained a \$2,000,000 Promissory Note for the purpose of financing a capital project. The Promissory Note, Series of 2016, with a maximum draw amount of \$2,000,000, calls for quarterly payments of principal and interest at 2.46 percent and matures July 2023. The note is collateralized by the security interest in the revenue of the Authority.

In September 2018, the Authority issued the \$5,525,000 Guaranteed Water Revenue Note, Series of 2018 to refund the outstanding Series of 2008 bonds. The note matures in 2026 with interest of 2.74 percent. The note is guaranteed by the Borough of Downingtown.

The Authority's Guaranteed Water Revenue Note and Promissory Note are secured by all assets of the Authority and the water revenue consumer base.

The following summarizes the changes in general long-term debt for the year ended December 31, 2020:

	Outstanding 01/01/20	Additions	Retirements	Outstanding 12/31/20	Amounts Due in One Year
Promissory Note, Series of 2016	\$ 802,303	\$ -	\$ 342,704	\$ 459,599	\$ 143,290
Guaranteed Water Revenue Note, Series of 2018	4,989,910	-	773,030	4,216,880	790,610
	\$ 5,792,213	\$ -	\$1,115,734	\$ 4,676,479	\$ 933,900

DOWNTOWN MUNICIPAL WATER AUTHORITY
(A Component Unit of Borough of Downingtown)

NOTES TO FINANCIAL STATEMENTS

NOTE 5 LONG-TERM DEBT (cont'd)

Future scheduled maturities are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 933,900	\$ 140,327
2022	1,068,968	106,267
2023	874,211	73,793
2024	834,270	49,304
2025	853,510	26,445
2026	<u>111,620</u>	<u>3,058</u>
Totals	<u>\$ 4,676,479</u>	<u>\$ 399,194</u>

The Authority is required to meet certain financial and nonfinancial covenants on an annual basis in accordance with the Promissory Note, Series of 2016 and Guaranteed Water Revenue Note, Series of 2018. The covenants include, among other items, a minimum debt service coverage ratio. At December 31, 2020, the Authority was in compliance with the minimum debt service coverage ratio for both notes.

NOTE 6 PENSION PLAN

The Authority provides pension benefits for its employees through a single employer defined contribution pension plan. All full-time employees are eligible to participate in the plan. Full-time employment is defined as no less than 35 hours per week. Contributions are made by the Authority based upon a fixed percentage of each qualified employee's gross wages. The Authority contributes 7.0 percent to the plan. Employees do not contribute to the plan. The Authority's Board of Directors is responsible for establishing plan benefits, contributions, and other provisions, and for approving all plan amendments. The annual contribution to the plan for 2020 totaled \$53,402.

The following is a brief description of the plan:

Death Benefits – When a member dies prior to the commencement of his pension benefits, he is deemed fully vested, and his designated beneficiary shall be entitled to the entire vested interest. If a member dies after commencement of his benefits, the member's entire interest will be distributed to his beneficiaries under the member's selected distribution method.

Forfeitures – Forfeitures will remain assets of the plan to reduce future contributions by the Authority.

Vesting – Contributions vest after five years of service. Upon termination of employment, the employee receives a distribution of his entire vested interest at the end of the quarter during which termination occurs.

DOWNINGTOWN MUNICIPAL WATER AUTHORITY
(A Component Unit of Borough of Downingtown)

NOTES TO FINANCIAL STATEMENTS

NOTE 7 DEFERRED COMPENSATION PLAN

Employees of the Authority may participate in a deferred compensation plan adopted under the provisions of the Internal Revenue Code. The deferred compensation plan is available to all employees of the Authority. Under the plan, employees may elect to defer a portion of their salaries and avoid paying federal taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death, or plan-defined unforeseeable emergency. Upon Board approval, the Authority may contribute to the employees' deferred compensation accounts. There were no contributions made in 2020.

NOTE 8 CAPITAL IMPROVEMENTS COMMITMENTS

The Authority has incurred costs totaling \$15,614 for project costs that are not under a formal contract as of December 31, 2020.

NOTE 9 RESERVATION OF NET POSITION

As of December 31, 2020, the Authority has \$80,924 in unrestricted net position which the Authority Board has set aside for debt payments. In addition, the Authority Board has also set aside \$875,378 in unrestricted net position for construction projects.

NOTE 10 UNCERTAINTIES

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which may negatively impact the Authority's income in 2021. Other financial impact could occur though such potential impact is unknown at this time.

