

Barometer gas companies are used to calculate a current DCF in the first chart. The second chart demonstrates the companies 52 week average DCF. A final average of the two calculations is also shown at the bottom.

**Gas Company Barometer Group  
Calculation of a Current Dividend Yield**

	Closing Market Price (Po) 8/7/2019 (\$)	Latest Indicated Dividend Do (\$)	Ind. Div. Plus 1/2 Div. Growth Rate (D1) (\$)	Current Dividend Yield(D1/Po) (%)	DCF (%)
Atmos Energy	107.93	2.10	2.17	2.01	8.79
Chesapeake Utilities Corporation	91.12	1.62	1.69	1.86	9.16
New Jersey Resources	45.65	1.17	1.19	2.61	8.24
NiSource Inc.	27.63	0.80	0.84	3.03	9.83
Northwest Natural Gas	70.10	1.90	1.92	2.74	6.91
ONE Gas, Inc.	88.95	2.00	2.09	2.34	8.31
South Jersey Industries	31.47	1.15	1.17	3.73	10.85
Southwest Gas Holdings, Inc.	88.72	2.18	2.23	2.52	9.36
Spire Inc.	80.77	2.37	2.42	2.99	6.55
Group Average	70.26	1.70	1.75	2.65	8.67
Group Average G				6.00	
<b>DCF</b>				<b>8.65</b>	

**Gas Company Barometer Group  
52-week Average Dividend Yield Calculation**

	High (\$)	Low (\$)	Average (Pa) (\$)	Latest Indicated Dividend (Do) (\$)	Average Dividend Yield (Do/Pa) (%)	DCF (%)
Atmos Energy	110.93	87.88	99.41	2.17	2.19	8.97
Chesapeake Utilities Corporation	96.27	77.20	86.74	1.69	1.95	9.25
New Jersey Resources	51.83	43.51	47.67	1.19	2.50	8.13
NiSource Inc.	30.34	24.19	27.27	0.84	3.07	9.87
Northwest Natural Gas	73.50	57.20	65.35	1.92	2.94	7.11
ONE Gas, Inc.	93.04	75.51	84.28	2.09	2.47	8.44
South Jersey Industries	36.72	26.06	31.39	1.17	3.74	10.86
Southwest Gas Holdings, Inc.	91.93	72.68	82.31	2.23	2.71	9.56
Spire Inc.	87.13	70.53	78.83	2.42	3.07	6.62
Group Average	74.63	59.42	67.03	1.75	2.74	8.76
Group Average G					6.00	
<b>DCF</b>					<b>8.74</b>	
Average of Current and 52-Week					<b>8.69</b>	

Multiple sources of the Barometer companies projected 5 year Earnings Per Share are used to calculate the Group Average Dividend Growth Estimate.

**Development of a Representative Dividend Growth Rate  
for the Barometer Group of Gas Companies**  
5 Yr Forecast

	Value Line <u>DPS</u> (%)	Value Line <u>EPS</u> (%)	Zack's <u>EPS</u> (%)	Yahoo <u>EPS</u> (%)	Reuters <u>EPS</u> (%)	Average Earnings <u>Growth</u> (%)	Growth <u>Estimate</u> (%)
Atmos Energy	7.00	7.50	6.67	6.50	6.45	6.78	6.78
Chesapeake Utilities Corporation	9.00	9.00	7.00	6.00	7.20	7.30	7.30
New Jersey Resources	4.00	3.50	7.00	6.00	6.00	5.63	5.63
NiSource Inc.	9.00	12.50	5.39	4.66	4.66	6.80	6.80
Northwest Natural Gas	2.50	27.00	4.50	4.00	4.00	9.88	4.17
ONE Gas, Inc.	8.50	8.00	5.85	5.00	5.00	5.96	5.96
South Jersey Industries	4.00	10.50	6.99	5.50	5.50	7.12	7.12
Southwest Gas Holdings, Inc.	5.00	9.00	6.17	6.10	6.10	6.84	6.84
Spire Inc.	4.00	4.00	4.41	2.71	3.10	3.56	3.56
Group Average	6.67	11.25	6.07	5.36	5.55	6.65	6.02
USE							6.00

Sources: Reuters, August 12, 2019 ([www.reuters.com/finance/stocks](http://www.reuters.com/finance/stocks))

Value Line Investment Survey, August 8, 2019

Zacks, August 12, 2019 ([www.zacks.com](http://www.zacks.com))

Yahoo!, August 8, 2019 (<http://finance.yahoo.com/>)

The market indicated common equity cost rate range consists of data used from the barometer groups and is based on a series of calculations to average the DCF methods.

### Market Based Returns on Common Equity <sup>1</sup>

August 8, 2019

#### Water Company Barometer Group

	Cost Rates %
(1) Current DCF	9.24
(2) 52-Week Average DCF	9.36
(3) Average DCF	<u>9.30</u>
(4) Market Indicated Common Equity Cost Rate Range @ 1 standard deviation around the mean. <sup>2</sup>	<u>8.02-10.58</u>
(5) CAPM Check of DCF Reasonableness	9.02
(6) Recent Commission Approved ROEs <sup>3</sup> : *None within last two years	*
(7) Distribution System Improvement Charge (DSIC) Return <sup>4</sup> :	<u>9.95%</u>

<sup>1</sup> As calculated by the Bureau of Technical Utility Services

<sup>2</sup> Standard Deviation of 14 DCF observations

<sup>3</sup> ROEs from base rate cases within last two years fully litigated or stipulated for DSIC purposes

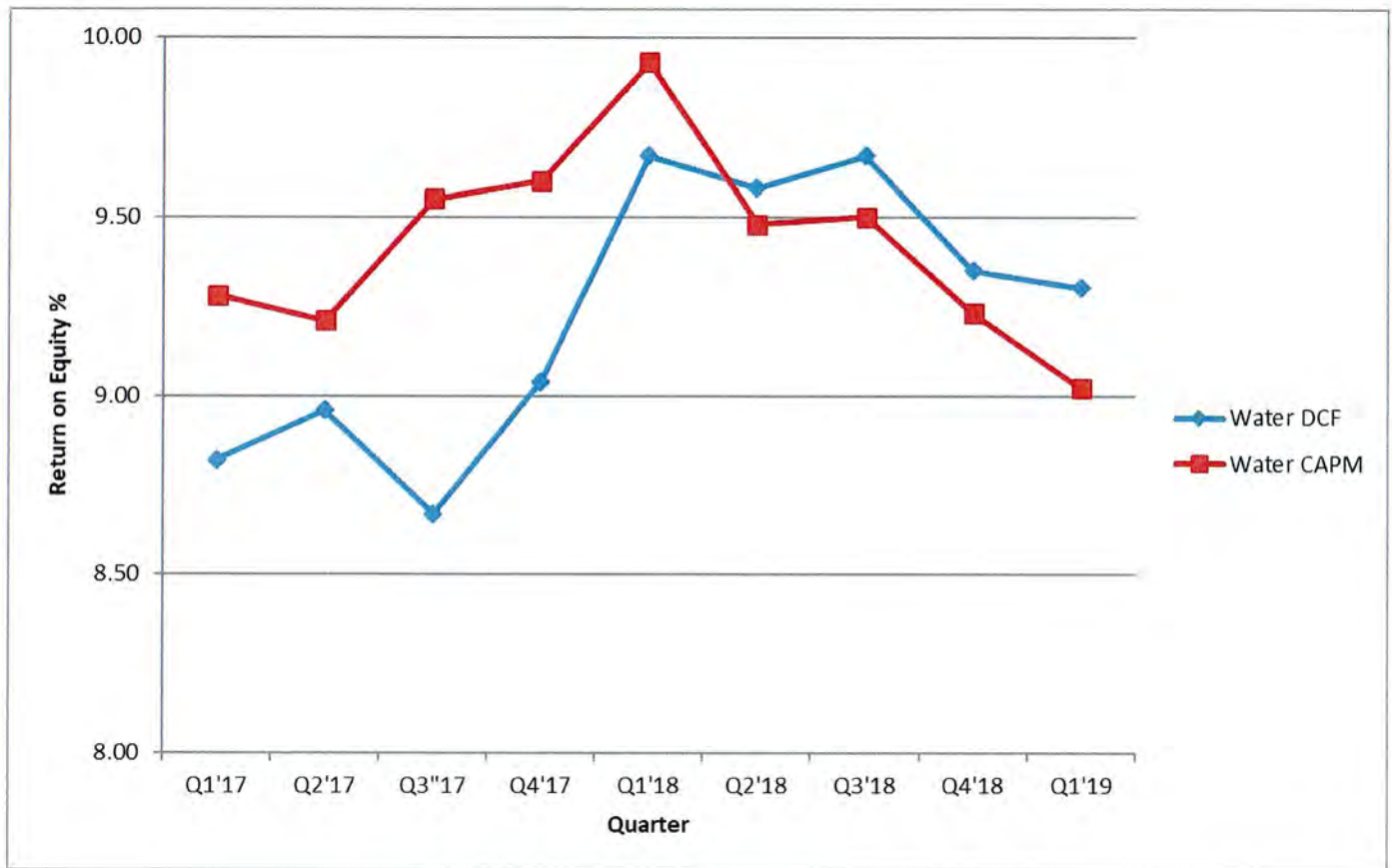
<sup>4</sup> Commission authorized Return on Equity (ROE) for DSIC purposes

Any questions concerning DSIC should be directed to Andrew Herster of the Bureau of Technical Utility Services at (717) 783-5392.

### Historic Water Industry DCF and CAPM Average ROEs

Water		
	DCF	CAPM
Q1'17	8.82	9.28
Q2'17	8.96	9.21
Q3'17	8.67	9.55
Q4'17	9.04	9.60
Q1'18	9.67	9.93
Q2'18	9.58	9.48
Q3'18	9.67	9.50
Q4'18	9.35	9.23
Q1'19	9.30	9.02

Chart of Historic Water Industry DCF and CAPM Average ROEs



Barometer water companies are used to calculate a current DCF in the first chart. The second chart demonstrates the companies 52 week average DCF. A final average of the two calculations is also shown at the bottom.

**Water Company Barometer Group  
Calculation of a Current Dividend Yield**

	Closing Market Price (Po) 8/7/19/2019 (\$)	Latest Indicated Dividend Do (\$)	Ind. Div. Plus 1/2 Div. Growth Rate (D1) (\$)	Current Dividend Yield(D1/Po) Yield(D1/Po) (%)	Growth (%)	DCF (%)
American States Water Company	80.41	1.22	1.28	1.59	7.33	8.92
American Water Works Co., Inc.	117.95	2.00	2.09	1.77	8.59	10.37
Aqua America, Inc.	42.06	0.94	0.98	2.32	6.37	8.70
California Water Service Group	52.40	0.79	0.82	1.56	9.27	10.82
Middlesex Water Company	57.53	0.96	0.98	1.71	5.10	6.81
SIW Corporation	64.19	1.20	1.24	1.93	8.00	9.93
The York Water Company	35.61	0.69	0.71	2.00	7.20	9.20
Group Average	64.31	1.11	1.16	1.84	7.41	9.25
Group Average G				7.40		
<b>DCF</b>				<b>9.24</b>		

**52-week High-Low Dividend Yield Calculation**

	High (\$)	Low (\$)	Average (Pa) (\$)	Latest Indicated Dividend (Do) (\$)	Average Dividend Yield (Do/Pa) Yield (Do/Pa) (%)	Growth (%)	DCF (%)
American States Water Company	83.23	58.26	70.75	1.22	1.72	7.33	9.06
American Water Works Co., Inc.	119.95	85.88	102.92	2.00	1.94	8.59	10.54
Aqua America, Inc.	42.60	32.09	37.35	0.94	2.52	6.37	8.89
California Water Service Group	55.05	39.85	47.45	0.79	1.66	9.27	10.93
Middlesex Water Company	63.68	43.12	53.40	0.96	1.80	5.10	6.90
SIW Corporation	67.95	51.82	59.89	1.20	2.00	8.00	10.00
The York Water Company	36.86	29.10	32.98	0.69	2.09	7.20	9.29
Group Average	67.05	48.59	57.82	1.11	1.96	7.41	9.37
Group Average G					7.40		
<b>DCF</b>					<b>9.36</b>		
Average of Current and 52-Week					<b>9.30</b>		

Multiple sources of the Barometer companies projected 5 year Earnings Per Share are used to calculate the Group Average Dividend Growth Estimate.

**Development of a Representative Dividend Growth Rate  
for the Barometer Group of Water Companies**

	<u>5 Yr Forecast</u>				Average	
	Value Line	Value Line	Zacks	Yahoo	Earnings	Growth
	<u>DPS</u> (%)	<u>EPS</u> (%)	<u>EPS</u> (%)	<u>EPS</u> (%)	<u>Growth</u> (%)	<u>Estimate</u> (%)
American States Water Company	9.50	8.00	8.00	6.00	7.33	7.33
American Water Works Co., Inc.	9.00	9.50	8.08	8.20	8.59	8.59
Aqua America, Inc.	8.00	8.00	6.12	5.00	6.37	6.37
California Water Service Group	6.50	8.00	10.00	9.80	9.27	9.27
Middlesex Water Company	5.00	7.50		2.70	5.10	5.10
SJW Corporation	7.00	6.00	4.00	14.00	8.00	8.00
The York Water Company	6.50	9.50		4.90	7.20	7.20
Group Average	7.36	8.07	7.24	7.23	7.41	7.41
USE					<u>7.40</u>	<u>7.40</u>

Sources: Value Line Investment Survey, August 8, 2019  
Zacks, August 12, 2019 ([www.zacks.com](http://www.zacks.com))  
Yahoo!, August 8, 2019 (<http://finance.yahoo.com/>)





Source: Ibbotson S&P 1928 Stock, Bonds, Bills, and Inflation Yearbook

Year	A-1	A-2	A-3	A-4	A-5	A-6	A-7	A-8	A-9	A-10	A-11	A-12	A-13	A-14	A-15	A-16
	Large Company Stocks	Large Company Stocks	Large Company Stocks	Small Company Stocks	Long-Term Corporate Bonds	Long-Term Government Bonds	Long-Term Government Bonds	Long-Term Government Bonds	Long-Term Government Bonds	Intermediate-Term Government Bonds	Intermediate-Term Government Bonds	Intermediate-Term Government Bonds	Intermediate-Term Government Bonds	U.S. Treasury Bills	Inflation	Risk Premium
	Total Returns	Total Returns	Appreciation	Total Returns	Total Returns	Total Returns	Income	Appreciation	Yields	Total Returns	Income Returns	Appreciation	Yields	Total Returns	Total Returns	(A-1)-(A-7)
	Jan-Dec *	Jan-Dec *	Jan-Dec *	Jan-Dec *	Jan-Dec *	Jan-Dec *	Jan-Dec *	Jan-Dec *	Jan-Dec *	Jan-Dec *	Jan-Dec *	Jan-Dec *	Jan-Dec *	Jan-Dec *	Jan-Dec *	Jan-Dec *
2012	0.1600	0.0250	0.1341	0.1824	0.1068	0.0331	0.0240	0.0088	0.0241	0.0207	0.0058	0.0148	0.0046	0.0006	0.0174	0.1360
2013	0.3239	0.0248	0.2960	0.4507	-0.0707	-0.1278	0.0288	-0.1570	0.0378	-0.0368	0.0102	-0.0468	0.0149	0.0002	0.0151	0.2951
2014	0.1369	0.0216	0.1139	0.0292	0.1728	0.2471	0.0341	0.2093	0.0246	0.0300	0.0163	0.0135	0.0155	0.0002	0.0076	0.1028
2015	0.0138	0.0210	-0.0073	-0.0360	-0.0102	-0.0065	0.0247	-0.0311	0.0268	0.0179	0.0151	0.0029	0.0169	0.0002	0.0073	-0.0109
2016	0.1196	0.0226	0.0954	0.2565	0.0670	0.0175	0.0230	-0.0040	0.0272	0.0192	0.0136	0.0058	0.0185	0.0020	0.0207	0.0966
2017	0.2183	0.0221	0.1942	0.1119	0.1225	0.0624	0.0267	0.0351	0.0254	0.0164	0.0193	-0.0029	0.0211	0.0080	0.0211	0.1916
2018	0.0438	0.0201	-0.0624	-0.1160	-0.0473	-0.0057	0.0282	0.0350	0.0284	0.0116	0.0265	-0.0155	0.0250	0.0181	0.0191	0.0156
Average	0.1178	0.0395	0.0770	0.1651	0.0625	0.0592	0.0497	0.0080	0.0501	0.0510	0.0439	0.0065	0.0435	0.0338	0.0296	0.0681
Median	0.1245	0.0382	0.1025	0.1824	0.0477	0.0365	0.0415	0.0054	0.0417	0.0323	0.0373	0.0029	0.0363	0.0295	0.0268	0.0795
High	0.5398	0.0877	0.4659	1.4287	0.4256	0.4036	0.1350	0.2395	0.1334	0.2910	0.1297	0.1423	0.1396	0.1471	0.1816	0.5087
Low	-0.4334	0.0110	-0.4707	-0.5801	-0.0809	-0.1480	0.0194	-0.1825	0.0194	-0.0601	0.0058	-0.1114	0.0046	-0.0002	-0.1030	-0.4667
Last 5 year (60 months)																
Average	0.1065	0.0215	0.0668	0.0491	0.0610	0.0630	0.0273	0.0489	0.0265	0.0190	0.0182	0.0008	0.0194	0.0057	0.0152	0.0791
Median	0.1196	0.0216	0.0954	0.0292	0.0670	0.0175	0.0267	0.0350	0.0268	0.0179	0.0163	0.0029	0.0185	0.0020	0.0191	0.0966
High	0.2183	0.0226	0.1942	0.2565	0.1728	0.2471	0.0341	0.2093	0.0284	0.0300	0.0265	0.0135	0.0250	0.0181	0.0211	0.1916
Low	0.0138	0.0201	-0.0624	-0.1160	-0.0473	-0.0065	0.0230	-0.0311	0.0246	0.0116	0.0136	-0.0155	0.0165	0.0002	0.0073	-0.0109

\* Compound Annual Return

**Pennsylvania American Water Company**  
**Borough of Kane Authority's Wastewater System**

**Appraisal Work Papers**  
**As of September 30, 2019**

**Market Approach**  
**Value Line Investment Surveys**  
**Water Industry**  
**Market and Financial Ratios**  
**July 12, 2019**

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### ESPECIALLY NOTEWORTHY:

*This week we welcome Avalara, Inc. to the Survey. The company is a cloud-based platform that helps businesses manage their tax compliance responsibilities. Our inaugural review can be found on page 1819.*

*Meanwhile, diversified products maker and Dow-30 member United Technologies and aerospace and defense equipment manufacturer Raytheon have agreed to a merger of equals. There has been some push back surrounding the hoped-for tie-up, however. Page 1782.*

*Elsewhere, Parker-Hannifin Corp. is looking to build upon its leading position as a diversified manufacturer of motion and control technologies and systems, announcing that it has agreed to purchase engineered products and materials maker LORD Corporation. See page 1771.*

*We think fellow industrial products maker MSC Industrial Direct Co., Inc. should appeal to almost any type of investor. Page 1721.*

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### SUPPLEMENTARY REPORTS .....

- ★★ Rank 1 (Highest) for Timeliness.
- ★ Rank 2 (Above Average).

In three parts: Part 1 is the Summary & Index. Part 2 is Selection & Opinion. This is Part 3, Ratings & Reports. Volume LXXIV, No. 48

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Value Line's estimates of sales and earnings growth for individual companies are derived by correlating sales, earnings, and dividends to appropriate components or subcomponents of the Gross Domestic Product, presented below. A more detailed forecast appears periodically in *Selection & Opinion*.

The broad-based GDP deflator will advance by 2.3%-2.5% per year, on average. Long-term interest rates on AAA corporate bonds are projected to average about 4.0%-4.5% in the years 2022-2024. We expect the Federal Reserve to pursue moderately tighter monetary policies except in years in which the economy is slowing or there is a recession. Based on these assumptions, the Gross Domestic Product will average more than \$25,200 billion in the years 2022-2024, a level that is roughly 23% above the estimated 2018 total of nearly \$20,500 billion.

**HYPOTHESIZED ECONOMIC ENVIRONMENT 3 TO 5 YEARS HENCE**

The hypothesized 2022-2024 economic environment into which earnings are forecast is as follows: Unemployment will average about 4.0%-4.5% of the national labor force. There will be no major war in progress at that time. Industrial production will be expanding slowly. Inflation will continue to be relatively modest. Prices as measured by

Things may turn out differently. But in the absence of knowledge of the future, we use the above assumptions, which appear to be most plausible. Thus we are able to apply a common economic environment to all stocks for the purpose of measuring relative growth potential.

**THESE ARE THE NATIONAL INCOME SERIES TO WHICH VALUE LINE SALES, EARNINGS, AND DIVIDEND ESTIMATES ARE CORRELATED**

ANNUAL STATISTICS	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019*	2020*	2022-24*
Gross Domestic Product (\$Bill.)	14713	14449	14992	15543	16197	16785	17522	18219	18707	19485	20494	21418	22358	25251
Real GDP (2012 Chained \$Bill.)	15605	15209	15599	15841	16197	16495	16900	17387	17659	18051	18566	19068	19451	20420
Total Consumption (\$Bill.)	10593	10460	10643	10844	11007	11167	11494	11922	12248	12559	12888	13212	13595	14626
Nonresidential Fixed Investment (\$Bill.)	1994	1704	1781	1935	2119	2206	2357	2400	2404	2538	2714	2809	2908	3116
Industrial Prod. (% Change, Annualized)	-3.4	-11.3	5.7	3.3	2.8	1.9	3.7	-3.3	-0.6	3.7	4.0	0.7	1.0	0.5
Housing Starts (Mill. Units)	0.90	0.55	0.59	0.61	0.78	0.93	1.00	1.11	1.18	1.21	1.25	1.20	1.27	1.33
Total Light Vehicle Sales (Mill. Units)	13.2	10.4	11.6	12.7	14.4	15.5	16.4	17.4	17.5	17.2	17.2	16.8	16.6	16.5
Personal Savings Rate (%)	5.0	6.1	5.6	5.7	7.6	4.8	4.8	7.6	6.7	6.7	6.8	6.3	6.1	5.0
National Unemployment Rate (%)	5.8	9.3	9.6	8.9	8.1	7.4	6.2	5.3	4.9	4.4	3.9	3.7	3.6	4.3
AAA Corp Bond Rate (%)	5.6	5.3	4.9	4.6	3.7	4.2	4.2	3.9	3.7	3.8	3.9	3.8	4.0	4.3
10-Year Treasury Note Rate (%)	3.7	3.3	3.2	2.8	1.8	2.4	2.5	2.2	1.9	2.3	2.9	2.7	2.8	3.3
3-Month Treasury Bill Rate (%)	1.4	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.3	0.9	1.9	2.4	2.5	2.4
<b>ANNUAL RATES OF CHANGE</b>														
Real GDP	-0.3	-2.8	2.5	1.6	2.2	1.8	2.5	2.9	1.6	2.2	2.9	2.7	2.0	1.5
GDP Deflator	1.9	0.8	1.2	2.0	1.8	1.6	1.8	0.9	1.6	2.0	2.1	1.9	2.4	2.4
Consumer Price Index	3.8	-0.3	1.6	3.1	2.1	1.5	1.6	0.4	1.8	2.1	2.2	2.3	2.0	2.4
<b>QUARTERLY ANNUALIZED RATES</b>		2018				2019				2020				
	1st	2nd	3rd	4th	1st*	2nd*	3rd*	4th*	1st*	2nd*	3rd*	4th*		
Gross Domestic Product (\$Bill.)	20041	20412	20658	20865	21077	21297	21530	21766	22004	22245	22477	22706		
Real GDP (2012 Chained \$Bill.)	18324	18512	18665	18765	18913	19017	19120	19220	19315	19411	19498	19580		
Total Consumption (\$Bill.)	12723	12842	12953	13032	13071	13168	13259	13351	13447	13546	13647	13741		
Nonresidential Fixed Investment (\$Bill.)	2654	2710	2727	2763	2782	2795	2816	2844	2872	2897	2920	2942		
Industrial Production (% Change, Annualized)	2.3	4.6	5.2	4.0	-0.3	0.5	1.5	1.2	1.0	1.0	1.0	1.0		
Housing Starts (Mill. Units)	1.32	1.26	1.23	1.19	1.19	1.20	1.20	1.22	1.25	1.27	1.28	1.28		
Total Light Vehicle Sales (Mill. Units)	17.1	17.2	16.9	17.5	16.9	16.8	16.7	16.7	16.7	16.6	16.6	16.5		

\*Estimated

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In the second quarter, stocks in the Water Utility Industry continued to outperform the broader market averages. This goes against conventional wisdom that this group is for defensive accounts.

Yields on many of the equities followed here have declined sharply due to their strong showing. Thus, the question can be asked: Is this sector for traditional income-oriented investors? With the yields so low, other fixed income- and equity-securities look more attractive by comparison.

The fundamentals of the Water Industry remain the same. Following years of under investment, companies are now spending heavily to upgrade and replaced old pipelines and to be in compliance with EPA rules. Since this is a regulated business, the relationship between utilities and state authorities is of critical importance.

Acquisition of small water districts by larger, more-efficient utilities is a trend that should continue, if not accelerate.

We think most investors can find more appealing alternatives elsewhere.

#### Another Great Quarter

In the three-month period ended June 30th, many equities in the Water Utility group posted double-digit advances. This compares favorably to the S&P 500 Index gain of 4%, and continues a streak of outperforming the stock market over the past several years. Traditionally, utility stocks are usually purchased by risk-averse investors looking for income. These equities would typically decrease less in price during bear markets, and lag during bull markets. This has clearly not been the case the past few years. Indeed, because the industry's showing, the average yield on a water stock is 40 basis points lower than the 2.2% Value Line median.

#### Water Stocks Versus Treasury Bills

Since the last Federal Reserve meeting, when it indicated that monetary policy would be more accommodative if the economy stalled, the yield on the three-month Treasury bills has fallen to the current 2.17% at press time. This compares to average yield on a water utility of 1.77%. Moreover, securities backed by the U.S. government are virtually risk free, while water utility stocks are subject to everything from construction and regulatory risk, to a major pull back in the market averages. On the plus side, these stocks don't offer a fixed dividend. Depending upon the utility, annual payout can increase 4% to 10%.

Another possibility is that the market has made a secular change in the method used to value this group. Many have considered the Water Utility Industry to be overvalued for some time, but it has continued to move higher. Based on P/E ratios and other key financial metrics, the group trades at a very high premium. Subscribers will notice that many of these stocks are already trading well within our Target Price Range projections out to 2022-2024.

#### Industry Fundamentals Are Unchanged

Basically, the domestic water market consists of thousands of small, municipally run districts. The nine companies that we cover in the following pages are

#### INDUSTRY TIMELINESS: 15 (of 97)

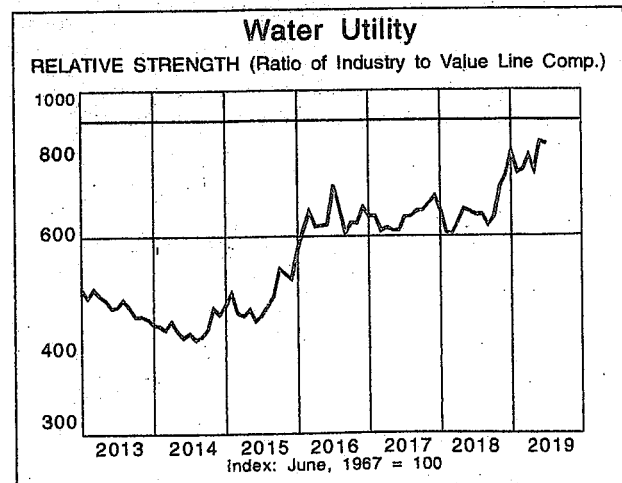
publicly owned by shareholders. In any case, just about every water company is involved in a substantial construction program. For decades, investment in upgrading older assets here was insufficient. Hence, just about all members of this segment are now playing catchup. Fortunately, regulators realize that water customers' bills were too low (relative to other utilities) to cover all of the rebuilding costs. The relationship between regulators and water companies has been, for the most part, very constructive. This has resulted in more funds being used for capital projects. Indeed, replacing all of these aging pipelines may cost more than \$1 trillion dollars over the next 25 years. According to the American Society of Civil Engineers, most of the pipe laid in the U.S. was done so in the early to mid-20th century. That would make most pipes being between 75 and 100 years old. (It should be noted that civil engineers would benefit from increased investment.)

Consolidation is another major trend that is underway. Large utilities, such as *American Water Works*, have been very active on the acquisition front. Since many utilities are small, their operations are very inefficient. They also lack the capital required to fund construction programs to upgrade and modernize their existing pipelines and wastewater facilities. So far, mergers have worked out well for both parties. The bigger company can eliminate a large amount of redundancies and reduce costs significantly. This increases the size of their rate bases, which is what regulators allow them to earn a return on. The end result is that small water districts are seeing more investment and the level of service has improved. At the same time, thanks to fair regulatory treatment, water utilities are able to be profitable.

#### Conclusion

As we discussed above, this group appears to be fully valued. Conservative investors should note that in spite of many of these stocks having low Beta co-efficients and very predictable earnings, they may carry more risk than appears at first glance. For example, should Wall Street decide to rotate out of this sector, volatility could spike. As always, we advise subscribers to read each individual report before investing to better understand a company's particular risk profile.

James A. Flood



# AMER. STATES WATER NYSE-AWR

RECENT PRICE: **74.38** P/E RATIO: **38.1** (Trailing: 41.0 Median: 21.0) RELATIVE P/E RATIO: **2.23** DIVD YLD: **1.6%** VALUE LINE: **1787**

<b>TIMELINESS</b> 2 Lowered 5/2/19	High: 21.0	19.4	19.8	18.2	24.1	33.1	38.7	44.1	47.2	58.4	69.6	76.4	Target Price Range 2022 2023 2024
<b>SAFETY</b> 2 Raised 7/20/12	Low: 13.5	14.9	15.6	15.3	17.0	24.0	27.0	35.8	37.3	41.1	50.1	63.3	
<b>TECHNICAL</b> 1 Raised 7/12/19	<b>LEGENDS</b> 1.35 x Dividends p sh divided by Interest Rate Relative Price Strength 2-for-1 split: 9/13 Options: Yes Shaded area indicates recession:												
<b>BETA</b> .70 (1.00 = Market)	<b>2022-24 PROJECTIONS:</b> Ann'l Total Price Gain Return High 75 (Nil) 2% Low 55 (-25%) -5%												
<b>Insider Decisions</b> S O N D J F M A M to Buy 0 0 0 0 0 0 0 0 0 0 0 0 0 Options 4 0 2 3 12 1 12 1 10 to Sell 4 1 3 3 2 3 6 3 6													
<b>Institutional Decisions</b> 3Q2018 4Q2018 1Q2019 to Buy 107 140 138 to Sell 109 102 105 Hld's(000) 26103 26276 26624													

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	© VALUE LINE PUB. LLC	22-24
6.99	6.81	7.03	7.88	8.75	9.21	9.74	10.71	11.12	12.12	12.19	12.17	12.56	11.92	12.01	11.88	12.45	12.85	Revenues per sh	15.75
1.04	1.11	1.32	1.45	1.65	1.69	1.70	2.11	2.13	2.48	2.65	2.67	2.81	2.70	2.96	2.84	3.10	3.30	"Cash Flow" per sh	4.00
.39	.53	.66	.67	.81	.78	.81	1.11	1.12	1.41	1.61	1.57	1.61	1.62	1.88	1.72	1.95	2.10	Earnings per sh <sup>A</sup>	2.75
.44	.44	.45	.46	.48	.50	.51	.52	.55	.64	.76	.83	.87	.91	.99	1.06	1.14	1.22	Div'd Decl'd per sh <sup>B</sup>	1.70
1.88	2.51	2.12	1.95	1.45	2.23	2.09	2.12	2.13	1.77	2.52	1.89	2.39	3.55	3.08	3.44	3.45	3.50	Cap'l Spending per sh	3.25
6.98	7.51	7.86	8.32	8.77	8.97	9.70	10.13	10.84	11.80	12.72	13.24	12.77	13.52	14.45	15.19	15.85	16.60	Book Value per sh <sup>D</sup>	19.35
30.42	33.50	33.60	34.10	34.46	34.60	37.06	37.26	37.70	38.53	38.72	38.29	36.50	36.57	36.68	36.76	36.90	37.00	Common Shs Outst <sup>C</sup>	37.50
31.9	23.2	21.9	27.7	24.0	22.6	21.2	15.7	15.4	14.3	17.2	20.1	24.6	25.6	25.7	34.0			Avg Ann'l P/E Ratio	23.5
1.82	1.23	1.17	1.50	1.27	1.36	1.41	1.00	.97	.91	.97	1.06	1.24	1.34	1.29	1.83			Relative P/E Ratio	1.30
3.5%	3.6%	3.1%	2.5%	2.5%	2.9%	2.9%	3.0%	3.2%	3.1%	2.7%	2.6%	2.2%	2.2%	2.0%	1.8%			Avg Ann'l Div'd Yield	2.6%

**CAPITAL STRUCTURE as of 3/31/19**  
 Total Debt \$416.9 mill. Due in 5 Yrs \$100.7 mill.  
 LT Debt \$376.6 mill. LT Interest \$24.0 mill. (33% of Cap'l)

361.0	398.9	419.3	466.9	472.1	465.8	458.6	436.1	440.6	436.8	460	475	Revenues (\$mill)	590
29.5	41.4	42.0	54.1	62.7	61.1	60.5	59.7	69.4	63.9	72.0	78.0	Net Profit (\$mill)	103
38.9%	43.2%	41.7%	39.9%	36.3%	38.4%	38.4%	36.8%	36.0%	22.0%	23.0%	23.0%	Income Tax Rate	23.0%
3.2%	5.8%	2.0%	2.5%	--	--	--	--	2.5%	--	Nil	1.0%	AFUDC % to Net Profit	1.0%

**Leases, Uncapitalized:** Annual rentals \$2.6 mill.  
**Pension Assets-12/18:** \$162.5 mill. Oblig. \$196.1 mill.

45.9%	44.3%	46.4%	42.2%	39.8%	39.1%	41.1%	39.4%	38.0%	40.5%	42.0%	45.0%	Long-Term Debt Ratio	46.0%
54.1%	55.7%	54.6%	57.8%	60.2%	60.9%	58.9%	60.6%	62.0%	59.5%	58.0%	55.0%	Capital Spending Ratio	54.0%
665.0	677.4	709.7	787.0	818.4	832.6	791.5	815.3	854.9	938.4	1010	1115	Total Capital (\$mill)	1350
866.4	855.0	896.5	917.8	981.5	1003.5	1060.8	1150.9	1205.0	1296.3	1360	1435	Net Plant (\$mill)	1650

**Common Stock** 36,795,218 shs. as of 5/2/19

5.9%	7.6%	11.1%	8.3%	8.9%	8.6%	9.0%	8.6%	9.3%	7.9%	8.0%	8.0%	Return on Total Cap'l	9.0%
8.2%	11.0%	10.3%	11.9%	12.7%	12.0%	13.0%	12.1%	13.1%	11.4%	12.0%	12.5%	Return on Shr. Equity	14.0%
8.2%	11.0%	10.3%	11.9%	12.7%	12.0%	13.0%	12.1%	13.1%	11.4%	12.0%	12.5%	Return on Com Equity	14.0%
3.2%	5.8%	5.3%	6.6%	6.8%	5.7%	6.0%	5.3%	6.2%	4.5%	5.0%	5.0%	Retained to Com Eq	5.5%
61%	47%	49%	45%	47%	53%	54%	56%	52%	61%	60%	60%	All Div'ds to Net Prof	62%

**MARKET CAP:** \$2.7 billion (Mld Cap)

CURRENT POSITION (\$MILL.)	2017	2018	3/31/19
Cash Assets	2	7.1	1.8
Accrs Receivable	26.1	23.4	17.5
Other	129.2	101.0	97.5
Current Assets	155.5	131.5	116.8
Accrs Payable	51.0	59.5	53.2
Debt Due	59.3	40.3	.3
Other	46.4	46.8	54.1
Current Liab.	156.7	146.6	107.6

**ANNUAL RATES of change (per sh)**

Past 10 Yrs	Past 5 Yrs	Est'd '16-'18 to '22-'24
Revenues	3.5%	4.5%
"Cash Flow"	6.0%	6.0%
Earnings	9.0%	8.0%
Dividends	7.5%	9.5%
Book Value	5.0%	5.0%

**QUARTERLY REVENUES (\$mill.)**

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2016	93.5	112.0	123.8	106.8	436.1
2017	98.8	113.2	124.4	104.2	440.6
2018	94.7	106.9	124.2	111.0	436.8
2019	101.7	115	130	113.3	460
2020	103	122	133	117	475

**EARNINGS PER SHARE<sup>A</sup>**

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2016	.28	.45	.59	.30	1.62
2017	.34	.62	.57	.35	1.88
2018	.29	.44	.62	.37	1.72
2019	.35	.52	.68	.40	1.95
2020	.35	.60	.70	.45	2.10

**QUARTERLY DIVIDENDS PAID<sup>B</sup>**

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2015	.213	.213	.224	.224	.87
2016	.224	.224	.224	.242	.91
2017	.242	.242	.255	.255	.99
2018	.255	.255	.275	.275	1.06
2019	.275	.275			

**BUSINESS:** American States Water Co. operates as a holding company. Through its principal subsidiary, Golden State Water Co., it supplies water to 259,919 customers in 70 cities in 10 counties. Service areas include the metropolitan areas of Los Angeles and Orange Counties. The company also provides electricity to 24,353 customers in Big Bear Lake and San Bernardino Cnty. Provides water & wastewater services to U.S. military bases through its ASUS sub. Sold Chaparral City Wtr. of AZ. (6/11). Employs about 815. BlackRock, Inc. owns 15.1% of out. shares; Vanguard, 11.5%; off. & dir. 1.2%. (4/19 Proxy). Chairman: Lloyd Ross. Pres. & CEO: Robert Sprowls, Inc. CA. Addr.: 630 East Foothill Blvd., San Dimas, CA 91773. Tel: 909-394-3800. Internet: www.aswater.com.

**American States Water has been granted rate relief.** In June, the California Public Utility Commission (CPUC) handed down a final ruling on the Golden State Water (GSWC) subsidiary's 2017 petition seeking to raise customers' bills. Actually, the CPUC agreed to a prior settlement made between the utility and the CPUC's Public Advocate Office. According to the ruling, the increased revenue will be retroactive to the beginning of this year. California works on a three-year cycle, so rates are now established through 2021, which removes some of GSWC's regulatory risk. The water utility was also authorized to spend \$335 million to upgrade existing pipelines and other assets.

**The nonregulated operations are boosting the bottom line.** Through its ASUS subsidiary, American States provides water services to U.S. military bases. In the first quarter, this sector was responsible for 31% of the company's net income, compared to 17% in the similar year-ago period. Increased earnings were the result of ongoing construction at Fort Riley, KS along with greater management fees from more activity at other bases.

While the rate of growth may slow here, many military bases are privatizing their water services, and we expect the company to win a fair share of this new business. Since this sector is nonregulated, earnings from here are not capped, as they are in the utility operations.

**Earnings prospects are good.** The implementation of higher rates together with the greater contributions from ASUS should enable American States' share net to rise by double digits in 2019. Next year should be solid too, as share earnings could increase another 7%.

**These timely shares do not hold much appeal for utility investors.** Like many in this group, AWR has soared in value over the past few years. Thus, income-oriented investors could probably do better elsewhere. (As an alternative, the three-month Treasury note offers a higher yield while being virtually risk free.) At the recent quotation, all of American States' positives appear to be reflected in the stock price. Indeed, the equity is trading close to the high end of its projected 2022-2024 Target Price Range.

*James A. Flood* *July 12, 2019*

(A) Primary earnings. Excludes nonrecurring gains/losses: '04, 7c; '05, 13c; '06, 3c; '08, (14c); '10, (23c); '11, 10c. Next earnings report due mid-August. (B) Dividends historically paid in early March, June, September, and December. (C) Div'd reinvestment plan available. (D) In millions, adjusted for split. (E) Includes intangibles. As of 3/31/19; \$1.1 million/\$0.03 a share.

Company's Financial Strength	A
Stock's Price Stability	85
Price Growth Persistence	80
Earnings Predictability	90

# AMERICAN WATER NYSE-AWK

RECENT PRICE **115.73** P/E RATIO **32.1** (Trailing: 36.4 Median: 19.0) RELATIVE P/E RATIO **1.88** DIV YLD **1.8%** VALUE LINE **1788**

**TIMELINESS** 1 Raised 4/5/19  
**SAFETY** 3 New 7/25/08  
**TECHNICAL** 2 Raised 7/12/19  
**BETA** .60 (1.00 = Market)

High: 23.7 23.0 25.8 32.8 39.4 45.1 56.2 61.2 85.2 92.4 98.2 119.3  
 Low: 16.5 16.2 19.4 25.2 31.3 37.0 41.1 48.4 58.9 70.0 76.0 88.0

LEGENDS  
 --- 1.10 x Dividends p sh divided by Interest Rate  
 ..... Relative Price Strength  
 Options: Yes  
 Shaded area indicates recession

**2022-24 PROJECTIONS**

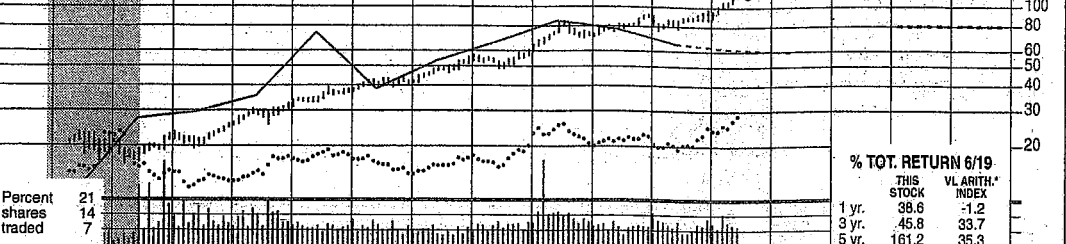
High	Price	Gain	Ann'l Total Return
120	(+5%)	3%	
80	(-30%)	-6%	

**Insider Decisions**

	S	O	N	D	J	F	M	A	M
to Buy	0	0	2	0	0	0	0	0	0
Options	1	0	0	0	7	9	0	0	12
to Sell	1	0	0	0	0	0	0	0	5

**Institutional Decisions**

	3Q2018	4Q2018	1Q2019
to Buy	290	362	364
to Sell	309	287	325
Hold(000)	154530	155716	155942



2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	
13.08	13.84	14.61	13.98	15.49	15.18	16.25	16.28	16.78	17.72	18.54	18.81	19.04	19.95	20.95	20.95	20.95	20.95	20.95	20.95	20.95	20.95	20.95
.65	d.47	2.87	2.89	3.56	3.73	4.27	4.36	4.75	5.13	5.26	5.14	6.15	6.75	7.05	6.75	7.05	7.05	7.05	7.05	7.05	7.05	7.05
d.97	d2.14	1.10	1.25	1.53	1.72	2.11	2.06	2.39	2.64	2.62	2.38	3.15	3.60	3.85	3.60	3.85	3.85	3.85	3.85	3.85	3.85	3.85
4.31	4.74	6.31	4.50	4.38	5.27	5.25	5.50	5.33	6.51	7.36	8.04	8.78	9.15	9.15	9.15	9.15	9.15	9.15	9.15	9.15	9.15	9.15
23.86	28.39	25.64	22.91	23.59	24.11	25.11	26.52	27.39	28.25	29.24	30.13	32.42	34.55	36.55	34.55	36.55	36.55	36.55	36.55	36.55	36.55	36.55
160.00	160.00	160.00	174.63	175.00	175.66	176.99	178.25	179.46	178.28	178.10	178.44	180.68	181.00	182.00	180.68	182.00	182.00	182.00	182.00	182.00	182.00	182.00
18.9	15.6	14.6	16.8	16.7	19.9	20.0	20.5	27.7	33.8	27.3	27.3	27.3	27.3	27.3	27.3	27.3	27.3	27.3	27.3	27.3	27.3	27.3
1.14	1.04	.93	1.05	1.06	1.12	1.05	1.03	1.45	1.70	1.47	1.47	1.47	1.47	1.47	1.47	1.47	1.47	1.47	1.47	1.47	1.47	1.47
1.9%	4.2%	3.8%	3.1%	3.4%	2.0%	2.5%	2.5%	2.0%	2.5%	2.0%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%

**CAPITAL STRUCTURE as of 3/31/19**  
 Total Debt \$8831.0 mil. Due in 5 Yrs \$1555.0 mil.  
 LT Debt \$7562.0 mil. LT Interest \$328.0 mil. (56% of Cap'l)