NOTE 11 SUBSEQUENT EVENTS

The Authority has evaluated all subsequent events through July 26, 2021, the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

DOWNINGTOWN MUNICIPAL WATER AUTHORITY
(A Component Unit of the Borough of Downingtown)
COMBINING SCHEDULE OF NET POSITION
DECEMBER 31, 2020

	Operating Fund	Revenue Fund	Debt Service Fund	Construction Fund	Totals
ASSETS					
Current Assets:					
Cash and cash equivalents	\$ 313,653	\$ 1,812,428	\$ 80,924	\$ 875,378	\$ 3,082,383
Investments	412,271	-	-	-	412,271
Accounts receivable	1,786	1,719,795	-	-	1,721,581
Prepaid expenditures	46,545	-	-	-	46,545
Inventory	127,028	-	-	-	127,028
Total Current Assets	<u>901,283</u>	<u>3,532,223</u>	<u>80,924</u>	<u>875,378</u>	<u>5,389,808</u>
Noncurrent Assets:					
Land	468,785	-	-	-	468,785
Construction-in-progress	15,614	-	-	-	15,614
Capital assets, net of depreciation	9,400,697	-	-	-	9,400,697
Total Noncurrent Assets	<u>9,885,096</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,885,096</u>
TOTAL ASSETS	<u>\$ 10,786,379</u>	<u>\$ 3,532,223</u>	<u>\$ 80,924</u>	<u>\$ 875,378</u>	<u>\$ 15,274,904</u>
LIABILITIES					
Current Liabilities:					
Accounts payable	\$ 142,370	\$ -	\$ -	\$ -	\$ 142,370
Accrued payroll liabilities	11,654	-	-	-	11,654
Accrued interest	42,079	-	-	-	42,079
Escrows	-	109,344	-	-	109,344
Notes payable	933,900	-	-	-	933,900
Total Current Liabilities	<u>1,130,003</u>	<u>109,344</u>	<u>-</u>	<u>-</u>	<u>1,239,347</u>
Noncurrent Liabilities:					
Notes payable	3,742,579	-	-	-	3,742,579
Total Noncurrent Liabilities	<u>3,742,579</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,742,579</u>
TOTAL LIABILITIES	<u>4,872,582</u>	<u>109,344</u>	<u>-</u>	<u>-</u>	<u>4,981,926</u>
NET POSITION					
Net investment in capital assets	5,208,617	-	-	-	5,208,617
Unrestricted	705,180	3,422,879	80,924	875,378	5,084,361
TOTAL NET POSITION	<u>5,913,797</u>	<u>3,422,879</u>	<u>80,924</u>	<u>875,378</u>	<u>10,292,978</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 10,786,379</u>	<u>\$ 3,532,223</u>	<u>\$ 80,924</u>	<u>\$ 875,378</u>	<u>\$ 15,274,904</u>

DOWNINGTOWN MUNICIPAL WATER AUTHORITY
(A Component Unit of the Borough of Downingtown)
COMBINING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2020

	Operating Fund	Revenue Fund	Debt Service Fund	Construction Fund	Totals
OPERATING REVENUES					
Water revenues	\$ -	\$ 4,752,170	\$ -	\$ -	\$ 4,752,170
Penalties and miscellaneous	-	79,786	-	-	79,786
TOTAL OPERATING REVENUES	-	4,831,956	-	-	4,831,956
OPERATING EXPENSES					
Water system:					
Chemical supplies	79,807	-	-	-	79,807
Depreciation expense	470,558	-	-	-	470,558
Insurance	164,987	-	-	-	164,987
Laboratory supplies	86,252	-	-	-	86,252
Distribution system	912	-	-	-	912
Miscellaneous expenses	13,107	-	-	-	13,107
Operating supplies	279,363	-	-	-	279,363
Payroll taxes	69,652	-	-	-	69,652
Pension	38,256	-	-	-	38,256
Regulatory expense	13,234	-	-	-	13,234
Repairs and maintenance	296,973	-	-	-	296,973
Salaries	693,328	-	-	-	693,328
Sludge removal	162,699	-	-	-	162,699
Utilities	147,057	-	-	-	147,057
Training	13,815	-	-	-	13,815
Total Water System	2,530,000	-	-	-	2,530,000
Administrative:					
Board members' fees	7,125	-	-	-	7,125
Engineers' fees	186,615	-	-	-	186,615
Insurance	77,587	-	-	-	77,587
Miscellaneous	11,024	-	-	-	11,024
Office expenses	82,492	-	-	-	82,492
Professional fees	173,323	-	-	-	173,323
Salaries	207,729	-	-	-	207,729
Total Administrative	745,895	-	-	-	745,895
TOTAL OPERATING EXPENSES	3,275,895	-	-	-	3,275,895
NET OPERATING INCOME (LOSS)	(3,275,895)	4,831,956	-	-	1,556,061
NONOPERATING REVENUES (EXPENSES)					
Investment income	-	23,939	-	-	23,939
Interest expense	(144,477)	-	-	-	(144,477)
TOTAL NONOPERATING REVENUES (EXPENSES)	(144,477)	23,939	-	-	(120,538)
Transfers In (Out)	4,526,730	(4,737,208)	534	209,944	-
CHANGE IN NET POSITION	1,106,358	118,687	534	209,944	1,435,523
NET POSITION, BEGINNING OF YEAR	4,807,439	3,304,192	80,390	665,434	8,857,455
NET POSITION, END OF YEAR	\$ 5,913,797	\$ 3,422,879	\$ 80,924	\$ 875,378	\$ 10,292,978