**Leases, Uncapitalized:** Annual rentals \$17.0 mil.  
**Pension Assets 12/18:** \$1499.0 mil.  
**Obliq.:** \$1892.0 mil.  
**Pfd Stock:** \$7.0 mil. **Pfd Div'd:** \$4 mil

**Common Stock:** 180,518,810 shs. as of 4/25/19

**MARKET CAP:** \$20.9 billion (Large Cap)

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	
2440.7	2710.7	2666.2	2876.9	2901.9	3011.3	3159.0	3302.0	3440.0	3615	3815	3957.0	3440.0	3615	3815	3957.0	3440.0	3615	3815	3957.0	3440.0	3615	3815
209.9	267.8	304.9	374.3	369.3	429.8	476.0	468.0	426.0	567.0	650	700	650	700	650	700	650	700	650	700	650	700	650
37.9%	40.4%	39.5%	40.7%	39.1%	39.4%	39.1%	39.2%	53.3%	28.2%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
58.9%	56.8%	55.7%	53.9%	52.4%	52.4%	53.7%	52.4%	54.7%	56.3%	57.0%	58.0%	57.0%	58.0%	58.0%	58.0%	58.0%	58.0%	58.0%	58.0%	58.0%	58.0%	58.0%
43.1%	43.2%	44.2%	46.1%	47.6%	47.4%	46.2%	47.5%	45.3%	43.6%	43.0%	42.0%	43.0%	43.0%	43.0%	43.0%	43.0%	43.0%	43.0%	43.0%	43.0%	43.0%	43.0%
9289.0	9561.3	9580.3	9635.5	9940.7	10364	10911	10967	11875	13433	14600	15700	14600	15700	15700	15700	15700	15700	15700	15700	15700	15700	15700
10524	11059	11021	11739	12391	12900	13933	14992	16246	17409	18500	19500	17409	18500	19500	17409	18500	19500	17409	18500	19500	17409	18500
3.8%	4.4%	4.8%	5.4%	5.1%	5.5%	5.7%	5.8%	4.9%	5.4%	5.5%	5.5%	5.4%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
5.2%	6.5%	7.2%	8.4%	7.8%	8.7%	9.4%	9.0%	7.9%	9.7%	10.5%	10.5%	9.7%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%
5.2%	6.5%	7.2%	8.4%	7.8%	8.7%	9.4%	9.0%	7.9%	9.7%	10.5%	10.5%	9.7%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%
1.8%	2.8%	3.5%	3.8%	4.7%	4.3%	4.7%	4.0%	2.5%	4.2%	5.0%	5.0%	2.5%	4.2%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
65%	56%	52%	57%	40%	50%	50%	50%	68%	56%	54%	55%	54%	55%	55%	55%	55%	55%	55%	55%	55%	55%	55%

**CURRENT POSITION (\$MILL.)**

	2017	2018	3/31/19
Cash Assets	82	158	85
Accts Receivable	272	301	307
Other	366	322	299
Current Assets	720	781	691
Accts Payable	195	175	190
Debt Due	1227	1035	1269
Other	903	884	757
Current Liab.	2325	2094	2156

**BUSINESS:** American Water Works Company, Inc. is the largest investor-owned water and wastewater utility in the U.S., providing services to more than 14 million people in 46 states and Ontario, Canada. Nonregulated business assists municipalities and military bases with the maintenance and upkeep as well. Regulated operations made up 87% of 2018 revenues. New Jersey is its largest market accounting for 24% of regulated revenues; Pennsylvania, 23%. Has 7,100 employees. The Vanguard Grp, owns 11.0% of outstanding shares; BlackRock, Inc., 7.9%; officers & directors, less than 1.0%. (3/19 Proxy). President & CEO: Susan N. Story. Chairman: George MacKenzie. Address: 1 Water Street, Camden, NJ 08102. Tel.: 856-346-8200. Internet: www.amwater.com.

**ANNUAL RATES of change (per sh)**

	Past 10 Yrs.	Past 5 Yrs.	Est'd '16-'18
Revenues	3.0%	3.5%	4.0%
"Cash Flow"	18.5%	6.0%	7.0%
Earnings	--	6.5%	9.5%
Dividends	--	10.5%	9.0%
Book Value	1.5%	4.0%	5.0%

**QUARTERLY REVENUES (\$ mill.)**

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2016	743.0	827.0	930.0	802.0	3302.0
2017	756.0	844.0	936.0	821.0	3357.0
2018	761.0	853.0	976.0	850.0	3440.0
2019	813.0	902	1025	900	3640
2020	835	950	1080	950	3815

**EARNINGS PER SHARE A**

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2016	.46	.77	.83	.57	2.62
2017	.52	.73	1.12	.01	2.38
2018	.59	.91	1.03	.62	3.15
2019	.62	.90	1.20	.88	3.60
2020	.60	.88	1.25	1.12	3.85

**QUARTERLY DIVIDENDS PAID**

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2015	.31	.34	.34	.34	1.33
2016	.34	.375	.375	.375	1.47
2017	.375	.415	.415	.415	1.62
2018	.415	.455	.455	.455	1.78
2019	.455	.50			

**Shares of American Water Works continue to soar.** Once again, the water utility's stock has outperformed the S&P 500 by a wide margin. In the second quarter, AWK rose over 11%, versus a 4% increase in the broader market. This trend has been ongoing since mid-2015. **Our ranking system favors the stock.** AWK is ranked Highest (1) for relative price performance in the year ahead. Based on other financial metrics, such as P/E ratio and dividend yield, however, the equity seems more than fully valued. **Long-term investors should avoid this equity.** Indeed, the price of AWK almost exceeded our Target Price Range projection through 2022-2024. Most of this can probably be attributed to the Federal Reserve's indicating that monetary policy will be easier going forward. Income-oriented accounts should be aware that they can get a higher yield with much less risk by owning the three-month Treasury note. In any case, only those who believe there is a secular shift under way in how the market evaluates water stocks should consider AWK. **The company's earnings and dividend**

**prospects remain bright.** In 2018, American Water had a very strong first two quarters thanks to rate hikes. Still, we think that share earnings were able to equal these difficult comparisons. The water utility's acquisition strategy (see below) and cost-control efforts are the driving force behind the strong bottom-line growth, which we expect to continue. **Acquisition activity should pick up in the second half.** The first two quarters of this year were quiet as American Water only purchased five water districts, which added 4,700 customers. By the end of 2019, however, nine additional purchases are expected to be closed for 62,000 customers. These opportunities exist because of the fragmented nature of the water industry. The company can absorb smaller districts and use economies of scale to operate them more profitably. **The capital budget is considerable.** American Water has a five year-construction budget of \$8.3 billion. More debt will be required to finance this program, but we expect the company's balance sheet to remain in adequate shape. **James A. Flood** July 12, 2019

(A) Diluted earnings. Excludes nonrecr. losses: '08, \$4.62; '09, \$2.63; '11, \$0.07. Disc. oper.: '06, (\$0.04); '11, \$0.03; '12, (\$0.10); '13, (\$0.01). GAAP used as of 2014. Next earnings report due August 1st. Quarterly earnings do not sum in '16 due to rounding. (B) Dividends paid in March, June, September, and December. = Div. reinvestment available. (C) In millions. (D) Includes intangibles. On 3/31/19: \$1.655 billion, \$9.17/share. (E) Pro forma numbers for '06 & '07. Company's Financial Strength B+ Stock's Price Stability 100 Price Growth Persistence 85 Earnings Predictability 85

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# AQUA AMERICA NYSE-WTR

RECENT PRICE **40.86** P/E RATIO **34.1** (Trailing: 46.4 Median: 22.0) RELATIVE P/E RATIO **1.99** DIV'D YLD. **2.2%** VALUE LINE **1789**

**TIMELINESS** 3 Lowered 11/30/18  
**SAFETY** 2 Raised 4/20/12  
**TECHNICAL** 2 Raised 7/5/19  
 BETA .70 (1.00 = Market)

**LEGENDS**  
 1.60 x Dividends p sh divided by Interest Rate  
 ... Relative Price Strength  
 5-for-4 split 9/13  
 Options: Yes  
 Shaded area indicates recession

**2022-24 PROJECTIONS**

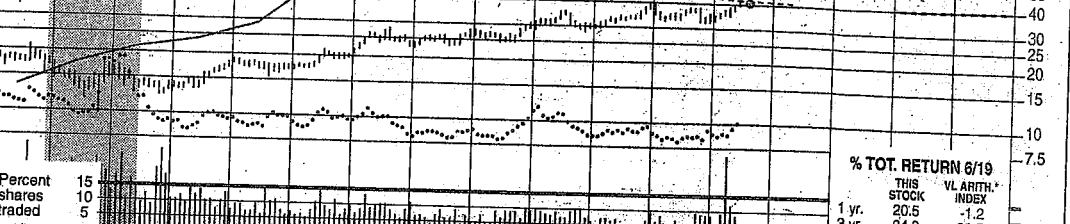
High	Low	Price	Gain	Ann'l Total Return
55	40	55	(+35%)	10%
			(Nil)	2%

**Insider Decisions**

	S	O	N	D	J	F	M	A	M
to Buy	0	0	4	0	0	0	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	0	0	0	0	0	0	0

**Institutional Decisions**

	3Q2018	4Q2018	1Q2019
to Buy	206	241	238
to Sell	180	213	184
Hlds(000)	99521	101230	103658



2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	
2.38	2.78	3.08	3.23	3.61	3.71	3.93	4.21	4.10	4.32	4.32	4.37	4.61	4.62	4.56	4.71	4.15	4.35	4.35	4.35	4.35	4.35	4.35
.77	.87	.97	1.01	1.10	1.14	1.29	1.42	1.45	1.51	1.82	1.89	1.87	2.07	2.12	1.90	2.20	2.20	2.20	2.20	2.20	2.20	2.20
.46	.51	.57	.56	.57	.58	.62	.72	.83	.87	1.16	1.20	1.14	1.32	1.35	1.08	1.20	1.40	1.40	1.40	1.40	1.40	1.40
.28	.29	.32	.35	.38	.41	.44	.47	.50	.54	.58	.63	.69	.74	.79	.85	.88	.88	.88	.88	.88	.88	.88
1.06	1.23	1.47	1.64	1.43	1.58	1.66	1.89	1.90	1.98	1.73	1.84	2.07	2.16	2.69	2.78	2.55	2.55	2.55	2.55	2.55	2.55	2.55
4.27	4.71	5.04	5.57	5.85	6.26	6.50	6.81	7.21	7.90	8.63	9.27	9.78	10.43	11.02	11.28	15.30	16.15	16.15	16.15	16.15	16.15	16.15
154.31	158.97	161.21	165.41	166.78	169.21	170.61	172.46	173.60	175.43	177.93	178.59	176.54	177.39	177.71	178.09	216.00	217.00	217.00	217.00	217.00	217.00	217.00
24.5	25.1	31.8	34.7	32.0	24.9	23.1	21.1	21.3	21.9	21.2	20.8	23.5	23.9	24.7	32.6	32.6	32.6	32.6	32.6	32.6	32.6	32.6
1.40	1.33	1.69	1.87	1.70	1.50	1.54	1.34	1.34	1.39	1.19	-1.09	1.18	1.25	1.24	1.76	1.76	1.76	1.76	1.76	1.76	1.76	1.76
2.5%	2.3%	1.8%	1.8%	2.1%	2.8%	3.1%	3.1%	2.8%	2.8%	2.4%	2.5%	2.6%	2.3%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%

**CAPITAL STRUCTURE as of 3/31/19**  
 Total Debt \$2652.0 mill. Due in 5 Yrs \$698.8 mill.  
 LT Debt \$2463.0 mill. LT Interest \$96.0 mill.  
 (55% of Cap't)

**Pension Assets-12/18** \$239.0 mill.  
 Oblig. \$282.0 mill.

**Pfd Stock** None  
**Common Stock** 215,739,266 shares as of 4/24/19

**MARKET CAP:** \$8.8 billion (Large Cap)

**CURRENT POSITION (\$MILL.)**

	2017	2018	3/31/19
Cash Assets	4.2	3.6	4.1
Receivables	98.6	101.2	96.4
Inventory (AvgCst)	14.4	15.8	16.2
Other	14.0	26.6	27.1
Current Assets	131.2	147.2	143.8
Accts Payable	59.2	77.3	55.1
Debt Due	117.4	160.0	189.0
Other	107.9	161.7	190.0
Current Liab.	284.5	399.0	434.1

**ANNUAL RATES of change (per sh)**

	Past 10 Yrs	Past 5 Yrs	Est'd '16-'18 to '22-'24
Revenues	3.0%	1.5%	3.5%
"Cash Flow"	6.5%	5.0%	6.5%
Earnings	8.0%	5.5%	8.0%
Dividends	7.5%	8.0%	8.0%
Book Value	6.5%	6.5%	9.0%

**QUARTERLY REVENUES (\$mill.)**

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2016	192.6	203.9	226.6	196.8	819.9
2017	187.8	203.4	215.0	203.3	809.5
2018	194.3	211.9	226.2	205.7	838.1
2019	201.1	223.9	245	230	900
2020	215	235	250	240	940

**EARNINGS PER SHARE**

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2016	.29	.34	.41	.28	1.32
2017	.28	.34	.43	.30	1.35
2018	.29	.37	.44	d.02	1.08
2019	.09	.41	.48	.22	1.20
2020	.25	.45	.50	.20	1.40

**QUARTERLY DIVIDENDS PAID**

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2015	.165	.165	.178	.178	.69
2016	.178	.178	.1913	.1913	.74
2017	.1913	.1913	.2047	.2047	.79
2018	.2047	.2047	.219	.219	.85
2019	.219	.219			

**BUSINESS:** Aqua America, Inc. is the holding company for water and wastewater utilities that serve approximately three million residents in Pennsylvania (responsible for 53% of 2018 revenues), Ohio, Texas, Illinois, North Carolina, New Jersey, Indiana, and Virginia. Has 1,570 employees. Acquired AquaSource, 7/13; North Maine Utilities, 7/15; and others. Water supply revenues 2018:

**Aqua America ought to receive final approval soon for a large acquisition.** Last October, the water utility announced that it would purchase all of People's Natural Gas for \$4.275 billion in cash as well as assume about \$1.4 billion in debt. The Federal Trade Commission and regulators in Kentucky and West Virginia have already provided their consent. Permission from authorities in Pennsylvania is the final hurdle. The balance sheet has already started to change. In the second quarter, Aqua issued over 37 million new shares, increasing the share count by 20%. (The Canadian Pension Plan agreed to take 21.7 million of them.) Also, \$900 million in 10- and 30-year bonds were sold with coupon rates that averaged below 4%. Foo, \$690 million was raised selling "tangible equity units." (Please note that our earnings presentation will not reflect the Peoples Gas purchase until the deal closes. Our figures do include recent financing activities, however.) The new entity has good, but less well-defined, prospects. When the deal is completed, the company will have 1.75 million connections and a rate base of

residential, 58%; commercial, 16%; industrial, wastewater & other, 26%. Off. & dir. own less than 1% of the common stock; Vanguard Group, 10.7%; Blackrock, Inc., 9.5%; State Street Capital, 4.9% (3/19 Proxy). President & Chief Executive Officer: Christopher Franklin, Inc. PA Addr.: 762 West Lancaster Avenue, Bryn Mawr, PA 19010. Tel.: 610-625-1400. Internet: www.aquaamerica.com.

about \$11 billion. With continued upgrades and expansion to both the water and natural gas businesses, management believes the rate base could grow 7%-10% annually. Treatment by regulators could be different. Most state authorities are working together with water utilities to improve the nation's water infrastructure, which is badly in need of repair. Gas and electric utilities have a more complicated relationship with their overseers. One positive is that most of both operations are in Pennsylvania where the water company has a solid relationship with the state. Investor sentiment has turned very positive for the stock. The value of WTR increased 15% in the second quarter compared to the S&P 500's 4% gain. This out-performance is even more impressive considering the dilution caused by the substantial increase in shares outstanding. In any case, the equity is only expected to be a market performer in the year ahead. And accounts that only want exposure to the water sector may find better alternatives elsewhere in the group.

James A. Flood July 12, 2019

(A) Diluted eqs. Excl. nonrec. gains: '03, 3¢; '12, 18¢. Excl. gain from disc. operations: '12, 7¢; '13, 9¢; '14, 11¢. May not sum due to rounding. Next earnings report due August 6th.  
 (B) Dividends historically paid in early March, June, Sept. & Dec. = Div'd. reinvestment plan available (5% discount).  
 (C) In millions, adjusted for stock splits.  
 (D) Includes intangibles: 3/31/19, \$53.1 mill./\$0.25 a share.  
 Company's Financial Strength A  
 Stock's Price Stability 95  
 Price Growth Persistence 65  
 Earnings Predictability 85  
 To subscribe call 1-800-VALUELINE





# CONSOLIDATED WATER CO., NDQ-CWCO

RECENT PRICE **14.29** P/E RATIO **20.4** (Trailing: 15.0 Median: 23.0) RELATIVE P/E RATIO **1.19** DIV'D YLD **2.4%** VALUE LINE **1792**

TIMELINESS <b>3</b> Raised 8/24/18	High: 29.8	21.3	15.1	11.7	9.2	16.9	14.5	13.8	14.7	14.0	15.4	14.4	Target Price Range
SAFETY <b>3</b> New 1/17/14	Low: 7.6	6.4	8.1	7.3	6.7	7.5	8.4	9.6	9.8	10.0	10.8	11.1	2022 2023 2024
TECHNICAL <b>3</b> Raised 6/28/19	<b>LEGENDS</b> 2.00 x Dividends p sh divided by Interest Rate Relative Price Strength Options: Yes Shaded area indicates recession												
BETA <b>90</b> (1.00 = Market)	2022-24 PROJECTIONS Price Gain Ann'l Total High 35 (+145%) 28% Low 25 (+75%) 18%												

<b>Insider Decisions</b> S O N D J F M A M to Buy 0 0 0 0 0 0 0 0 0 0 0 0 0 Options 0 0 0 7 8 0 0 5 0 to Sell 1 0 0 0 0 0 1 2 0													% TOT. RETURN 6/19 THIS STOCK VL ARITH. 1 yr. 13.4 -1.2 3 yr. 17.9 33.7 5 yr. 37.7 35.3	
<b>Institutional Decisions</b> 3Q2018 4Q2018 1Q2019 to Buy 37 35 34 to Sell 40 36 35 Hld's(000) 8087 8091 8032 Percent shares traded 24 16 8														

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	© VALUE LINE PUB. LLC 22-24	
1.68	2.02	1.12	-2.71	3.41	4.52	3.99	3.49	3.79	4.49	4.35	4.46	3.86	3.89	4.18	4.39	4.50	4.65	Revenues per sh	9.40
.63	.77	.37	.87	1.20	.95	1.18	.86	.83	1.17	.96	.80	.89	.95	1.12	1.15	1.20	1.25	"Cash Flow" per sh	2.00
.42	.49	.23	.59	.79	.50	.74	.43	.42	.64	.58	.42	.51	.27	.41	.68	.70	.75	Earnings per sh A	1.40
.19	.24	.12	.24	.20	.33	.28	.30	.30	.30	.30	.30	.30	.30	.31	.34	.34	.34	Div'd Decl'd per sh B	.75
.19	.24	.77	1.83	.54	.46	.18	.09	.96	.31	.29	.32	.21	.23	.31	1.08	.45	.45	Cap'l Spending per sh	.50
3.89	4.20	2.54	7.49	8.21	8.36	8.53	8.69	8.83	9.20	9.44	9.58	9.81	9.79	9.91	10.34	4.65	10.85	Book Value per sh D	12.20
11.37	11.51	23.46	14.13	14.40	14.53	14.54	14.55	14.57	14.59	14.69	14.72	14.78	14.87	14.92	14.98	15.10	15.20	Common Shs Outst'g C	18.00
19.3	23.1	NMF	43.0	35.4	37.8	19.0	26.9	22.4	12.4	20.0	28.3	22.7	44.8	29.0	19.4	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	22.0
1.10	1.22	NMF	2.32	1.88	2.27	1.27	1.71	1.41	.79	1.12	1.49	1.14	2.35	1.46	1.05			Relative P/E Ratio	1.20
2.6%	2.0%	.7%	.9%	.7%	1.7%	2.0%	2.6%	3.2%	3.8%	2.6%	2.5%	2.6%	2.5%	2.6%	2.6%			Avg Ann'l Div'd Yield	2.5%

<b>CAPITAL STRUCTURE as of 3/31/19</b> Total Debt None Leases, Uncapitalized: Annual rentals \$.5 mill. No Defined Benefit Pension Plan Pfd Stock NMF (34,796 shares out of Div'd NMF) Common Stock 15,020,334 shs. as of 5/3/19 MARKET CAP: \$225 million (Small Cap)													58.0 10.8 --- --- 13.8% 86.2% 143.9 61.2 8.1% 8.7% 8.7% 4.6% 46%		50.7 6.3 --- --- 11.8% 88.2% 143.3 56.2 4.9% 5.0% 5.0% 1.5% 69%		55.2 6.1 --- --- 5.1% 94.9% 136.6 64.3 5.0% 4.7% 4.7% 1.0% 79%		65.5 9.3 --- --- 3.7% 96.3% 139.4 61.6 7.0% 6.9% 6.9% 3.6% 48%		63.8 8.6 --- --- 6.8% 99.8% 138.9 58.6 6.2% 6.2% 6.2% 3.0% 51%		65.6 6.3 --- --- 7.5% 100.0% 145.0 53.7 5.2% 5.2% 5.2% 1.2% 73%		57.1 4.0 --- --- 3.7% 100.0% 145.6 50.5 4.2% 4.2% 4.2% 2.1% 59%		57.9 6.1 --- --- 3.7% 100.0% 147.9 50.5 4.2% 4.2% 4.2% 1.1% 73%		62.3 10.2 --- --- 3.7% 100.0% 155.0 64.9 6.6% 6.6% 6.6% 3.3% 50%		65.7 10.5 --- --- 3.7% 100.0% 160 70.0 6.5% 6.5% 6.5% 3.5% 48%		68.0 11.5 --- --- 3.7% 100.0% 165 75.0 7.0% 7.0% 7.0% 4.0% 45%		71.0 23.0 --- --- 3.7% 100.0% 175 100 12.0% 12.0% 12.0% 5.5% 54%	
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**BUSINESS:** Consolidated Water Co. Ltd. develops and operates seawater desalination plants and water distribution systems in areas where naturally occurring supplies of potable water are scarce or nonexistent. It provides water in the Cayman Islands, the Bahamas, the British Virgin Isl, and Bali. At 12/31/18, it operated 11 plants with a capacity of 24.6 million gallons per day. In 2017, Bali classified as disc. oper. Divested Belize assets 2019. Inc.: Cayman Islands. Has 108 employees. Pres. & CEO : F. McTaggart. Offs./Dir. own 4.8% of stock; Amundi Asset Mgt.; 7.7%; Blackrock, 5.6% (4/19 proxy). Addr.: Regatta Off. Pk. Windward Three, 4th Floor, West Bay Road P.O. Box 1114 Grand Cayman, KY-1102, Cayman Islands. Tel.: (345) 945-4277. Internet: www.cwco.com.

**Consolidated Water's prospects have brightened.** For starters, the developer and operator of desalination plants, sold its CW-Belize operations. As a result, the company posted a \$0.24-a-share gain in the first quarter. (We have excluded it from our earnings presentation because it was a discontinued business.) Operating in Belize was complicated, due in part, to strict controls on foreign exchange. In this transaction, Consolidated was able to repatriate \$12 million in cash even though the sale was only for \$7 million. Also, the company was awarded a new seven-year contract to supply water from its North Side plant in the Cayman Islands. Dealing with the local regulators there has not always been easy.

**Earnings this year will probably top 2018's strong showing.** Last year's profits were enhanced by funds from a legal settlement. Even with no unusual items in 2019, we expect Consolidated's share earnings to rise slightly, to \$0.70. The manufacturing segment, which had been struggling, broke out in the first quarter. We think strength in this business could lead to a 7% increase in share earnings in 2020.

**Finances are solid.** The company has no debt of any kind on its relatively small balance sheet. What's more, excluding acquisitions, the desalination company will probably not require any external financing in the near term.

**Progress continues to go well for the yet-to-be-built Rosarito facility.** Consolidated has put years into developing a site in Baja, California Mexico that will provide 100 million gallons a day to the city of Tijuana. Another company will build the plant, but Consolidated will maintain an ownership interest in it. Recently, key authorizations were renewed, and the path to construction looks unobstructed. In the second quarter, a lender also approved \$200 million in loans for the project. The water will be sold under a 37-year contract.

**This equity may appeal to long-term investors willing to handle some risk.** As the global need for potable water increases, companies involved in desalination plants could do well. Investors should be aware that CWCO carries more risk than the typical water utility, however.

James A. Flood July 12, 2019

<b>ANNUAL RATES of change (per sh)</b> Past 10 Yrs. 5.0% Past 5 Yrs. 5.5% Est'd '16-'18 to '22-'24 14.5% Revenues "Cash Flow" 2.0% 5% 11.0% Earnings -3.0% -4.5% 20.5% Dividends 5.0% 15.5% Book Value 5.0% 2.0% 3.5%	<b>QUARTERLY REVENUES (\$ mill.)</b> Cal-endar Mar.31 Jun.30 Sep.30 Dec.31 Full Year 2016 14.0 15.4 14.4 14.1 57.9 2017 15.6 15.3 16.6 14.8 62.3 2018 14.3 15.9 18.8 16.7 65.7 2019 17.0 16.5 18.5 17.0 69.0 2020 17.5 17.5 18.5 17.5 71.0	<b>EARNINGS PER SHARE A</b> Cal-endar Mar.31 Jun.30 Sep.30 Dec.31 Full Year 2016 .15 .15 d.13 .10 .27 2017 .18 .11 .08 .04 .41 2018 .14 .14 .30 .10 .68 2019 .17 .18 .18 .17 .70 2020 .19 .19 .19 .18 .75	<b>QUARTERLY DIVIDENDS PAID B</b> Cal-endar Mar.31 Jun.30 Sep.30 Dec.31 Full Year 2015 .075 .075 .075 .075 .30 2016 .075 .075 .075 .075 .30 2017 .075 .075 .075 .075 .30 2018 .085 .085 .085 .085 .34 2019 .085 .085
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(A) Fully diluted earnings. Excludes gains from discontinued operations: '17, \$0.07 a share; '18, \$0.07 a share; '19, \$0.24 a share. Next earnings report due mid-Aug. (B) Dividends historically paid in late January, April, July, and October. C Dividend reinvestment plan available. (C) In millions adjusted for stock split. (D) Includes intangibles. As of 3/31/19, \$9.672 million/\$0.64 a share.

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# SJW GROUP NYSE-SJW

RECENT PRICE **61.23** P/E RATIO **27.2** (Trailing: 31.1, Median: 21.0) RELATIVE P/E RATIO **1.59** DIV YLD **2.0%** VALUE LINE **1794**

<b>TIMELINESS</b> — Suspended 5/4/18	High: 35.1	30.4	28.2	26.8	26.9	30.1	33.7	35.7	56.9	69.3	68.4	64.2	Target Price Range	2022	2023	2024
<b>SAFETY</b> <b>3</b> New 4/22/11	Low: 20.0	18.2	21.6	20.9	22.6	24.5	25.5	27.5	28.6	45.4	51.3	53.9	120			
<b>TECHNICAL</b> — Suspended 5/4/18	<b>LEGENDS</b> 1.50 x Dividends p sh divided by Interest Rate Relative Price Strength 2-for-1 split: 3/06 Options: Yes Shaded area indicates recession															
<b>BETA</b> .60 (1.00 = Market)	<b>2022-24 PROJECTIONS</b> Price Gain Ann'l Total High 90 (+45%) 12% Low 60 (Nil) 2%															
<b>Insider Decisions</b>	S O N D J F M A M to Buy 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 Options 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 to Sell 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0															
<b>Institutional Decisions</b>	3Q2018 4Q2018 1Q2019 to Buy 68 109 88 to Sell 71 53 71 Hld's(000) 11515 18571 19349 Percent Shares traded 15 10 5															

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
8.20	9.14	9.86	10.35	11.25	12.12	11.68	11.62	12.85	14.01	13.73	15.76	14.97	16.61	18.97	14.00	14.15	14.60	15.00	15.50	16.00	16.50
1.75	1.89	2.21	2.38	2.30	2.44	2.21	2.38	2.80	2.97	2.90	4.42	3.86	4.76	5.24	3.29	4.00	4.20	4.50	4.75	5.00	5.10
.91	.87	1.12	1.19	1.04	1.08	.81	.84	1.11	1.18	1.12	2.54	1.85	2.57	2.86	1.82	2.25	2.50	2.75	3.00	3.25	3.45
.49	.51	.53	.57	.61	.65	.68	.68	.69	.71	.73	.75	.78	.81	1.04	1.12	1.20	1.28	1.35	1.42	1.50	1.50
3.41	2.31	2.83	3.87	6.62	3.79	3.17	5.85	3.75	5.67	4.68	5.02	5.24	6.95	7.26	5.08	5.00	5.25	5.50	5.75	6.00	6.25
9.11	10.11	10.72	12.48	12.90	13.99	13.66	13.75	14.20	14.71	15.92	17.75	18.83	20.61	22.57	31.31	31.05	32.20	33.45	34.70	35.95	36.65
18.27	18.27	18.27	18.28	18.38	18.18	18.50	18.55	18.59	18.67	20.17	20.29	20.38	20.46	20.52	28.40	29.00	29.50	30.00	30.50	31.00	31.50
15.4	19.6	19.7	23.5	33.4	26.2	28.7	29.1	21.2	20.4	24.3	11.2	16.6	15.7	18.8	32.7	33.5	34.3	35.1	35.9	36.7	37.5
.88	1.04	1.05	1.27	1.77	1.58	1.91	1.85	1.33	1.30	1.37	.59	.84	.82	.95	1.76	1.82	1.88	1.94	1.99	2.04	2.09
3.5%	3.0%	2.4%	2.0%	1.7%	2.3%	2.8%	2.8%	2.9%	3.0%	2.7%	2.6%	2.5%	2.0%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%

CAPITAL STRUCTURE as of 3/31/19		2017	2018	2019	2020	2021	2022	2023	2024
Total Debt \$510.9 mill.	Due in 5 Yrs \$14.3 mill.	216.1	215.6	239.0	261.5	276.9	319.7	305.1	339.7
LT Debt \$510.9 mill.	LT Interest \$20.0 mill.	15.2	15.8	20.9	22.3	23.5	51.8	37.9	52.8
(LT Interest Coverage: 4.7x)		40.4%	38.8%	41.1%	41.1%	38.7%	32.5%	38.1%	38.8%
(37% of Cap'l)		2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Leases, Uncapitalized: Annual rentals \$4.4 mill.		49.4%	53.7%	56.6%	55.0%	51.1%	51.8%	49.8%	50.7%
Pension Assets-12/18 \$127.6 mill.		50.6%	46.3%	43.4%	45.0%	48.9%	48.4%	50.2%	49.3%
Oblig. \$187.9 mill.		499.6	550.7	607.9	610.2	655.2	744.5	764.6	855.0
Pfd Stock None.		718.5	785.5	756.2	831.6	898.7	963.0	1096.8	1146.1
Common Stock 28,434,560 shs.		4.4%	4.3%	4.9%	5.0%	5.0%	8.3%	6.9%	7.4%
as of 4/22/19		6.0%	6.2%	7.9%	8.1%	7.3%	14.4%	9.9%	12.5%
MARKET CAP: \$1.7 billion (Mid Cap)		6.0%	6.2%	7.9%	8.1%	7.3%	14.4%	9.9%	12.5%
CURRENT POSITION (\$Mill.)		1.2%	1.2%	3.1%	3.3%	2.8%	10.2%	5.7%	8.6%
Cash Assets	7.8	420.7	419.7						
Accts Receivable	17.3	19.2	17.9						
Other	41.8	62.8	50.9						
Current Assets	66.9	502.7	488.5						
Accts Payable	23.0	24.9	22.8						
Debt Due									
Other	62.1	139.1	63.9						
Current Liab.	85.1	164.0	86.7						

**BUSINESS:** SJW Group engages in the production, purchase, storage, purification, distribution, and retail sale of water. It provides water service to approximately 231,000 connections with a total population of roughly one million people in the San Jose area and 16,000 connections that reach about 49,000 residents in the region between San Antonio and Austin, Texas. The company also offers nonregulated water-related services and owns and operates commercial real estate investments. Has about 416 employees. Officers and directors (including Nancy O. Moss) own 8.2% of outstanding shares (3/19 proxy). Chairman & CEO: Richard Roth. Incorporated: California. Address: 110 West Taylor Street, San Jose, CA 95110. Telephone: (408) 279-7800. Internet: www.sjwater.com.

**SJW Group posted better-than-anticipated share profits to start 2019.** The San Jose-based water utility earned \$0.21 a share in the March period, \$0.06 above our call and \$0.15 higher than the previous-year tally. More impressively, the figure included a \$0.07 charge related to its pending merger with Connecticut Water (discussed further below). Water production expenses, most notably purchased water and ground water extraction, declined sharply, year over year, though partly offset by rising administrative fees. Despite the beat, we are opting to maintain our current-year bottom-line estimate of \$2.25 a share, given uncertainty surrounding lingering merger-related expenses and a potential uptick in ground water costs.

Cal-ender	QUARTERLY REVENUES (\$ mill.)	Full Year
	Mar.31 Jun.30 Sep.30 Dec.31	Year
2016	61.1 86.9 112.3 79.4	339.7
2017	69.0 102.1 124.6 93.5	389.2
2018	75.0 99.1 124.9 98.7	397.7
2019	77.7 105 130 97.3	410
2020	85.0 110 135 100	430

Cal-ender	EARNINGS PER SHARE A	Full Year
	Mar.31 Jun.30 Sep.30 Dec.31	Year
2016	.16 .82 .92 .67	2.57
2017	.18 .90 .94 .84	2.86
2018	.06 .62 .76 .38	1.82
2019	.21 .70 .85 .49	2.25
2020	.20 .75 .90 .65	2.50

Cal-ender	QUARTERLY DIVIDENDS PAID B	Full Year
	Mar.31 Jun.30 Sep.30 Dec.31	Year
2015	.1950 .1950 .1950 .1950	.78
2016	.2025 .2025 .2025 .2025	.81
2017	.2175 .2175 .2175 .3875	1.04
2018	.28 .28 .28 .28	1.12
2019	.30 .30	

(A) Diluted earnings. Excludes nonrecurring losses: '03, \$1.97; '04, \$3.78; '05, \$1.09; '06, \$16.36; '08, \$1.22; '10, \$0.46. GAAP accounting as of 2013. Next earnings report due late August. Quarterly earnings may not add due to rounding. (B) Dividends historically paid in early March, June, September, and December. (C) Div'd reinvestment plan available. (D) In millions, adjusted for stock splits. (E) Paid special dividend of \$0.17 per share on 11/17.

**Company's Financial Strength** B+  
**Stock's Price Stability** 70  
**Price Growth Persistence** 45  
**Earnings Predictability** 45

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July 12, 2019

Nicholas P. Patrikis



**Pennsylvania American Water Company**  
**Borough of Kane Authority's Wastewater System**

**Appraisal Work Papers**  
**As of September 30, 2019**

**Borough of Kane Authority**  
**Financials 2013 through 2019**

**AUS Consultants**  
**Suite 201**  
**8555 West Forest Home Avenue**  
**Greenfield, Wisconsin 53228**  
**Office Telephone: 414-529-5755**  
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Pennsylvania American Water Company  
Borough of Kane Authority

Wastewater Collection and Treatment System  
Investor-Owned Utility  
September 30, 2019

	2013	2014	2015	2016	2017	2018	2019	2013-2019	Average 2017-2019	2019	Forecast Parameters for Periods			
											1-5	6-15	16-beyond	
<b>Revenues</b>														
Sewer System Revenues	720,000	720,000	720,000	720,000	1,431,778	1,440,478	1,426,380			1,426,380				
Other Operating Income	1,500	1,670	2,505	1,085	835	1,317	7,598			7,598				
<b>Total</b>	<b>721,500</b>	<b>721,670</b>	<b>722,505</b>	<b>721,085</b>	<b>1,432,613</b>	<b>1,441,795</b>	<b>1,433,978</b>			<b>1,433,978</b>				
		0.0%	0.1%	-0.2%	98.7%	0.6%	-0.5%		16.45%		1.0%	1.0%	1.0%	
<b>Expenses</b>														
Depreciation	487,731	491,114	491,523	493,528	506,586	512,824	503,158	507,523	Depreciation & Amortization	503,158				
Personnel Expenses					351,353	364,843	371,226	362,474	Administration+ Personnel	380,197	2.0%	2.0%	2.0%	
Utilities					119,171	121,556		120,364	Utilities + Supplies+ Office Exper	2,438	2.0%	2.0%	2.0%	
Operating Expenses					118,939	98,286	339,441	185,955	Operating Expense	339,441	3.0%	3.0%	3.0%	
Debt Issue Fees		81,281												
Sewer System Maintenance	13,532	2,060	26,597	17,201	55,847	62,182	2,168	40,066	System Maintenance	2,168	1.0%	1.0%	1.0%	
Supplies					35,725	39,138		37,432						
Bad Debt Expense					20,000			20,000						
Regulatory Fees	10,000	10,000	6,250	6,250	5,000	6,250	10,000	7,083	Contacted Services	24,904	1.0%	1.0%	1.0%	
Engineering Fees	9,186	7,368	11,016	30,072	5,308	7,994	4,441	5,914						
Administrative Expenses	9,035	7,212	6,580	5,899	15,204	14,699	8,971	12,958						
Accounting and Audit Fees	5,654	6,355	5,750	5,848	5,850	7,400	6,650	6,633						
Legal Fees	4,530	2,052	1,647	2,160	2,973	5,641	3,813	4,142						
Insurance Expenses	2,085				14,704	14,301		9,668	Insurance		1.0%	1.0%	1.0%	
Amortization	1,562													
Office Expenses	1,234	1,495	1,566	1,707	1,509	1,571	2,438	1,839						
<b>Total Operating Expenses</b>	<b>544,649</b>	<b>608,937</b>	<b>550,929</b>	<b>562,665</b>	<b>1,256,169</b>	<b>1,256,685</b>	<b>1,252,306</b>	<b>1,252,306</b>	<b>1,255,720</b>	<b>1,252,306</b>				
OpEx Growth		11.8%	-9.5%	2.1%	123.6%	-0.1%	-0.3%							
Operating Expenses less Depreciation	55,356	117,823	59,406	69,137	751,583	743,861	749,148							
OpEx Growth		112.8%	-49.6%	16.4%	987.1%	-1.0%	0.7%			-0.2%				
OpExpenses as % of Revenues	7.67%	16.33%	8.22%	9.59%	52.46%	51.59%	52.24%	28.30%		52.1%	52.1%			
<b>Operating Income</b>	<b>176,851</b>	<b>112,733</b>	<b>171,576</b>	<b>158,420</b>	<b>174,444</b>	<b>185,110</b>	<b>181,672</b>							
<b>Non-Operating Revenues (Expenses)</b>														
Interest Income	16,472	10,660	6,730	5,900	6,556	10,039	29,558							
Net Depreciation in the fair value of investments	(9,215)	(12,113)	3,278	20,628	(19,215)	-	-							
Realized gain on sale of investment			75	263	1,882	(5,099)	(896)							
Investment Expenses	(3,188)	(3,334)	(3,228)	(2,548)	(2,987)	(2,995)	(1,204)							
Interest Expenses	(270,640)	(178,361)	(163,596)	(155,434)	(146,809)	(138,810)	(129,744)							
Engineering Assessment & Appraisal Fees							(27,677)			(28,014)				
<b>Total Non-Operating Revenues (Expenses)</b>	<b>(266,571)</b>	<b>(183,148)</b>	<b>(156,741)</b>	<b>(131,191)</b>	<b>(160,573)</b>	<b>(164,542)</b>	<b>(130,300)</b>							
<b>Change in Net Position</b>	<b>(89,720)</b>	<b>(70,415)</b>	<b>14,835</b>	<b>27,229</b>	<b>13,871</b>	<b>20,568</b>	<b>51,372</b>							
<b>Net Position April 1, YYYY</b>	<b>6,586,832</b>	<b>6,482,374</b>	<b>6,411,959</b>	<b>6,426,794</b>	<b>6,275,287</b>	<b>6,306,654</b>	<b>6,342,599</b>							
<b>Net Position March 31, YYYY</b>	<b>6,497,112</b>	<b>6,411,959</b>	<b>6,426,794</b>	<b>6,454,023</b>	<b>6,289,158</b>	<b>6,327,222</b>	<b>6,393,971</b>							



Pennsylvania American Water Company  
Borough of Kane Authority

Wastewater Collection and Treatment System  
Investor-Owned Utility  
September 30, 2019

	2013	2014	2015	2016	2017	2018	2019	2013-2019	Average 2017-2019	2019	Forecast Parameters for Periods		
											1-5	6-15	16-beyond
<b>Assets</b>													
<b>Current Assets</b>													
Cash	4,668	8,889	43,759	115,495	430,177	1,336,025	350,104						
Accounts Receivables	411,860	471,000	537,000	473,425	223,886	237,512	232,190						
Investment						200,004	1,407,913						
Interest receivables						129	21,403						
Due from other Funds					2,497	4,832	5,715						
Prepaid Expense					3,116	3,562	13,299						
<b>Total Current Assets</b>	<b>416,528</b>	<b>479,889</b>	<b>580,759</b>	<b>588,920</b>	<b>659,676</b>	<b>1,782,064</b>	<b>2,030,624</b>						
Restricted Cash		78,914	54,014	111,748	89,482								
Restricted Investments	786,910	754,588	761,617	785,796	771,395								
Restricted Assets	786,910	833,502	815,631	897,544	860,877								
Notes Receivable from Customer				5,057	2,927	2,473	1,673						
Inventory			4,994	7,511	7,511	7,511	5,343						
<b>Capital Assets, Net</b>													
Equipment					46,498	39,668	43,267						
Sewer System	11,511,163	11,074,991	10,615,643	10,237,561	9,790,928	9,337,919	8,854,506						
Debt Issue Cost	14,470	-	-	-	-	-	-						
Net Pension Assets					4,437								
<b>Total Assets</b>	<b>12,714,601</b>	<b>12,388,382</b>	<b>12,017,027</b>	<b>11,736,593</b>	<b>11,372,854</b>	<b>11,169,635</b>	<b>10,935,413</b>						
<b>Deferred Outflows of Resources</b>													
Deferred Outflows of Resources						90,042	140,736						
<b>Liabilities</b>													
Accounts Payable - trade	13,940	2,072	46,450	5,608	19,739	59,382	19,495						
Accrued Payroll and payroll taxes					4,056	4,221	5,903						
Accrued Interest Payable	7,580	12,897	13,042	12,827	12,158	11,469	10,759						
Liabilities for compensated absences						11,440	8,892						
Accrued Investment Fees Payable	454	464	464	475	462								
Current Maturities of Long-term debt	479,067	430,727	266,630	274,834	282,834	291,075	299,257						
Total Current Liabilities	501,041	446,160	326,586	293,744	319,249	377,587	344,306						
Long-term Liabilities													
Long-term Debt	5,731,186	5,530,263	5,263,647	4,988,826	4,706,039	4,415,031	4,115,887						
Net pension liability						7,959	117,486						
Liability for compensated absences						58,406	54,386						
Total Long-term Liabilities	5,731,186	5,530,263	5,263,647	4,988,826	4,764,445	4,422,990	4,287,759						
<b>Total Liabilities</b>	<b>6,232,227</b>	<b>5,976,423</b>	<b>5,590,233</b>	<b>5,282,570</b>	<b>5,083,694</b>	<b>4,800,577</b>	<b>4,632,065</b>						
<b>Deferred Inflows of Resources</b>													
Deferred Inflows of Resources						80,341	50,113						
<b>Net Position</b>													
Invested in Capital Assets, net of related debt	5,300,909	5,114,001	5,085,366	4,973,901	4,848,553	4,866,108	4,482,629						
Restricted for debt service	622,103	594,063	422,266	422,266	422,266								
Unrestricted	574,102	703,895	919,162	1,057,856	1,018,339	1,661,114	1,911,342						
<b>Total Net Position</b>	<b>6,497,114</b>	<b>6,411,959</b>	<b>6,426,794</b>	<b>6,454,023</b>	<b>6,289,158</b>	<b>6,327,222</b>	<b>6,393,971</b>						
Current Assets	416,528	479,889	580,759	588,920	659,676	1,782,064	2,030,624						
CA as % of Revenues	57.73%	66.50%	80.38%	81.67%	46.05%	123.60%	141.61%	85.36%	103.75%	141.61%	35.00%	35.00%	35.00%
Current Liabilities	501,041	446,160	326,586	293,744	319,249	377,587	344,306						
CL as % of Revenues	69.44%	61.82%	45.20%	40.74%	22.28%	26.19%	24.01%	41.38%	24.16%	24.01%	30.00%	30.00%	30.00%
Net Working Capital	(84,513)	33,729	254,173	295,176	340,427	1,404,477	1,686,318						
Change in Working Capital		118,242	220,444	41,003	306,698	1,150,304	1,391,142						