DOWNTOWNTOWN MUNICIPAL WATER AUTHORITY
(A Component Unit of the Borough of Downingtown)
SCHEDULE OF OPERATING REVENUES AND EXPENSES - BUDGET TO ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2020

	Original and Final Budget	Actual	Variance with Final Budget
OPERATING REVENUES			
Water revenues	\$ 3,951,300	\$ 4,752,170	\$ 800,870
Penalties and miscellaneous	42,000	79,786	37,786
TOTAL OPERATING REVENUES	<u>3,993,300</u>	<u>4,831,956</u>	<u>838,656</u>
OPERATING EXPENSES			
Water system	1,983,386	2,530,000	546,614
Administrative	663,303	745,895	82,592
TOTAL OPERATING EXPENSES	<u>2,646,689</u>	<u>3,275,895</u>	<u>629,206</u>
OPERATING INCOME	<u>\$ 1,346,611</u>	<u>\$ 1,556,061</u>	<u>\$ 209,450</u>



INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

July 26, 2021

To the Board of Directors
Downingtown Municipal Water Authority
Downingtown, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Downingtown Municipal Water Authority ("the Authority"), Downingtown, Pennsylvania, which comprise the statement of net position as of December 31, 2020, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 26, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

To the Board of Directors
Downingtown Municipal Water Authority

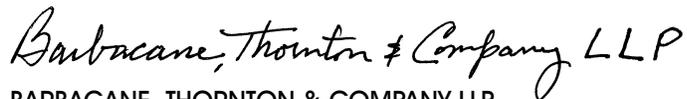
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and recommendations as items #2017-001 and #2017-002, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


BARBACANE, THORNTON & COMPANY LLP

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

DOWNINGTOWN MUNICIPAL WATER AUTHORITY
(A Component Unit of the Borough of Downingtown)

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

2017-001 – LACK OF CONTROLS SURROUNDING CASH RECEIPTS

During our prior year audits, we noted the lack of proper controls surrounding the cash receipts cycle. There was a lack of segregation of duties, as the same employee substantially had complete control over all components of the receipts cycle. The same employee performed duties such as creating invoices, receiving payments, recording payments in the accounting software, depositing of cash, and preparation of bank reconciliations. Segregation of duties is critical to reduce the risk of errors, misappropriations, fraud, and to maintain a strong financial transaction control environment.

We recommended that the Authority develop and implement policies and procedures surrounding cash receipts that will provide for strong internal controls, keeping in mind the importance of proper segregation of duties.

Status

During our current year audit, we noted that the Authority brought in a fee accountant to help with account reconciliations and posting of journal entries. However, we noted that there was still a lack of segregation on duties surrounding the payroll process. To improve the segregation of duties, the Authority should have a review of the master time sheet by either the fee accountant or the executive director, prior to the submission to Paychex. As a result, this recommendation is still applicable for the current year.

2017-002 – LACK OF CONTROLS SURROUNDING PAYROLL PROCESSING

During our prior year audits, we noted the lack of proper controls surrounding the payroll cycle. There was a lack of segregation of duties, as the same employee substantially had complete control over all components of the receipts cycle. The same employee performed duties such as signing off on employee timesheets, submitting payroll to the Authority's payroll service organization, preparing bank reconciliations, as well as other payroll functions. Segregation of duties is critical to reduce the risk of errors, misappropriations, fraud, and to maintain a strong financial transaction control environment.

We recommended that the Authority develop and implement policies and procedures surrounding payroll that will provide for strong internal controls, keeping in mind the importance of proper segregation of duties.

Status

During our current year audit, we noted that there was still a lack of segregation on duties surrounding payroll processing. As a result, this recommendation is still applicable for the current year.

DOWNINGTOWN MUNICIPAL WATER AUTHORITY
(A Component Unit of the Borough of Downingtown)

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.