BOROUGH OF KANE AUTHORITY,  
A COMPONENT UNIT OF THE  
BOROUGH OF KANE, PENNSYLVANIA  
AND  
BOROUGH OF KANE SEWER FUND  
COMBINED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
MARCH 31, 2019

**HAINES & COMPANY**  
A PROFESSIONAL CORPORATION  
CERTIFIED PUBLIC ACCOUNTANTS

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# HAINES & COMPANY

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MEMBERS OF AMERICAN AND  
PENNSYLVANIA INSTITUTES OF  
CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

To the Members  
Borough of Kane Authority  
Kane, Pennsylvania

### **Report on the Financial Statements**

We have audited the accompanying combined financial statements of the business-type activities of the Borough of Kane Authority, a component unit of the Borough of Kane, Pennsylvania, and the Borough of Kane Sewer Fund as of and for the year ended March 31, 2019, and the related notes to the 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. 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 combined financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Borough of Kane Authority, a component unit of the Borough of Kane, Pennsylvania, and the Borough of Kane Sewer Fund as of March 31, 2019, and the 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***

#### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the combined financial statements of the Borough of Kane Authority, a component unit of the Borough of Kane, Pennsylvania and the Borough of Kane Sewer Fund. The combining financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining financial statements 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 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 financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

***Emphasis of Matter***

As discussed in Note B, the combined financial statements present only the Borough of Kane Authority and the Borough of Kane Sewer Fund and do not purport to, and do not present fairly the financial position of the Borough of Kane, Pennsylvania as of March 31, 2019, the changes in its financial position, or where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

*Harris Company*

Certified Public Accountants  
Warren, Pennsylvania  
September 26, 2019

BOROUGH OF KANE AUTHORITY AND BOROUGH OF KANE SEWER FUND  
 COMBINED STATEMENT OF NET POSITION  
 March 31, 2019

<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash	\$ 350,104
Accounts receivable	232,190
Investments	1,407,913
Interest receivable	21,403
Due from other funds	5,715
Prepaid expenses	<u>13,299</u>
TOTAL CURRENT ASSETS	2,030,624
NOTE RECEIVABLE FROM CUSTOMER	1,673
INVENTORY	5,343
<b>CAPITAL ASSETS, NET</b>	
Equipment	43,267
Sewer System	<u>8,854,506</u>
TOTAL CAPITAL ASSETS	<u>8,897,773</u>
TOTAL ASSETS	<u>10,935,413</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows related to pensions	<u>140,736</u>
<b>LIABILITIES</b>	
<b>CURRENT LIABILITIES</b>	
Accounts payable - trade	19,495
Accrued payroll and payroll taxes	5,903
Accrued interest payable	10,759
Liability for compensated absences	8,892
Current maturity of long-term debt	<u>299,257</u>
TOTAL CURRENT LIABILITIES	<u>344,306</u>
<b>LONG-TERM LIABILITIES:</b>	
Long-term debt	4,115,887
Net pension liability	117,486
Liability for compensated absences	<u>54,386</u>
TOTAL LONG-TERM LIABILITIES	<u>4,287,759</u>
TOTAL LIABILITIES	<u>4,632,065</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows related to pensions	<u>50,113</u>
<b>NET POSITION</b>	
Invested in capital assets, net of related debt	4,482,629
Unrestricted	<u>1,911,342</u>
TOTAL NET POSITION	<u>\$6,393,971</u>

See accompanying notes to financial statements.

BOROUGH OF KANE AUTHORITY AND BOROUGH OF KANE SEWER FUND

COMBINED STATEMENT OF REVENUES, EXPENSES AND  
CHANGE IN NET POSITION  
Year Ended March 31, 2019

OPERATING REVENUES	
Charges for services	\$ 1,426,380
Other operating income	<u>7,598</u>
TOTAL OPERATING REVENUES	<u>1,433,978</u>
OPERATING EXPENSES	
Depreciation	503,158
Personnel expenses	371,226
Operating expenses	339,441
Maintenance	2,168
Administrative expense	8,971
Accounting and audit fees	6,650
Engineering fees	4,441
Regulatory fees	10,000
Legal fees	3,813
Office expense	<u>2,438</u>
TOTAL OPERATING EXPENSES	<u>1,252,306</u>
OPERATING INCOME	<u>181,672</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest income	29,558
Realized loss on sale of investments	(896)
Investment expenses	(1,204)
Interest expense	(129,744)
Engineering and legal fees related to possible sale	<u>(28,014)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(130,300)</u>
CHANGE IN NET POSITION	51,372
NET POSITION, April 1, 2018	<u>6,342,599</u>
NET POSITION, March 31, 2019	<u>\$ 6,393,971</u>

See accompanying notes to financial statements.

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BOROUGH OF KANE AUTHORITY AND BOROUGH OF KANE SEWER FUND  
 COMBINED STATEMENT OF CASH FLOWS  
 Year Ended March 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 1,442,880
Cash paid to employees	(341,521)
Cash paid to suppliers	<u>(373,577)</u>
Net cash provided by operating activities	<u>727,782</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Purchase of fixed assets	(45,104)
Principal payments on long-term debt	(290,962)
Interest payments on debt	(130,454)
Engineering and legal fees related to possible sale	<u>(46,354)</u>
Net cash used for capital and related financing activities	<u>(512,874)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from interest earnings	1,232
Net transfers from investments	<u>(1,202,061)</u>
Net cash used by investing activities	<u>(1,200,829)</u>

NET DECREASE IN CASH	(985,921)
CASH, April 1, 2018	<u>1,336,025</u>
CASH, March 31, 2019	<u>\$ 350,104</u>

Reconciliation of operating income to net cash provided by operating activities:

Operating income	<u>\$ 181,672</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	518,649
Increase in accounts receivable	(7,275)
Decrease in due from other fund	14,494
Increase in prepaid expenses	(9,737)
Decrease in inventory	2,168
Decrease in note receivable	800
Increase in deferred outflows - pension	(50,694)
Increase (decrease) in accounts payable	(3,577)
Increase in accrued payroll and payroll taxes	1,682
Increase in net pension liability	109,527
Decrease in deferred inflows - pension	(30,228)
Increase in liability for compensated absences	<u>301</u>
Total adjustments	<u>546,110</u>
Net cash provided by operating activities	<u>\$ 727,782</u>

See accompanying notes to financial statements.

BOROUGH OF KANE AUTHORITY  
AND BOROUGH OF KANE SEWER FUND

NOTES TO FINANCIAL STATEMENTS

NOTE A – DESCRIPTION OF OPERATIONS

Authority

The Borough of Kane Authority (the Authority) is a legal entity organized and existing under the laws of the Commonwealth of Pennsylvania, pursuant to the Municipality Authorities Act of 1945, approved May 2, 1945, P. L. 382, as amended, having been duly organized by the Borough of Kane, McKean County, Pennsylvania. The Authority has the right, privilege, franchise, and authority to lay, construct, maintain, repair, and replace in the streets, roads, alleys, and rights of way of the Borough of Kane the necessary sewer lines and related structures.

The articles of incorporation of the Authority were amended in 1994 to include by application for joinder the Township of Wetmore, McKean County, Pennsylvania.

In accordance with the requirements of Statement No. 14, *The Financial Reporting Entity, of the Governmental Accounting Standards Board (GASB)*, the financial statements must present the Authority (the primary government) and its component units. Pursuant to this criterion, no component units were identified for inclusion in the accompanying financial statements.

Sewer Fund

The Borough of Kane Sewer Fund accounts for the operation of the sewer system under the management agreement described in Note G. This is a self-supporting activity, which renders services on a user charge basis to residents and businesses in the Borough of Kane and Wetmore Township, Pennsylvania.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Year End

The Authority has a March 31, 2019 year end and the Borough of Kane Sewer Fund has a December 31, 2018 year end. Professional standards allow entities with year-end differences up to three months to present combined financial statements.

Basis of Presentation and Accounting

The accompanying combined financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting and reflect transactions on behalf of the Authority and the Borough of Kane Sewer Fund, the

BOROUGH OF KANE AUTHORITY  
AND BOROUGH OF KANE SEWER FUND

NOTES TO FINANCIAL STATEMENTS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation and Accounting (Continued)

reporting entity. The Authority and the Sewer Fund account for their operations as enterprise funds. Operating revenues and expenses result from providing sewer facilities to the Borough of Kane and Wetmore Township, Pennsylvania. All other revenues and expenses are reported as non-operating revenues and expenses. Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Funds that use Proprietary Fund Accounting*, the Authority applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails.

Cash

The Authority and the Sewer Fund consider highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

Investments

Investments are recorded at fair value.

Sewer System, Depreciation, and Project Costs

Assets are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Expenditures for engineering fees and maintenance are capitalized when allocable to construction, otherwise they are charged to expense as incurred.

Project costs are preliminary costs incurred to determine the feasibility or possibility of obtaining funding for a significant expansion or upgrade of the sewer system. If the project is successfully funded, these costs will be reclassified as sewer system and depreciated over the useful life of the project.

Inventory

Inventories are valued at the lower of cost or market. Cost is determined by the first-in, first-out (FIFO) method.

BOROUGH OF KANE AUTHORITY  
AND BOROUGH OF KANE SEWER FUND

NOTES TO FINANCIAL STATEMENTS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Grants and Contributions

The Authority receives capital grants from certain governmental agencies to be used for various purposes connected with the planning, modernization, and expansion of sewer facilities. Capital grants to the Authority are reported as capital contributions in the Statement of Revenues, Expenses and Change in Net Position.

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position or balance sheet reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position or balance sheet reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Compensated Absences

All vested vacation and sick leave pay is accrued when incurred.

Fund Equity

The financial statements utilize a net position presentation. Net position is categorized as invested in capital assets, net of related debt, restricted and unrestricted.

- *Invested in Capital Assets, Net of Related Debt* – This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.
- *Restricted Net Position* – This category reflects net position that is subject to constraints either by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

BOROUGH OF KANE AUTHORITY  
AND BOROUGH OF KANE SEWER FUND

NOTES TO FINANCIAL STATEMENTS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Equity (Continued)

- *Unrestricted Net Position* – This category represents net position not restricted for any project or other purpose. Outstanding liabilities attributable to these assets reduce the balance of this category.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

NOTE C - CASH DEPOSITS AND INVESTMENTS

Commonwealth of Pennsylvania Local Government Unit Debt Act, provides for the investment of Authority and Sewer Fund funds in certain authorized investment types as follows:

- i.) United States Treasury Bills;
- ii.) Short-term obligations of the United States Government or its agencies or instrumentalities;
- iii.) Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund to the extent that such accounts are so insured, and, for any amounts above the insured maximum, provided that approved collateral as provided by law therefore shall be pledged by the depository;
- iv.) 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, the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or of any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

BOROUGH OF KANE AUTHORITY  
AND BOROUGH OF KANE SEWER FUND

NOTES TO FINANCIAL STATEMENTS

NOTE C - CASH DEPOSITS AND INVESTMENTS (Continued)

The deposit and investment policies of the Authority and Sewer Fund adhere to the act and prudent business practice. Deposits are maintained in demand deposits and are captioned as cash in the Statement of Net Position.

Cash Deposits

As of March 31, 2019, the Authority had a bank checking account with a carrying amount and a bank balance of \$190,448 and \$190,448, respectively. The balance was covered by federal depository insurance up to \$250,000. The entire balance of the account was covered by federal depository insurance.

The Authority also has a checking account with a different bank for the purpose of funding the monthly principal and interest payments of the revenue note. The carrying amount and the bank balance of the account at March 31, 2019 was \$44,950 and \$44,950, respectively. The entire balance of the account was covered by federal depository insurance.

As of December 31, 2018, the Sewer Fund had bank checking accounts with a carrying amount and bank balance of \$114,706 and \$264,837, respectively. The balance was fully covered by federal depository insurance.

Investments

As of March 31, 2019, investments consist of the following:

	<u>Fair Value</u>	<u>Investment Maturities</u>			<u>Credit Quality Rating</u>
		<u>Less than 1 year</u>	<u>1-5 years</u>	<u>6-10 years</u>	
Pennsylvania Local Government Investment Trust:					
Prime Fund	\$ 85	\$ 85	\$ -	\$ -	AAAm
CD Program	603,684	603,684	-	-	AAAm
Term Fund	804,144	804,144	-	-	AAAm
	<u>\$ 1,407,913</u>	<u>\$ 1,407,913</u>	<u>\$ -</u>	<u>\$ -</u>	

Investments are restricted for the maintenance, construction, and debt service of the sewer system.

BOROUGH OF KANE AUTHORITY  
AND BOROUGH OF KANE SEWER FUND

NOTES TO FINANCIAL STATEMENTS

NOTE D - CAPITAL ASSETS - SEWER SYSTEM AND EQUIPMENT

The sewer system and equipment consist of:

	March 31, 2018	Additions	Dispositions	March 31, 2019
<b>Authority depreciable assets:</b>				
New sewer system 1994	\$ 18,021,786	\$ -	\$ -	\$ 18,021,786
Initial sewer system 1967	614,737	-	-	614,737
Sewer extension 2006	660,731	-	-	660,731
Equipment	685,688	19,745	-	705,433
Office equipment	32,950	-	-	32,950
<b>Total capital assets being depreciated</b>	<b>20,015,892</b>	<b>19,745</b>	<b>-</b>	<b>20,035,637</b>
<b>Less accumulated depreciation for:</b>				
New sewer system 1994	9,525,926	450,565	-	9,976,491
Initial sewer system 1967	391,447	15,368	-	406,815
Sewer extension 2006	177,361	17,098	-	194,459
Equipment	550,289	20,127	-	570,416
Office equipment	32,950	-	-	32,950
<b>Total accumulated depreciation</b>	<b>10,677,973</b>	<b>503,158</b>	<b>-</b>	<b>11,181,131</b>
<b>Authority net sewer system</b>	<b>9,337,919</b>	<b>(483,413)</b>	<b>-</b>	<b>8,854,506</b>
<b>Sewer Fund depreciable assets:</b>				
Equipment	211,423	19,986	(1,120)	230,289
<b>Total capital assets being depreciated</b>	<b>211,423</b>	<b>19,986</b>	<b>(1,120)</b>	<b>230,289</b>
<b>Less accumulated depreciation for:</b>				
Equipment	171,755	15,491	(224)	187,022
<b>Total accumulated depreciation</b>	<b>171,755</b>	<b>15,491</b>	<b>(224)</b>	<b>187,022</b>
<b>Sewer Fund net equipment</b>	<b>39,668</b>	<b>4,495</b>	<b>(896)</b>	<b>43,267</b>
<b>Total sewer system and equipment</b>	<b>\$ 9,377,587</b>	<b>\$ (478,918)</b>	<b>\$ (896)</b>	<b>\$ 8,897,773</b>

The sewer system is pledged as collateral for long-term debt

BOROUGH OF KANE AUTHORITY  
AND BOROUGH OF KANE SEWER FUND

NOTES TO FINANCIAL STATEMENTS

NOTE E - LONG-TERM DEBT

Long-term debt consists of:

	<u>Balance Outstanding March 31, 2018</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance Outstanding March 31, 2019</u>
Variable rate Guaranteed Sewer Revenue Note, Series 2013. Monthly installments of interest and principal are due in the amount of \$35,188.83. The note matures on June 1, 2033.	\$ 4,706,106	\$ -	\$ (290,962)	\$ 4,415,144
Less current maturity				<u>299,257</u>
Long-term debt				<u>\$ 4,115,887</u>

The note described above is collateralized by all accounts and property of the Authority including all the right, title and interest of the Authority in and to any and all receipts and revenues derived from the sewer system.

The interest rate of the note is fixed for ten years at 2.83% and thereafter will float at 65% of the bank's prime rate with a floor of 2.0% and a ceiling of 6.0%. The 20 year note matures on June 1, 2033 and payment is guaranteed by the Borough of Kane and Wetmore Township in proportions of 65% and 35%, respectively.

For the purpose of presenting the Authority's schedule of principal and interest payments that will be due in the future, the table below reflects the 2.83% interest rate until May 2023 at which time the rate is assumed for this purpose to reset at the 6.0% maximum rate.

BOROUGH OF KANE AUTHORITY  
AND BOROUGH OF KANE SEWER FUND

NOTES TO FINANCIAL STATEMENTS

NOTE E - LONG-TERM DEBT (Continued)

The schedule for principal maturity and annual debt service is as follows:

<u>Year Ending March 31,</u>	<u>Principal Amount</u>	<u>Total Interest</u>	<u>Total Debt Service</u>
2020	\$ 299,257	\$ 123,009	\$ 422,266
2021	308,166	114,100	422,266
2022	317,125	105,141	422,266
2023	326,345	95,921	422,266
2024	253,574	168,692	422,266
2025-2029	1,427,945	683,385	2,111,330
2030-3033	<u>1,482,732</u>	<u>189,928</u>	<u>1,672,660</u>
	<u>\$ 4,415,144</u>	<u>\$ 1,480,176</u>	<u>\$ 5,895,320</u>

NOTE F – NOTE RECEIVABLE

The Borough of Kane Authority loaned funds to a customer to help purchase a grinder pump. The note is summarized below:

\$5,057 note receivable dated March 21, 2016 paying 2.5% interest annually. Payments to be received monthly in the amount of \$216.24 through April 21, 2018. The note is collateralized by the grinder pump.

\$ 1,673

NOTE G - MANAGEMENT AGREEMENT

On September 21, 1994, the Authority and the Borough of Kane entered into a management agreement for the operation of the Sewer System. Under the terms of the agreement, the Borough agrees to operate the Sewer System, bill and collect all revenue from the Sewer System, and return to the Authority periodically all excess funds not required for the estimated operating costs of the next three months. The agreement may be canceled by either party upon twelve months written notice. The Authority recognized \$720,000 of revenue during the year ended March 31, 2019 under this agreement. The Authority had \$459,143 included in accounts receivable under this agreement at March 31, 2019. This revenue and related expense has been eliminated from the accompanying combined financial statements.

BOROUGH OF KANE AUTHORITY  
AND BOROUGH OF KANE SEWER FUND

NOTES TO FINANCIAL STATEMENTS

NOTE H – RELATED PARTY TRANSACTIONS

An officer of the Authority provides accounting services to the Authority. Payments for these services during the year ended March 31, 2019 totaled \$9,084.

NOTE I – RETIREMENT PLAN

The Borough of Kane has a single-employer defined benefit plan that covers the Borough's non-uniformed employees. More information related to the pension fund can be obtained from the financial statements of the Borough of Kane.

The Borough of Kane Sewer Fund reported a net pension liability of \$117,486 at December 31, 2018.

The Borough of Kane Sewer Fund reported \$140,736 of deferred outflows related to actuarial changes of assumptions and differences between projected and actual investment earnings.

The Borough of Kane Sewer Fund also reported \$50,113 of deferred inflows related to actuarial differences between expected and actual experience and differences between projected and actual investment earnings.

NOTE J – SUBSEQUENT EVENTS

The Authority has been approached by a prospective buyer to purchase the sewer system. Both parties are still in negotiations. The Authority estimates it will be two or more years before the deal is finalized. The net proceeds will be distributed 80% to Borough of Kane and 20% to Wetmore Township.

BOROUGH OF KANE AUTHORITY AND BOROUGH OF KANE SEWER FUND  
COMBINING STATEMENT OF NET POSITION

	March 31, 2019	December 31, 2018		March 31, 2019
	Borough of Kane Authority	Borough of Kane Sewer Fund	Eliminations	Combined Totals
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash	\$ 235,398	\$ 114,706	\$ -	\$ 350,104
Accounts receivable	459,143	232,190	(459,143)	232,190
Investments	1,407,913	-	-	1,407,913
Interest receivable	21,403	-	-	21,403
Due from other funds	-	5,715	-	5,715
Prepaid expenses	-	13,299	-	13,299
<b>TOTAL CURRENT ASSETS</b>	<b>2,123,857</b>	<b>365,910</b>	<b>(459,143)</b>	<b>2,030,624</b>
NOTE RECEIVABLE FROM CUSTOMER	1,673	-	-	1,673
INVENTORY	5,343	-	-	5,343
<b>CAPITAL ASSETS, NET</b>				
Equipment	-	43,267	-	43,267
Sewer System	8,854,506	-	-	8,854,506
<b>TOTAL ASSETS</b>	<b>10,985,379</b>	<b>409,177</b>	<b>(459,143)</b>	<b>10,935,413</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflows related to pensions	-	140,736	-	140,736
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	1,877	17,618	-	19,495
Accrued payroll and payroll taxes	-	5,903	-	5,903
Accrued interest payable	10,759	-	-	10,759
Liability for compensated absences	-	8,892	-	8,892
Current maturity of long-term debt	299,257	-	-	299,257
Due to component unit	-	451,500	(451,500)	-
<b>TOTAL CURRENT LIABILITIES</b>	<b>311,893</b>	<b>483,913</b>	<b>(451,500)</b>	<b>344,306</b>
<b>LONG-TERM LIABILITIES:</b>				
Long-term debt	4,115,887	-	-	4,115,887
Net pension liability	-	117,486	-	117,486
Liability for compensated absences	-	54,386	-	54,386
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>4,115,887</b>	<b>171,872</b>	<b>-</b>	<b>4,287,759</b>
<b>TOTAL LIABILITIES</b>	<b>4,427,780</b>	<b>655,785</b>	<b>(451,500)</b>	<b>4,632,065</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows related to pensions	-	50,113	-	50,113
<b>NET POSITION</b>				
Invested in capital assets, net of related debt	4,439,362	43,267	-	4,482,629
Unrestricted	2,118,237	(199,252)	(7,643)	1,911,342
<b>TOTAL NET POSITION</b>	<b>\$ 6,557,599</b>	<b>\$ (155,985)</b>	<b>\$ (7,643)</b>	<b>\$ 6,393,971</b>

See accompanying notes to financial statements

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BOROUGH OF KANE AUTHORITY AND BOROUGH OF KANE SEWER FUND  
COMBINING STATEMENT OF REVENUES, EXPENSES  
AND CHANGE IN NET POSITION

	Year Ended			Year Ended	
	March 31, 2019	December 31, 2018			March 31, 2019
	Borough of Kane Authority	Borough of Kane Sewer Fund	Eliminations	Combined Totals	
<b>OPERATING REVENUES</b>					
Charges for services	\$ -	\$ 1,426,380	\$ -	\$ 1,426,380	
Other operating income	1,173	6,425	-	7,598	
Sewer system revenue from Borough of Kane	720,000	-	(720,000)	-	
<b>TOTAL OPERATING REVENUES</b>	<b>721,173</b>	<b>1,432,805</b>	<b>(720,000)</b>	<b>1,433,978</b>	
<b>OPERATING EXPENSES</b>					
Depreciation	503,158	-	-	503,158	
Personnel expenses	-	371,226	-	371,226	
Operating expenses	-	339,441	-	339,441	
Maintenance	2,168	-	-	2,168	
Administrative expense	8,971	-	-	8,971	
Accounting and audit fees	6,650	-	-	6,650	
Engineering fees	4,441	-	-	4,441	
Regulatory fees	10,000	-	-	10,000	
Legal fees	3,813	-	-	3,813	
Office expense	2,438	-	-	2,438	
Transfer to Authority	-	720,000	(720,000)	-	
<b>TOTAL OPERATING EXPENSES</b>	<b>541,639</b>	<b>1,430,667</b>	<b>(720,000)</b>	<b>1,252,306</b>	
<b>OPERATING INCOME</b>	<b>179,534</b>	<b>2,138</b>	<b>-</b>	<b>181,672</b>	
<b>NON-OPERATING REVENUES (EXPENSES)</b>					
Interest income	29,228	330	-	29,558	
Realized loss on sale of investments	-	(896)	-	(896)	
Investment expenses	(1,204)	-	-	(1,204)	
Interest expense	(129,744)	-	-	(129,744)	
Engineering and legal fees related to possible sale	(28,014)	-	-	(28,014)	
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>(129,734)</b>	<b>(566)</b>	<b>-</b>	<b>(130,300)</b>	
<b>CHANGE IN NET POSITION</b>	<b>49,800</b>	<b>1,572</b>	<b>-</b>	<b>51,372</b>	
<b>NET POSITION, Beginning of year</b>	<b>6,507,799</b>	<b>(157,557)</b>	<b>(7,643)</b>	<b>6,342,599</b>	
<b>NET POSITION, End of year</b>	<b>\$ 6,557,599</b>	<b>\$ (155,985)</b>	<b>\$ (7,643)</b>	<b>\$ 6,393,971</b>	

See accompanying notes to financial statements

BOROUGH OF KANE AUTHORITY AND BOROUGH OF KANE SEWER FUND  
COMBINING STATEMENT OF CASH FLOWS

	Year Ended			Year Ended	
	March 31, 2019	December 31, 2018			March 31, 2019
	Borough of Kane Authority	Borough of Kane Sewer Fund	Eliminations	Combined Totals	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Cash received from customers	\$ 737,350	\$ 1,425,530	\$ (720,000)	\$ 1,442,880	
Cash paid to component unit	-	(720,000)	720,000	-	
Cash paid to employees	-	(341,521)	-	(341,521)	
Cash paid to suppliers	(36,563)	(337,014)	-	(373,577)	
Net cash provided by operating activities	<u>700,787</u>	<u>26,995</u>	<u>-</u>	<u>727,782</u>	
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Purchase of fixed assets	(25,118)	(19,986)	-	(45,104)	
Principal payments on long-term debt	(290,962)	-	-	(290,962)	
Interest payments on debt	(130,454)	-	-	(130,454)	
Engineering and legal fees related to possible sale	(46,354)	-	-	(46,354)	
Net cash used for capital and related financing activities	<u>(492,888)</u>	<u>(19,986)</u>	<u>-</u>	<u>(512,874)</u>	
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Proceeds from interest earnings	902	330	-	1,232	
Net transfers from investments	(1,202,061)	-	-	(1,202,061)	
Net cash used by investing activities	<u>(1,201,159)</u>	<u>330</u>	<u>-</u>	<u>(1,200,829)</u>	
NET DECREASE IN CASH	(993,260)	7,339	-	(985,921)	
CASH, Beginning of year	<u>1,228,658</u>	<u>107,367</u>	<u>-</u>	<u>1,336,025</u>	
CASH, End of year	<u>\$ 235,398</u>	<u>\$ 114,706</u>	<u>\$ -</u>	<u>\$ 350,104</u>	
<b>Reconciliation of operating income to net cash provided by operating activities:</b>					
Operating income	\$ 179,534	\$ 2,138	\$ -	\$ 181,672	
<b>Adjustments to reconcile operating income to net cash provided by operating activities:</b>					
Depreciation	503,158	15,491	-	518,649	
Decrease (increase) in accounts receivable	-	(7,275)	-	(7,275)	
Decrease in due from other fund	15,377	(883)	-	14,494	
Increase in prepaid expenses	-	(9,737)	-	(9,737)	
Decrease in inventory	2,168	-	-	2,168	
Decrease in note receivable	800	-	-	800	
Decrease in net pension asset	-	-	-	-	
Increase in deferred outflows - pension	-	(50,694)	-	(50,694)	
Increase (decrease) in accounts payable	(250)	(3,327)	-	(3,577)	
Increase in accrued payroll and payroll taxes	-	1,682	-	1,682	
Increase in net pension liability	-	109,527	-	109,527	
Decrease in deferred inflows - pension	-	(30,228)	-	(30,228)	
Increase in liability for compensated absences	-	301	-	301	
Total adjustments	<u>521,253</u>	<u>24,857</u>	<u>-</u>	<u>546,110</u>	
Net cash provided by operating activities	<u>\$ 700,787</u>	<u>\$ 26,995</u>	<u>\$ -</u>	<u>\$ 727,782</u>	

See accompanying notes to financial statements.

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BOROUGH OF KANE AUTHORITY,  
A COMPONENT UNIT OF THE  
BOROUGH OF KANE, PENNSYLVANIA

AND

BOROUGH OF KANE SEWER FUND  
COMBINED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED

MARCH 31, 2018

**HAINES & COMPANY**  
A PROFESSIONAL CORPORATION  
CERTIFIED PUBLIC ACCOUNTANTS

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# HAINES & COMPANY

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MEMBERS OF AMERICAN AND  
PENNSYLVANIA INSTITUTES OF  
CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

To the Members  
Borough of Kane Authority  
Kane, Pennsylvania

### **Report on the Financial Statements**

We have audited the accompanying combined financial statements of the business-type activities of the Borough of Kane Authority, a component unit of the Borough of Kane, Pennsylvania, and the Borough of Kane Sewer Fund as of and for the year ended March 31, 2018, and the related notes to the 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. 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 combined financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Borough of Kane Authority, a component unit of the Borough of Kane, Pennsylvania, and the Borough of Kane Sewer Fund as of March 31, 2018, and the 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***

#### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the combined financial statements of the Borough of Kane Authority, a component unit of the Borough of Kane, Pennsylvania and the Borough of Kane Sewer Fund. The combining financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining financial statements 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 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 financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

***Emphasis of Matter***

As discussed in Note B, the combined financial statements present only the Borough of Kane Authority and the Borough of Kane Sewer Fund and do not purport to, and do not present fairly the financial position of the Borough of Kane, Pennsylvania as of March 31, 2018, the changes in its financial position, or where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

*Haines Company*

Certified Public Accountants  
Warren, Pennsylvania  
June 25, 2018

BOROUGH OF KANE AUTHORITY AND BOROUGH OF KANE SEWER FUND

COMBINED STATEMENT OF NET POSITION

March 31, 2018

ASSETS

CURRENT ASSETS

Cash	\$ 1,336,025
Accounts receivable	237,512
Investments	200,004
Interest receivable	129
Due from other funds	4,832
Prepaid expenses	<u>3,562</u>

TOTAL CURRENT ASSETS 1,782,064

NOTE RECEIVABLE FROM CUSTOMER 2,473

INVENTORY 7,511

CAPITAL ASSETS, NET

Equipment	39,668
Sewer System	<u>9,337,919</u>

TOTAL CAPITAL ASSETS 9,377,587

TOTAL ASSETS 11,169,635

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows related to pensions 90,042

LIABILITIES

CURRENT LIABILITIES

Accounts payable - trade	59,382
Accrued payroll and payroll taxes	4,221
Accrued interest payable	11,469
Liability for compensated absences	11,440
Current maturity of long-term debt	<u>291,075</u>

TOTAL CURRENT LIABILITIES 377,587

LONG-TERM LIABILITIES:

Long-term debt	4,415,031
Net pension liability	7,959
Liability for compensated absences	<u>51,537</u>

TOTAL LONG-TERM LIABILITIES 4,474,527

TOTAL LIABILITIES 4,852,114

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to pensions 80,341

NET POSITION

Invested in capital assets, net of related debt	4,666,108
Unrestricted	<u>1,661,114</u>

TOTAL NET POSITION \$6,327,222

See accompanying notes to financial statements.

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BOROUGH OF KANE AUTHORITY AND BOROUGH OF KANE SEWER FUND

COMBINED STATEMENT OF REVENUES, EXPENSES AND  
CHANGE IN NET POSITION  
Year Ended March 31, 2018

OPERATING REVENUES	
Charges for services	\$ 1,440,478
Other operating income	<u>1,317</u>
TOTAL OPERATING REVENUES	<u>1,441,795</u>
OPERATING EXPENSES	
Depreciation	512,824
Personnel expenses	364,843
Utilities	121,556
Operating expenses	98,286
Maintenance	62,182
Supplies	39,138
Administrative expense	14,699
Insurance	14,301
Engineering fees	7,994
Accounting and audit fees	7,400
Regulatory fees	6,250
Legal fees	5,641
Office expense	<u>1,571</u>
TOTAL OPERATING EXPENSES	<u>1,256,685</u>
OPERATING INCOME	<u>185,110</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest income	10,039
Realized loss on sale of investments	(5,099)
Investment expenses	(2,995)
Interest expense	(138,810)
Engineering assessment and appraisal fees	<u>(27,677)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(164,542)</u>
CHANGE IN NET POSITION	20,568
NET POSITION, April 1, 2017, as restated, Note I	<u>6,306,654</u>
NET POSITION, March 31, 2018	<u>\$6,327,222</u>

See accompanying notes to financial statements.

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BOROUGH OF KANE AUTHORITY AND BOROUGH OF KANE SEWER FUND  
 COMBINED STATEMENT OF CASH FLOWS  
 Year Ended March 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 1,441,522
Cash paid to employees	(342,555)
Cash paid to suppliers	<u>(376,131)</u>
Net cash provided by operating activities	<u>722,836</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Purchase of fixed assets	(47,612)
Principal payments on long-term debt	(282,767)
Interest payments on debt	(139,499)
Engineering fees related to possible sale	<u>(9,337)</u>
Net cash used for capital and related financing activities	<u>(479,215)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from interest earnings	1,164
Net transfers from investments	<u>571,581</u>
Net cash provided by investing activities	<u>572,745</u>

NET INCREASE IN CASH	816,366
CASH, April 1, 2017	<u>519,659</u>
CASH, March 31, 2018	<u>\$ 1,336,025</u>

Reconciliation of operating income to net cash provided by operating activities:

Operating income	<u>\$ 185,110</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	512,824
Increase in accounts receivable	(727)
Increase in due from other fund	(2,335)
Increase in prepaid expenses	(446)
Decrease in note receivable	454
Decrease in net pension asset	4,437
Increase in deferred outflows - pension	(46,842)
Increase in accounts payable	3,333
Increase in accrued payroll and payroll taxes	165
Increase in net pension liability	7,959
Increase in deferred inflows - pension	54,335
Increase in liability for compensated absences	<u>4,569</u>
Total adjustments	<u>537,726</u>
Net cash provided by operating activities	<u>\$ 722,836</u>

See accompanying notes to financial statements.

BOROUGH OF KANE AUTHORITY  
AND BOROUGH OF KANE SEWER FUND

NOTES TO FINANCIAL STATEMENTS

NOTE A – DESCRIPTION OF OPERATIONS

Authority

The Borough of Kane Authority (the Authority) is a legal entity organized and existing under the laws of the Commonwealth of Pennsylvania, pursuant to the Municipality Authorities Act of 1945, approved May 2, 1945, P. L. 382, as amended, having been duly organized by the Borough of Kane, McKean County, Pennsylvania. The Authority has the right, privilege, franchise, and authority to lay, construct, maintain, repair, and replace in the streets, roads, alleys, and rights of way of the Borough of Kane the necessary sewer lines and related structures.

The articles of incorporation of the Authority were amended in 1994 to include by application for joinder the Township of Wetmore, McKean County, Pennsylvania.

In accordance with the requirements of Statement No. 14, *The Financial Reporting Entity, of the Governmental Accounting Standards Board (GASB)*, the financial statements must present the Authority (the primary government) and its component units. Pursuant to this criterion, no component units were identified for inclusion in the accompanying financial statements.

Sewer Fund

The Borough of Kane Sewer Fund accounts for the operation of the sewer system under the management agreement described in Note G. This is a self-supporting activity, which renders services on a user charge basis to residents and businesses in the Borough of Kane and Wetmore Township, Pennsylvania.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Year End

The Authority has a March 31, 2018 year end and the Borough of Kane Sewer Fund has a December 31, 2017 year end. Professional standards allow entities with year end differences up to three months to present combined financial statements.

Basis of Presentation and Accounting

The accompanying combined financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting and reflect transactions on behalf of the Authority and the Borough of Kane Sewer Fund, the

BOROUGH OF KANE AUTHORITY  
AND BOROUGH OF KANE SEWER FUND

NOTES TO FINANCIAL STATEMENTS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation and Accounting (Continued)

reporting entity. The Authority and the Sewer Fund account for their operations as enterprise funds. Operating revenues and expenses result from providing sewer facilities to the Borough of Kane and Wetmore Township, Pennsylvania. All other revenues and expenses are reported as non-operating revenues and expenses. Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Funds that use Proprietary Fund Accounting*, the Authority applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails.

Cash

The Authority and the Sewer Fund consider highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

Investments

Investments are recorded at fair value.

Sewer System, Depreciation, and Project Costs

Assets are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Expenditures for engineering fees and maintenance are capitalized when allocable to construction, otherwise they are charged to expense as incurred.

Project costs are preliminary costs incurred to determine the feasibility or possibility of obtaining funding for a significant expansion or upgrade of the sewer system. If the project is successfully funded, these costs will be reclassified as sewer system and depreciated over the useful life of the project.

Inventory

Inventories are valued at the lower of cost or market. Cost is determined by the first-in, first-out (FIFO) method.

BOROUGH OF KANE AUTHORITY  
AND BOROUGH OF KANE SEWER FUND

NOTES TO FINANCIAL STATEMENTS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Grants and Contributions

The Authority receives capital grants from certain governmental agencies to be used for various purposes connected with the planning, modernization, and expansion of sewer facilities. Capital grants to the Authority are reported as capital contributions in the Statement of Revenues, Expenses and Change in Net Position.

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position or balance sheet reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position or balance sheet reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Compensated Absences

All vested vacation and sick leave pay is accrued when incurred.

Fund Equity

The financial statements utilize a net position presentation. Net position is categorized as invested in capital assets, net of related debt, restricted and unrestricted.

- *Invested in Capital Assets, Net of Related Debt* – This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.
- *Restricted Net Position* – This category reflects net position that is subject to constraints either by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

BOROUGH OF KANE AUTHORITY  
AND BOROUGH OF KANE SEWER FUND

NOTES TO FINANCIAL STATEMENTS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Equity (Continued)

- *Unrestricted Net Position* – This category represents net position not restricted for any project or other purpose. Outstanding liabilities attributable to these assets reduce the balance of this category.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

NOTE C - CASH DEPOSITS AND INVESTMENTS

Commonwealth of Pennsylvania Local Government Unit Debt Act, provides for the investment of Authority and Sewer Fund funds in certain authorized investment types as follows:

- i.) United States Treasury Bills;
- ii.) Short-term obligations of the United States Government or its agencies or instrumentalities;
- iii.) Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund to the extent that such accounts are so insured, and, for any amounts above the insured maximum, provided that approved collateral as provided by law therefore shall be pledged by the depository;
- iv.) 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, the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or of any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

BOROUGH OF KANE AUTHORITY  
AND BOROUGH OF KANE SEWER FUND

NOTES TO FINANCIAL STATEMENTS

NOTE C - CASH DEPOSITS AND INVESTMENTS (Continued)

The deposit and investment policies of the Authority and Sewer Fund adhere to the act and prudent business practice. Deposits are maintained in demand deposits and are captioned as cash in the Statement of Net Position.

Cash Deposits

As of March 31, 2018, the Authority had a bank checking account with a carrying amount and a bank balance of \$1,161,442 and \$1,171,243, respectively. The balance was covered by federal depository insurance up to \$250,000. There was \$921,243 of uninsured cash on deposit as of March 31, 2018.

The Authority also has a checking account with a different bank for the purpose of funding the monthly principal and interest payments of the revenue note. The carrying amount and the bank balance of the account at March 31, 2018 was \$67,216 and \$67,216, respectively. The entire balance of the account was covered by federal depository insurance.

As of December 31, 2017, the Sewer Fund had bank checking accounts with a carrying amount and bank balance of \$107,367 and \$121,673, respectively. The balance was fully covered by federal depository insurance.

Investments

As of March 31, 2018, investments consist of the following:

	<u>Fair Value</u>	<u>Investment Maturities</u>			<u>Credit Quality Rating</u>
		<u>Less than 1 year</u>	<u>1-5 years</u>	<u>6-10 years</u>	
Pennsylvania Local Government Investment Trust:					
Prime Fund	\$ 4	\$ 4	\$ -	\$ -	AAAm
Term Fund	200,000	200,000	-	-	AAAm
	<u>\$ 200,004</u>	<u>\$ 200,004</u>	<u>\$ -</u>	<u>\$ -</u>	

Investments are restricted for the maintenance, construction, and debt service of the sewer system.

BOROUGH OF KANE AUTHORITY  
AND BOROUGH OF KANE SEWER FUND

NOTES TO FINANCIAL STATEMENTS

NOTE D - CAPITAL ASSETS - SEWER SYSTEM AND EQUIPMENT

The sewer system and equipment consist of:

	March 31, 2017	Additions	Dispositions	March 31, 2018
Authority depreciable assets:				
New sewer system 1994	\$ 18,021,786	\$ -	\$ -	\$ 18,021,786
Initial sewer system 1967	614,737	-	-	614,737
Sewer extension 2006	660,731	-	-	660,731
Equipment	638,817	46,871	-	685,688
Office equipment	32,950	-	-	32,950
Total capital assets being depreciated	<u>19,969,021</u>	<u>46,871</u>	<u>-</u>	<u>20,015,892</u>
Less accumulated depreciation for:				
New sewer system 1994	9,075,360	450,566	-	9,525,926
Initial sewer system 1967	376,079	15,368	-	391,447
Sewer extension 2006	160,263	17,098	-	177,361
Equipment	533,441	16,848	-	550,289
Office equipment	32,950	-	-	32,950
Total accumulated depreciation	<u>10,178,093</u>	<u>499,880</u>	<u>-</u>	<u>10,677,973</u>
Authority net sewer system	<u>9,790,928</u>	<u>(453,009)</u>	<u>-</u>	<u>9,337,919</u>
Sewer Fund depreciable assets:				
Equipment	<u>253,051</u>	<u>6,114</u>	<u>-</u>	<u>259,165</u>
Total capital assets being depreciated	<u>253,051</u>	<u>6,114</u>	<u>-</u>	<u>259,165</u>
Less accumulated depreciation for:				
Equipment	<u>206,553</u>	<u>12,944</u>	<u>-</u>	<u>219,497</u>
Total accumulated depreciation	<u>206,553</u>	<u>12,944</u>	<u>-</u>	<u>219,497</u>
Sewer Fund net equipment	<u>46,498</u>	<u>(6,830)</u>	<u>-</u>	<u>39,668</u>
Total sewer system and equipment	<u>\$ 9,837,426</u>	<u>\$ (459,839)</u>	<u>\$ -</u>	<u>\$ 9,377,587</u>

The sewer system is pledged as collateral for long-term debt

BOROUGH OF KANE AUTHORITY  
AND BOROUGH OF KANE SEWER FUND

NOTES TO FINANCIAL STATEMENTS

NOTE E - LONG-TERM DEBT

Long-term debt consists of:

	Balance Outstanding <u>March 31, 2017</u>	<u>Additions</u>	<u>Payments</u>	Balance Outstanding <u>March 31, 2018</u>
Variable rate Guaranteed Sewer Revenue Note, Series 2013. Monthly installments of interest and principal are due in the amount of \$35,188.83. The note matures on June 1, 2033.	\$ 4,988,873	\$ -	\$ (282,767)	\$ 4,706,106
Less current maturity				<u>291,075</u>
Long-term debt				<u>\$ 4,415,031</u>

The note described above is collateralized by all accounts and property of the Authority including all the right, title and interest of the Authority in and to any and all receipts and revenues derived from the sewer system.

The interest rate of the note is fixed for ten years at 2.83% and thereafter will float at 65% of the bank's prime rate with a floor of 2.0% and a ceiling of 6.0%. The 20 year note matures on June 1, 2033 and payment is guaranteed by the Borough of Kane and Wetmore Township in proportions of 65% and 35%, respectively.

For the purpose of presenting the Authority's schedule of principal and interest payments that will be due in the future, the table below reflects the 2.83% interest rate until May 2023 at which time the rate is assumed for this purpose to reset at the 6.0% maximum rate.

BOROUGH OF KANE AUTHORITY  
AND BOROUGH OF KANE SEWER FUND

NOTES TO FINANCIAL STATEMENTS

NOTE E - LONG-TERM DEBT (Continued)

The schedule for principal maturity and annual debt service is as follows:

Year Ending <u>March 31,</u>	<u>Principal Amount</u>	<u>Total Interest</u>	<u>Total Debt Service</u>
2019	\$ 291,075	\$ 131,191	\$ 422,266
2020	299,143	123,123	422,266
2021	308,166	114,100	422,266
2022	317,125	105,141	422,266
2023	326,345	95,921	422,266
2024-2028	1,360,211	751,119	2,111,330
2029-3033	<u>1,804,041</u>	<u>290,884</u>	<u>2,094,925</u>
	<u>\$ 4,706,106</u>	<u>\$ 1,611,479</u>	<u>\$ 6,317,585</u>

NOTE F – NOTE RECEIVABLE

The Borough of Kane Authority loaned funds to a customer to help purchase a grinder pump. The note is summarized below:

\$5,057 note receivable dated March 21, 2016 paying 2.5% interest annually. Payments to be received monthly in the amount of \$216.24 through April 21, 2018. The note is collateralized by the grinder pump.

\$ 2,473

NOTE G - MANAGEMENT AGREEMENT

On September 21, 1994, the Authority and the Borough of Kane entered into a management agreement for the operation of the Sewer System. Under the terms of the agreement, the Borough agrees to operate the Sewer System, bill and collect all revenue from the Sewer System, and return to the Authority periodically all excess funds not required for the estimated operating costs of the next three months. The agreement may be canceled by either party upon twelve months written notice. The Authority recognized \$720,000 of revenue during the year ended March 31, 2018 under this agreement. The Authority had \$474,520 included in accounts receivable under this agreement at March 31, 2018. This revenue and related expense has been eliminated from the accompanying combined financial statements.

BOROUGH OF KANE AUTHORITY  
AND BOROUGH OF KANE SEWER FUND

NOTES TO FINANCIAL STATEMENTS

NOTE H – RELATED PARTY TRANSACTIONS

An officer of the Authority provides accounting services to the Authority. Payments for these services during the year ended March 31, 2018 totaled \$8,921.

NOTE I – RETIREMENT PLAN

The Borough of Kane has a single-employer defined benefit plan that covers the Borough's non-uniformed employees. More information related to the pension fund can be obtained from the financial statements of the Borough of Kane.

The Borough of Kane Sewer Fund reported a net pension liability of \$7,959 at December 31, 2017.

The Borough of Kane Sewer Fund reported \$90,042 of deferred outflows related to actuarial changes of assumptions and differences between projected and actual investment earnings.

The Borough of Kane Sewer Fund also reported \$80,341 of deferred inflows related to actuarial differences between expected and actual experience and differences between projected and actual investment earnings.

NOTE J – PRIOR YEAR ADJUSTMENT

A prior period adjustment for deferred outflows of resources and deferred inflows of resources were made as a correction to the previously issued financial statements. The adjustment increased the 2016 sewer fund ending net position by \$17,194. This adjustment is necessary to properly present the previously unrecorded deferred outflows and inflows of resources as of December 31, 2016.

	Authority	Sewer Fund
Net position, as previously reported	\$ 6,488,763	\$ (176,283)
Deferred outflows of resources	-	43,200
Deferred inflows of resources	-	(26,006)
Net position, as restated	\$ 6,488,763	\$ (159,089)

NOTE K – SUBSEQUENT EVENTS

The Authority has been approached by a prospective buyer to purchase the sewer system.

BOROUGH OF KANE AUTHORITY AND BOROUGH OF KANE SEWER FUND  
COMBINING STATEMENT OF NET POSITION

	March 31, 2018	December 31, 2017		March 31, 2018
	Borough of	Borough of		Combined
	Kane Authority	Kane Sewer Fund	Eliminations	Totals
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash	\$ 1,228,658	\$ 107,367	\$ -	\$ 1,336,025
Accounts receivable	487,117	224,915	(474,520)	237,512
Investments	200,004	-	-	200,004
Interest receivable	129	-	-	129
Due from other funds	-	4,832	-	4,832
Prepaid expenses	-	3,562	-	3,562
<b>TOTAL CURRENT ASSETS</b>	<b>1,915,908</b>	<b>340,676</b>	<b>(474,520)</b>	<b>1,782,064</b>
NOTE RECEIVABLE FROM CUSTOMER	2,473	-	-	2,473
INVENTORY	7,511	-	-	7,511
<b>CAPITAL ASSETS, NET</b>				
Equipment	-	39,668	-	39,668
Sewer System	9,337,919	-	-	9,337,919
<b>TOTAL ASSETS</b>	<b>11,263,811</b>	<b>380,344</b>	<b>(474,520)</b>	<b>11,169,635</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflows related to pensions	-	90,042	-	90,042
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	38,437	20,945	-	59,382
Accrued payroll and payroll taxes	-	4,221	-	4,221
Accrued interest payable	11,469	-	-	11,469
Liability for compensated absences	-	11,440	-	11,440
Current maturity of long-term debt	291,075	-	-	291,075
Due to component unit	-	451,500	(451,500)	-
<b>TOTAL CURRENT LIABILITIES</b>	<b>340,981</b>	<b>488,106</b>	<b>(451,500)</b>	<b>377,587</b>
<b>LONG-TERM LIABILITIES:</b>				
Long-term debt	4,415,031	-	-	4,415,031
Net pension liability	-	7,959	-	7,959
Liability for compensated absences	-	51,537	-	51,537
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>4,415,031</b>	<b>59,496</b>	<b>-</b>	<b>4,474,527</b>
<b>TOTAL LIABILITIES</b>	<b>4,756,012</b>	<b>547,602</b>	<b>(451,500)</b>	<b>4,852,114</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows related to pensions	-	80,341	-	80,341
<b>NET POSITION</b>				
Invested in capital assets, net of related debt	4,626,440	39,668	-	4,666,108
Unrestricted	1,881,359	(197,225)	(23,020)	1,661,114
<b>TOTAL NET POSITION</b>	<b>\$ 6,507,799</b>	<b>\$ (157,557)</b>	<b>\$ (23,020)</b>	<b>\$ 6,327,222</b>

See accompanying notes to financial statements

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BOROUGH OF KANE AUTHORITY AND BOROUGH OF KANE SEWER FUND  
 COMBINING STATEMENT OF REVENUES, EXPENSES  
 AND CHANGE IN NET POSITION

	Year Ended			Year Ended	
	March 31, 2018	December 31, 2017			March 31, 2018
	Borough of Kane Authority	Borough of Kane Sewer Fund	Eliminations	Combined Totals	
<b>OPERATING REVENUES</b>					
Charges for services	\$ -	\$ 1,440,478	\$ -	\$ 1,440,478	
Other operating income	1,317	-	-	1,317	
Sewer system revenue from Borough of Kane	720,000	-	(720,000)	-	
<b>TOTAL OPERATING REVENUES</b>	<b>721,317</b>	<b>1,440,478</b>	<b>(720,000)</b>	<b>1,441,795</b>	
<b>OPERATING EXPENSES</b>					
Depreciation	499,880	12,944	-	512,824	
Personnel expenses	-	364,843	-	364,843	
Utilities	-	121,556	-	121,556	
Operating expenses	-	98,286	-	98,286	
Maintenance	-	62,182	-	62,182	
Supplies	-	39,138	-	39,138	
Administrative expense	8,884	5,815	-	14,699	
Insurance	-	14,301	-	14,301	
Accounting and audit fees	7,400	-	-	7,400	
Engineering fees	7,994	-	-	7,994	
Regulatory fees	6,250	-	-	6,250	
Legal fees	5,641	-	-	5,641	
Office expense	1,571	-	-	1,571	
Transfer to Authority	-	720,000	(720,000)	-	
<b>TOTAL OPERATING EXPENSES</b>	<b>537,620</b>	<b>1,439,065</b>	<b>(720,000)</b>	<b>1,256,685</b>	
<b>OPERATING INCOME</b>	<b>183,697</b>	<b>1,413</b>	<b>-</b>	<b>185,110</b>	
<b>NON-OPERATING REVENUES (EXPENSES)</b>					
Interest income	9,920	119	-	10,039	
Realized loss on sale of investments	(5,099)	-	-	(5,099)	
Investment expenses	(2,995)	-	-	(2,995)	
Interest expense	(138,810)	-	-	(138,810)	
Engineering assessment and appraisal fees	(27,677)	-	-	(27,677)	
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>(164,661)</b>	<b>119</b>	<b>-</b>	<b>(164,542)</b>	
<b>CHANGE IN NET POSITION</b>	<b>19,036</b>	<b>1,532</b>	<b>-</b>	<b>20,568</b>	
<b>NET POSITION, Beginning of year, as restated, Note 1</b>	<b>6,488,763</b>	<b>(159,089)</b>	<b>(23,020)</b>	<b>6,306,654</b>	
<b>NET POSITION, End of year</b>	<b>\$ 6,507,799</b>	<b>\$ (157,557)</b>	<b>\$ (23,020)</b>	<b>\$ 6,327,222</b>	

See accompanying notes to financial statements

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BOROUGH OF KANE AUTHORITY AND BOROUGH OF KANE SEWER FUND  
COMBINING STATEMENT OF CASH FLOWS

	Year Ended			Year Ended
	March 31, 2018	December 31, 2017	Eliminations	March 31, 2018
	Borough of Kane Authority	Borough of Kane Sewer Fund		Combined Totals
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash received from customers	\$ 722,073	\$ 1,439,449	\$ (720,000)	\$ 1,441,522
Cash paid to component unit	-	(720,000)	720,000	-
Cash paid to employees	-	(342,555)	-	(342,555)
Cash paid to suppliers	(39,770)	(336,361)	-	(376,131)
Net cash provided by operating activities	<u>682,303</u>	<u>40,533</u>	<u>-</u>	<u>722,836</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Purchase of fixed assets	(41,498)	(6,114)	-	(47,612)
Principal payments on long-term debt	(282,767)	-	-	(282,767)
Interest payments on debt	(139,499)	-	-	(139,499)
Engineering fees related to possible sale	(9,337)	-	-	(9,337)
Net cash used for capital and related financing activities	<u>(473,101)</u>	<u>(6,114)</u>	<u>-</u>	<u>(479,215)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Proceeds from interest earnings	1,045	119	-	1,164
Net transfers from investments	571,581	-	-	571,581
Net cash provided by investing activities	<u>572,626</u>	<u>119</u>	<u>-</u>	<u>572,745</u>
NET INCREASE IN CASH	781,828	34,538	-	816,366
CASH, Beginning of year	<u>446,830</u>	<u>72,829</u>	<u>-</u>	<u>519,659</u>
CASH, End of year	<u>\$ 1,228,658</u>	<u>\$ 107,367</u>	<u>\$ -</u>	<u>\$ 1,336,025</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>				
Operating income	<u>\$ 183,697</u>	<u>\$ 1,413</u>	<u>\$ -</u>	<u>\$ 185,110</u>
<b>Adjustments to reconcile operating income to net cash provided by operating activities:</b>				
Depreciation	499,880	12,944	-	512,824
Decrease (increase) in accounts receivable	302	(1,029)	-	(727)
Increase in due from other fund	-	(2,335)	-	(2,335)
Increase in prepaid expenses	-	(446)	-	(446)
Decrease in note receivable	454	-	-	454
Decrease in net pension asset	-	4,437	-	4,437
Increase in deferred outflows - pension	-	(46,842)	-	(46,842)
Increase (decrease) in accounts payable	(2,030)	5,363	-	3,333
Increase in accrued payroll and payroll taxes	-	165	-	165
Increase in net pension liability	-	7,959	-	7,959
Increase in deferred inflows - pension	-	54,335	-	54,335
Increase in liability for compensated absences	-	4,569	-	4,569
Total adjustments	<u>498,606</u>	<u>39,120</u>	<u>-</u>	<u>537,726</u>
Net cash provided by operating activities	<u>\$ 682,303</u>	<u>\$ 40,533</u>	<u>\$ -</u>	<u>\$ 722,836</u>

See accompanying notes to financial statements.

BOROUGH OF KANE AUTHORITY,  
A COMPONENT UNIT OF THE  
BOROUGH OF KANE, PENNSYLVANIA  
AND  
BOROUGH OF KANE SEWER FUND  
COMBINED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
MARCH 31, 2017

**HAINES & COMPANY**  
A PROFESSIONAL CORPORATION  
CERTIFIED PUBLIC ACCOUNTANTS

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# HAINES & COMPANY

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MEMBERS OF AMERICAN AND  
PENNSYLVANIA INSTITUTES OF  
CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

To the Members  
Borough of Kane Authority  
Kane, Pennsylvania

### **Report on the Financial Statements**

We have audited the accompanying combined financial statements of the business-type activities of the Borough of Kane Authority, a component unit of the Borough of Kane, Pennsylvania, and the Borough of Kane Sewer Fund as of and for the year ended March 31, 2017, and the related notes to the 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. 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 combined financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Borough of Kane Authority, a component unit of the Borough of Kane, Pennsylvania, and the Borough of Kane Sewer Fund as of March 31, 2017, and the 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***

#### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the combined financial statements of the Borough of Kane Authority, a component unit of the Borough of Kane, Pennsylvania and the Borough of Kane Sewer Fund. The combining financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining financial statements 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 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 financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Emphasis of Matter**

As discussed in Note B, the combined financial statements present only the Borough of Kane Authority and the Borough of Kane Sewer Fund and do not purport to, and do not present fairly the financial position of the Borough of Kane, Pennsylvania as of March 31, 2017, the changes in its financial position, or where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

*Haines Company*

Certified Public Accountants  
Warren, Pennsylvania  
July 6, 2017

BOROUGH OF KANE AUTHORITY AND BOROUGH OF KANE SEWER FUND

COMBINED STATEMENT OF NET POSITION  
March 31, 2017

ASSETS	
CURRENT ASSETS	
Cash	\$ 430,177
Accounts receivable	223,886
Due from other funds	2,497
Prepaid expenses	<u>3,116</u>
TOTAL CURRENT ASSETS	659,676
RESTRICTED CASH	89,482
RESTRICTED INVESTMENTS	771,395
NOTE RECEIVABLE FROM CUSTOMER	2,927
INVENTORY	7,511
CAPITAL ASSETS, NET	
Equipment	46,498
Sewer System	9,790,928
NET PENSION ASSET	<u>4,437</u>
TOTAL ASSETS	<u>11,372,854</u>
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable - trade	19,739
Accrued payroll and payroll taxes	4,056
Accrued interest payable	12,158
Accrued investment fees payable	462
Current maturity of long-term debt	<u>282,834</u>
TOTAL CURRENT LIABILITIES	<u>319,249</u>
LONG-TERM LIABILITIES:	
Long-term debt	4,706,039
Liability for compensated absences	<u>58,408</u>
TOTAL LONG-TERM LIABILITIES	<u>4,764,447</u>
TOTAL LIABILITIES	<u>5,083,696</u>
NET POSITION	
Invested in capital assets, net of related debt	4,848,553
Restricted for debt service	422,266
Unrestricted	<u>1,018,339</u>
TOTAL NET POSITION	<u>\$6,289,158</u>

See accompanying notes to financial statements.

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BOROUGH OF KANE AUTHORITY AND BOROUGH OF KANE SEWER FUND

COMBINED STATEMENT OF REVENUES, EXPENSES AND  
CHANGE IN NET POSITION  
Year Ended March 31, 2017

OPERATING REVENUES	
Charges for services	\$1,431,778
Other operating income	<u>835</u>
TOTAL OPERATING REVENUES	<u>1,432,613</u>
OPERATING EXPENSES	
Depreciation	506,586
Personnel expenses	351,353
Utilities	119,171
Operating expenses	118,939
Maintenance	55,847
Supplies	35,725
Bad debt expense	20,000
Administrative expense	15,204
Insurance	14,704
Accounting and audit fees	5,850
Engineering fees	5,308
Regulatory fees	5,000
Legal fees	2,973
Office expense	<u>1,509</u>
TOTAL OPERATING EXPENSES	<u>1,258,169</u>
OPERATING INCOME	<u>174,444</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest income	6,556
Realized gain on sale of investments	1,882
Investment expenses	(2,987)
Net depreciation in the fair value of investments	(19,215)
Interest expense	<u>(146,809)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(160,573)</u>
CHANGE IN NET POSITION	13,871
NET POSITION, April 1, 2016	<u>6,275,287</u>
NET POSITION, March 31, 2017	<u>\$6,289,158</u>

See accompanying notes to financial statements.

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BOROUGH OF KANE AUTHORITY AND BOROUGH OF KANE SEWER FUND  
 COMBINED STATEMENT OF CASH FLOWS  
 Year Ended March 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 1,408,232
Cash paid to component unit	(30,297)
Cash paid to employees	(342,151)
Cash paid to suppliers	<u>(400,925)</u>
Net cash provided by operating activities	<u>634,859</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Purchase of fixed assets	(75,233)
Principal payments on long-term debt	(274,787)
Interest payments on debt	<u>(147,478)</u>
Net cash used for capital and related financing activities	<u>(497,498)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from interest earnings	624
Net transfers from restricted cash for debt service	<u>22,266</u>
Net cash provided by investing activities	<u>22,890</u>

NET INCREASE IN CASH	160,251
CASH, April 1, 2016	<u>269,926</u>
CASH, March 31, 2017	<u>\$ 430,177</u>

Reconciliation of operating income to net cash provided by operating activities:

Operating income	<u>\$ 174,444</u>
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Adjustments to reconcile operating income to net cash provided by operating activities:

Depreciation	506,586
Increase in accounts receivable	(8,909)
Decrease in due from other fund	120
Increase in prepaid expenses	(2,508)
Decrease in note receivable	2,130
Decrease in net pension asset	8,330
Decrease in accounts payable	(18,186)
Increase in accrued payroll and payroll taxes	2,581
Decrease in due to component unit	(27,900)
Decrease in liability for compensated absences	<u>(1,829)</u>
Total adjustments	<u>460,415</u>

Net cash provided by operating activities	<u>\$ 634,859</u>
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See accompanying notes to financial statements.

BOROUGH OF KANE AUTHORITY  
AND BOROUGH OF KANE SEWER FUND

NOTES TO FINANCIAL STATEMENTS

NOTE A – DESCRIPTION OF OPERATIONS

Authority

The Borough of Kane Authority (the Authority) is a legal entity organized and existing under the laws of the Commonwealth of Pennsylvania, pursuant to the Municipality Authorities Act of 1945, approved May 2, 1945, P. L. 382, as amended, having been duly organized by the Borough of Kane, McKean County, Pennsylvania. The Authority has the right, privilege, franchise, and authority to lay, construct, maintain, repair, and replace in the streets, roads, alleys, and rights of way of the Borough of Kane the necessary sewer lines and related structures.

The articles of incorporation of the Authority were amended in 1994 to include by application for joinder the Township of Wetmore; McKean County, Pennsylvania.

In accordance with the requirements of Statement No. 14, *The Financial Reporting Entity, of the Governmental Accounting Standards Board (GASB)*, the financial statements must present the Authority (the primary government) and its component units. Pursuant to this criterion, no component units were identified for inclusion in the accompanying financial statements. Additionally, the accompanying financial statements are incorporated into the financial statements of the Borough of Kane because the Authority is a component unit of the Borough.

Sewer Fund

The Borough of Kane Sewer Fund accounts for the operation of the sewer system under the management agreement described in Note G. This is a self-supporting activity, which renders services on a user charge basis to residents and businesses in the Borough of Kane and Wetmore Township, Pennsylvania.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Accounting

The accompanying combined financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting and reflect transactions on behalf of the Authority and the Borough of Kane Sewer Fund, the reporting entity. The Authority and the Sewer Fund account for their operations as enterprise funds. Operating revenues and expenses result from providing sewer facilities to the Borough of Kane and Wetmore Township, Pennsylvania. All other revenues and expenses are reported as non-operating revenues and expenses. Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other*

BOROUGH OF KANE AUTHORITY  
AND BOROUGH OF KANE SEWER FUND

NOTES TO FINANCIAL STATEMENTS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation and Accounting (Continued)

*Government Funds that use Proprietary Fund Accounting*, the Authority applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails.

Due to the fact that the Authority operates under one proprietary fund, a statement of revenues, expenses, and change in net position – proprietary funds has been omitted. Rather, this information is reported in the Combined Statement of Revenues, Expenses and Changes in Net Position and the Combining Statement of Revenues, Expenses and Change in Net Position which is located in the Supplementary Information.

Cash

The Authority and the Sewer Fund consider highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

Investments

Investments are recorded at fair value.

Sewer System, Depreciation, and Project Costs

Assets are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Expenditures for engineering fees and maintenance are capitalized when allocable to construction, otherwise they are charged to expense as incurred.

Project costs are preliminary costs incurred to determine the feasibility or possibility of obtaining funding for a significant expansion or upgrade of the sewer system. If the project is successfully funded, these costs will be reclassified as sewer system and depreciated over the useful life of the project.

Inventory

Inventories are valued at the lower of cost or market. Cost is determined by the first-in, first-out (FIFO) method.

BOROUGH OF KANE AUTHORITY  
AND BOROUGH OF KANE SEWER FUND

NOTES TO FINANCIAL STATEMENTS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Grants and Contributions

The Authority receives capital grants from certain governmental agencies to be used for various purposes connected with the planning, modernization, and expansion of sewer facilities. Capital grants to the Authority are reported as capital contributions in the Statement of Revenues, Expenses and Change in Net Position.

Compensated Absences

All vested vacation and sick leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements, and are payable with expendable resources.

Fund Equity

The financial statements utilize a net position presentation. Net position is categorized as invested in capital assets, net of related debt, restricted and unrestricted.

- *Invested in Capital Assets, Net of Related Debt* – This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.
- *Restricted Net Position* – This category reflects net position that is subject to constraints either by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Position* – This category represents net position of the Borough not restricted for any project or other purpose. Outstanding liabilities attributable to these assets reduce the balance of this category.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and

BOROUGH OF KANE AUTHORITY  
AND BOROUGH OF KANE SEWER FUND

NOTES TO FINANCIAL STATEMENTS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates (Continued)

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.

NOTE C - CASH DEPOSITS AND RESTRICTED INVESTMENTS

Commonwealth of Pennsylvania Local Government Unit Debt Act, provides for the investment of Authority Sewer Fund funds in certain authorized investment types as follows:

- i.) United States Treasury Bills;
- ii.) Short-term obligations of the United States Government or its agencies or instrumentalities;
- iii.) Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund to the extent that such accounts are so insured, and, for any amounts above the insured maximum, provided that approved collateral as provided by law therefore shall be pledged by the depository;
- iv.) 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, the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or of any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

The deposit and investment policies of the Authority and Sewer Fund adhere to the act and prudent business practice. Deposits are maintained in demand deposits and are captioned as cash in the Statement of Net Position.

BOROUGH OF KANE AUTHORITY  
AND BOROUGH OF KANE SEWER FUND

NOTES TO FINANCIAL STATEMENTS

NOTE C - CASH DEPOSITS AND RESTRICTED INVESTMENTS (Continued)

Cash Deposits

As of March 31, 2017, the Authority had a bank checking account with a carrying amount and a bank balance of \$357,348 and \$362,348, respectively. The balance was covered by federal depository insurance up to \$250,000. There was \$112,348 of uninsured cash on deposit as of March 31, 2017.

The Authority also has a checking account with a different bank for the purpose of funding the monthly principal and interest payments of the revenue note. Both the carrying amount and the bank balance of the account at March 31, 2017 were \$89,482. The entire balance of the account was covered by federal depository insurance.

Restricted Investments

As of March 31, 2017, investments consist of the following:

	Fair Value	Investment Maturities			Credit Quality Rating
		Less than 1 year	1-5 years	6-10 years	
U.S. Agency bonds	\$ 730,567	\$ -	\$ 730,567	\$ -	Aaa
Money market fund	37,786	37,786	-	-	N/A
Accrued income	3,042	3,042	-	-	
	<u>\$ 771,395</u>	<u>\$ 40,828</u>	<u>\$ 730,567</u>	<u>\$ -</u>	

Investments are restricted for the maintenance, construction, and debt service of the sewer system.

The Authority is required to maintain a minimum balance in its investments of \$422,266, which represents one year's debt service.

BOROUGH OF KANE AUTHORITY  
AND BOROUGH OF KANE SEWER FUND

NOTES TO FINANCIAL STATEMENTS

NOTE D - CAPITAL ASSETS - SEWER SYSTEM AND EQUIPMENT

The sewer system and equipment consist of:

	March 31, 2016	Additions	Dispositions	March 31, 2017
<b>Authority depreciable assets:</b>				
New sewer system 1994	\$ 17,997,643	\$ 24,143	\$ -	\$ 18,021,786
Initial sewer system 1967	614,737	-	-	614,737
Sewer extension 2006	660,731	-	-	660,731
Equipment	616,724	26,293	(4,200)	638,817
Office equipment	32,950	-	-	32,950
<b>Total capital assets being depreciated</b>	<b>19,922,785</b>	<b>50,436</b>	<b>(4,200)</b>	<b>19,969,021</b>
<b>Less accumulated depreciation for:</b>				
New sewer system 1994	8,624,950	450,410	-	9,075,360
Initial sewer system 1967	360,711	15,368	-	376,079
Sewer extension 2006	143,165	17,098	-	160,263
Equipment	523,447	14,194	(4,200)	533,441
Office equipment	32,950	-	-	32,950
<b>Total accumulated depreciation</b>	<b>9,685,223</b>	<b>497,070</b>	<b>(4,200)</b>	<b>10,178,093</b>
<b>Authority net sewer system</b>	<b>10,237,562</b>	<b>(446,634)</b>	<b>-</b>	<b>9,790,928</b>
<b>Sewer Fund depreciable assets:</b>				
Equipment	228,254	24,797	-	253,051
<b>Total capital assets being depreciated</b>	<b>228,254</b>	<b>24,797</b>	<b>-</b>	<b>253,051</b>
<b>Less accumulated depreciation for:</b>				
Equipment	197,037	9,516	-	206,553
<b>Total accumulated depreciation</b>	<b>197,037</b>	<b>9,516</b>	<b>-</b>	<b>206,553</b>
<b>Sewer Fund net equipment</b>	<b>31,217</b>	<b>15,281</b>	<b>-</b>	<b>46,498</b>
<b>Total sewer system and equipment</b>	<b>\$ 10,268,779</b>	<b>\$ (431,353)</b>	<b>\$ -</b>	<b>\$ 9,837,426</b>

The sewer system is pledged as collateral for long-term debt

BOROUGH OF KANE AUTHORITY  
AND BOROUGH OF KANE SEWER FUND

NOTES TO FINANCIAL STATEMENTS

NOTE E - LONG-TERM DEBT

Long-term debt consists of:

	<u>Balance Outstanding March 31, 2016</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance Outstanding March 31, 2017</u>
Variable rate Guaranteed Sewer Revenue Note, Series 2013. Monthly installments of interest and principal are due in the amount of \$35,188.83. The note matures on June 1, 2033.	<u>\$ 5,263,660</u>	<u>\$ -</u>	<u>\$ (274,787)</u>	\$ 4,988,873
Less current maturity				<u>282,834</u>
Long-term debt				<u>\$ 4,706,039</u>

The note described above is collateralized by all accounts and property of the Authority including all the right, title and interest of the Authority in and to any and all receipts and revenues derived from the sewer system.

The interest rate of the note is fixed for ten years at 2.83% and thereafter will float at 65% of the bank's prime rate with a floor of 2.0% and a ceiling of 6.0%. The 20 year note matures on June 1, 2033 and payment is guaranteed by the Borough of Kane and Wetmore Township in proportions of 65% and 35%, respectively.

For the purpose of presenting the Authority's schedule of principal and interest payments that will be due in the future, the table below reflects the 2.83% interest rate until May 2023 at which time the rate is assumed for this purpose to reset at the 6.0% maximum rate.

BOROUGH OF KANE AUTHORITY  
AND BOROUGH OF KANE SEWER FUND

NOTES TO FINANCIAL STATEMENTS

NOTE E - LONG-TERM DEBT (Continued)

The schedule for principal maturity and annual debt service is as follows:

Year Ending March 31,	Principal Amount	Total Interest	Total Debt Service
2018	\$ 282,834	\$ 139,432	\$ 422,266
2019	291,008	131,258	422,266
2020	299,143	123,123	422,266
2021	308,166	114,100	422,266
2022	317,125	105,141	422,266
2023-2027	1,384,452	726,878	2,111,330
2028-3032	1,712,979	398,351	2,111,330
2033	393,166	12,696	405,862
	<u>\$ 4,988,873</u>	<u>\$ 1,750,979</u>	<u>\$ 6,739,852</u>

NOTE F -- NOTE RECEIVABLE

The Borough of Kane Authority loaned funds to a customer to help purchase a grinder pump. The note is summarized below:

\$5,057 note receivable dated March 21, 2016 paying 2.5% interest annually. Payments to be received monthly in the amount of \$216.24 through April 21, 2018. The note is collateralized by the grinder pump. \$ 2,927

NOTE G - MANAGEMENT AGREEMENT

On September 21, 1994, the Authority and the Borough of Kane entered into a management agreement for the operation of the Sewer System. Under the terms of the agreement, the Borough agrees to operate the Sewer System, bill and collect all revenue from the Sewer System, and return to the Authority periodically all excess funds not required for the estimated operating costs of the next three months. The agreement may be canceled by either party upon twelve months written notice. The Authority recognized \$720,000 of revenue during the year ended March 31, 2017 under this agreement, of which \$474,822 was included in accounts receivable at March 31, 2017. This revenue and related expense has been eliminated from the accompanying combined financial statements.

BOROUGH OF KANE AUTHORITY  
AND BOROUGH OF KANE SEWER FUND

NOTES TO FINANCIAL STATEMENTS

NOTE H – RELATED PARTY TRANSACTIONS

An officer of the Authority provides accounting services to the Authority. Payments for these services during the year ended March 31, 2017 totaled \$6,221.

NOTE I – SUBSEQUENT EVENTS

The Authority has been approached by a prospective buyer to purchase the sewer system.

BOROUGH OF KANE AUTHORITY AND BOROUGH OF KANE SEWER FUND  
COMBINING STATEMENT OF NET POSITION

	March 31, 2017	December 31, 2016		March 31, 2017
	Borough of	Borough of		Combined
	Kane Authority	Kane Sewer Fund	Eliminations	Totals
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash	\$ 357,348	\$ 72,829	\$ -	\$ 430,177
Accounts receivable	-	223,886	-	223,886
Due from other funds	474,822	2,497	(474,822)	2,497
Prepaid expenses	-	3,116	-	3,116
	<u>832,170</u>	<u>302,328</u>	<u>(474,822)</u>	<u>659,676</u>
<b>TOTAL CURRENT ASSETS</b>	<b>832,170</b>	<b>302,328</b>	<b>(474,822)</b>	<b>659,676</b>
RESTRICTED CASH	89,482	-	-	89,482
RESTRICTED INVESTMENTS	771,395	-	-	771,395
NOTE RECEIVABLE FROM CUSTOMER	2,927	-	-	2,927
INVENTORY	7,511	-	-	7,511
<b>CAPITAL ASSETS, NET</b>				
Equipment	-	46,498	-	46,498
Sewer System	9,790,928	-	-	9,790,928
NET PENSION ASSET	-	4,437	-	4,437
	<u>-</u>	<u>4,437</u>	<u>-</u>	<u>4,437</u>
<b>TOTAL ASSETS</b>	<b>11,494,413</b>	<b>353,263</b>	<b>(474,822)</b>	<b>11,372,854</b>
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable - trade	4,157	15,582	-	19,739
Accrued payroll and payroll taxes	-	4,056	-	4,056
Accrued interest payable	12,158	-	-	12,158
Accrued investment fees payable	462	-	-	462
Current maturity of long-term debt	282,834	-	-	282,834
Due to component unit	-	451,500	(451,500)	-
	<u>299,611</u>	<u>471,138</u>	<u>(451,500)</u>	<u>319,249</u>
<b>TOTAL CURRENT LIABILITIES</b>	<b>299,611</b>	<b>471,138</b>	<b>(451,500)</b>	<b>319,249</b>
<b>LONG-TERM LIABILITIES:</b>				
Long-term debt	4,706,039	-	-	4,706,039
Liability for compensated absences	-	58,408	-	58,408
	<u>4,706,039</u>	<u>58,408</u>	<u>-</u>	<u>4,764,447</u>
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>4,706,039</b>	<b>58,408</b>	<b>-</b>	<b>4,764,447</b>
<b>TOTAL LIABILITIES</b>	<b>5,005,650</b>	<b>529,546</b>	<b>(451,500)</b>	<b>5,083,696</b>
<b>NET POSITION</b>				
Invested in capital assets, net of related debt	4,802,055	46,498	-	4,848,553
Restricted for debt service	422,266	-	-	422,266
Unrestricted	1,264,442	(222,781)	(23,322)	1,018,339
	<u>6,488,763</u>	<u>(176,283)</u>	<u>(23,322)</u>	<u>6,289,158</u>
<b>TOTAL NET POSITION</b>	<b>\$ 6,488,763</b>	<b>\$ (176,283)</b>	<b>\$ (23,322)</b>	<b>\$ 6,289,158</b>

See accompanying notes to financial statements

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BOROUGH OF KANE AUTHORITY AND BOROUGH OF KANE SEWER FUND  
 COMBINING STATEMENT OF REVENUES, EXPENSES  
 AND CHANGE IN NET POSITION

	Year Ended			Year Ended	
	March 31, 2017	December 31, 2016			March 31, 2017
	Borough of Kane Authority	Borough of Kane Sewer Fund	Eliminations	Combined Totals	
<b>OPERATING REVENUES</b>					
Charges for services	\$ -	\$ 1,431,778	\$ -	\$ 1,431,778	
Other operating income	835	-	-	835	
Sewer system revenue from Borough of Kane	720,000	-	(720,000)	-	
<b>TOTAL OPERATING REVENUES</b>	<b>720,835</b>	<b>1,431,778</b>	<b>(720,000)</b>	<b>1,432,613</b>	
<b>OPERATING EXPENSES</b>					
Depreciation	497,070	9,516	-	506,586	
Personnel expenses	-	351,353	-	351,353	
Utilities	-	119,171	-	119,171	
Operating expenses	-	118,939	-	118,939	
Maintenance	1,484	54,363	-	55,847	
Supplies	-	35,725	-	35,725	
Bad debt expense	-	20,000	-	20,000	
Administrative expense	6,221	8,983	-	15,204	
Insurance	-	14,704	-	14,704	
Accounting and audit fees	5,850	-	-	5,850	
Engineering fees	5,308	-	-	5,308	
Regulatory fees	5,000	-	-	5,000	
Legal fees	2,973	-	-	2,973	
Office expense	1,509	-	-	1,509	
Transfer to Authority	-	720,000	(720,000)	-	
<b>TOTAL OPERATING EXPENSES</b>	<b>525,415</b>	<b>1,452,754</b>	<b>(720,000)</b>	<b>1,258,169</b>	
<b>OPERATING INCOME (LOSS)</b>	<b>195,420</b>	<b>(20,976)</b>	<b>-</b>	<b>174,444</b>	
<b>NON-OPERATING REVENUES (EXPENSES)</b>					
Interest income	6,449	107	-	6,556	
Realized gain on sale of investments	1,882	-	-	1,882	
Investment expenses	(2,987)	-	-	(2,987)	
Net depreciation in the fair value of investments	(19,215)	-	-	(19,215)	
Interest expense	(146,809)	-	-	(146,809)	
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>(160,680)</b>	<b>107</b>	<b>-</b>	<b>(160,573)</b>	
<b>CHANGE IN NET POSITION</b>	<b>34,740</b>	<b>(20,869)</b>	<b>-</b>	<b>13,871</b>	
<b>NET POSITION, Beginning of year</b>	<b>6,454,023</b>	<b>(155,414)</b>	<b>(23,322)</b>	<b>6,275,287</b>	
<b>NET POSITION, End of year</b>	<b>\$ 6,488,763</b>	<b>\$ (176,283)</b>	<b>\$ (23,322)</b>	<b>\$ 6,289,158</b>	

See accompanying notes to financial statements

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**BOROUGH OF KANE AUTHORITY AND BOROUGH OF KANE SEWER FUND  
COMBINING STATEMENT OF CASH FLOWS**

	Year Ended			Year Ended	
	March 31, 2017	December 31, 2016			March 31, 2017
	Borough of Kane Authority	Borough of Kane Sewer Fund	Eliminations	Combined Totals	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Cash received from customers	\$ 721,568	\$ 1,404,267	\$ (717,603)	\$ 1,408,232	
Cash paid to component unit	-	(747,900)	717,603	(30,297)	
Cash paid to employees	-	(342,151)	-	(342,151)	
Cash paid to suppliers	(29,797)	(371,128)	-	(400,925)	
Net cash provided (used) by operating activities	<u>691,771</u>	<u>(56,912)</u>	<u>-</u>	<u>634,859</u>	
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Purchase of fixed assets	(50,436)	(24,797)	-	(75,233)	
Principal payments on long-term debt	(274,787)	-	-	(274,787)	
Interest payments on debt	(147,478)	-	-	(147,478)	
Net cash used for capital and related financing activities	<u>(472,701)</u>	<u>(24,797)</u>	<u>-</u>	<u>(497,498)</u>	
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Proceeds from interest earnings	517	107	-	624	
Net transfers from restricted cash for debt service	22,266	-	-	22,266	
Net cash provided by investing activities	<u>22,783</u>	<u>107</u>	<u>-</u>	<u>22,890</u>	
NET INCREASE (DECREASE) IN CASH	241,853	(81,602)	-	160,251	
CASH, Beginning of year	<u>115,495</u>	<u>154,431</u>	<u>-</u>	<u>269,926</u>	
CASH, End of year	<u>\$ 357,348</u>	<u>\$ 72,829</u>	<u>\$ -</u>	<u>\$ 430,177</u>	
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>					
Operating income (loss)	\$ 195,420	\$ (20,976)	\$ -	\$ 174,444	
<b>Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:</b>					
Depreciation	497,070	9,516	-	506,586	
Increase in accounts receivable	(1,398)	(7,511)	-	(8,909)	
Decrease in due from other fund	-	120	-	120	
Increase in prepaid expenses	-	(2,508)	-	(2,508)	
Decrease in note receivable	2,130	-	-	2,130	
Decrease in net pension asset	-	8,330	-	8,330	
Decrease in accounts payable	(1,451)	(16,735)	-	(18,186)	
Increase in accrued payroll and payroll taxes	-	2,581	-	2,581	
Decrease in due to component unit	-	(27,900)	-	(27,900)	
Decrease in liability for compensated absences	-	(1,829)	-	(1,829)	
Total adjustments	<u>496,351</u>	<u>(35,936)</u>	<u>-</u>	<u>460,415</u>	
Net cash provided (used) by operating activities	<u>\$ 691,771</u>	<u>\$ (56,912)</u>	<u>\$ -</u>	<u>\$ 634,859</u>	

See accompanying notes to financial statements.

BOROUGH OF KANE AUTHORITY,  
A COMPONENT UNIT OF THE  
BOROUGH OF KANE, PENNSYLVANIA  
FINANCIAL STATEMENTS  
MARCH 31, 2016

**HAINES & COMPANY**  
A PROFESSIONAL CORPORATION  
CERTIFIED PUBLIC ACCOUNTANTS

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MEMBERS OF AMERICAN AND  
PENNSYLVANIA INSTITUTES OF  
CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

To the Members  
Borough of Kane Authority  
Kane, Pennsylvania

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of the Borough of Kane Authority, a component unit of the Borough of Kane, Pennsylvania, as of and for the year ended March 31, 2016, 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. 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 business-type activities of the Borough of Kane Authority, a component unit of the Borough of Kane, Pennsylvania, as of March 31, 2016, and the 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***

#### ***Other Information***

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2016, on our consideration of the Borough of Kane 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 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 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 Borough of Kane Authority's internal control over financial reporting and compliance.

*Harris Company*

Certified Public Accountants  
Warren, Pennsylvania  
June 30, 2016

BOROUGH OF KANE AUTHORITY

STATEMENT OF NET POSITION  
March 31, 2016

ASSETS	
CURRENT ASSETS	
Cash	\$ 115,495
Accounts receivable	<u>473,425</u>
TOTAL CURRENT ASSETS	588,920
RESTRICTED CASH	111,748
RESTRICTED INVESTMENTS	785,796
NOTES RECEIVABLE FROM CUSTOMER	5,057
INVENTORY	7,511
CAPITAL ASSETS	
Sewer system	<u>10,237,561</u>
TOTAL ASSETS	<u>11,736,593</u>
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable - trade	5,608
Accrued interest payable	12,827
Accrued investment fees payable	475
Current maturities of long-term debt	<u>274,834</u>
TOTAL CURRENT LIABILITIES	293,744
LONG-TERM DEBT	<u>4,988,826</u>
TOTAL LIABILITIES	<u>5,282,570</u>
NET POSITION	
Invested in capital assets, net of related debt	4,973,901
Restricted for debt service	422,266
Unrestricted	<u>1,057,856</u>
TOTAL NET POSITION	<u>\$ 6,454,023</u>

See accompanying notes to financial statements.

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BOROUGH OF KANE AUTHORITY  
 STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION  
 Year Ended March 31, 2016

<b>OPERATING REVENUES</b>	
Sewer system revenue from Borough of Kane	\$ 720,000
Other operating income	<u>1,085</u>
<b>TOTAL OPERATING REVENUES</b>	<u>721,085</u>
 <b>OPERATING EXPENSES</b>	
Depreciation	493,528
Sewer system maintenance	17,201
Engineering fees	30,072
Administrative expense	5,899
Regulatory fees	6,250
Accounting and audit fees	5,848
Legal fees	2,160
Office expense	<u>1,707</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>562,665</u>
<b>OPERATING INCOME</b>	<u>158,420</u>
 <b>NON-OPERATING REVENUES (EXPENSES)</b>	
Interest income	5,900
Net appreciation in the fair value of investments	20,628
Realized gain on sale of investments	263
Investment expenses	(2,548)
Interest expense	<u>(155,434)</u>
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<u>(131,191)</u>
<b>CHANGE IN NET POSITION</b>	27,229
<b>NET POSITION, April 1, 2015</b>	<u>6,426,794</u>
<b>NET POSITION, March 31, 2016</b>	<u>\$ 6,454,023</u>

See accompanying notes to financial statements.

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BOROUGH OF KANE AUTHORITY  
STATEMENT OF CASH FLOWS  
Year Ended March 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 779,603
Cash paid to suppliers	<u>(112,496)</u>
Net cash provided by operating activities	<u>667,107</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Purchase of fixed assets	(115,446)
Principal payments on long-term debt	(266,617)
Interest payments on debt	<u>(155,649)</u>
Net cash used for capital and related financing activities	<u>(537,712)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from interest earnings	75
Net transfers to restricted cash for debt service	<u>(57,734)</u>
Net cash used by investing activities	<u>(57,659)</u>

NET INCREASE IN CASH

CASH, April 1, 2015	<u>43,759</u>
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CASH, March 31, 2016	<u><u>\$ 115,495</u></u>
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Reconciliation of operating income to net cash provided by operating activities:

Operating income	<u>\$ 158,420</u>
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Adjustments to reconcile operating income to net cash provided by operating activities:

Depreciation	493,528
Increase in inventory	(2,517)
Decrease in accounts receivable	63,575
Increase in note receivable	(5,057)
Decrease in accounts payable	<u>(40,842)</u>

Total adjustments	<u>508,687</u>
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Net cash provided by operating activities	<u><u>\$ 667,107</u></u>
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See accompanying notes to financial statements.

BOROUGH OF KANE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS

NOTE A – DESCRIPTION OF MUNICIPALITY

The Borough of Kane Authority (the Authority) is a legal entity organized and existing under the laws of the Commonwealth of Pennsylvania, pursuant to the Municipality Authorities Act of 1945, approved May 2, 1945, P. L. 382, as amended, having been duly organized by the Borough of Kane, McKean County, Pennsylvania. The Authority has the right, privilege, franchise, and authority to lay, construct, maintain, repair, and replace in the streets, roads, alleys, and rights of way of the Borough of Kane the necessary sewer lines and related structures.

The articles of incorporation of the Authority were amended in 1994 to include by application for joinder the Township of Wetmore, McKean County, Pennsylvania.

In accordance with the requirements of Statement No. 14, *The Financial Reporting Entity, of the Governmental Accounting Standards Board (GASB)*, the financial statements must present the Authority (the primary government) and its component units. Pursuant to this criterion, no component units were identified for inclusion in the accompanying financial statements. Additionally, the accompanying financial statements are incorporated into the financial statements of the Borough of Kane because the Authority is a component unit of the Borough.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Accounting

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting and reflect transactions on behalf of the Authority, the reporting entity. The Authority accounts for its operations as an enterprise fund. Operating revenues and expenses result from providing sewer facilities to the Borough of Kane and Wetmore Township, Pennsylvania. All other revenues and expenses are reported as non-operating revenues and expenses. Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Funds that use Proprietary Fund Accounting*, the Authority applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails.

Due to the fact that the Authority operates under one proprietary fund, a statement of revenues, expenses, and change in net position – proprietary funds has been omitted. This information is reported in the Statement of Revenues, Expenses and Change in Net Position.

BOROUGH OF KANE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash

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

Investments

Investments are recorded at fair value.

Sewer System, Depreciation, and Project Costs

Assets are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Expenditures for engineering fees and maintenance are capitalized when allocable to construction, otherwise they are charged to expense as incurred.

Project costs are preliminary costs incurred to determine the feasibility or possibility of obtaining funding for a significant expansion or upgrade of the sewer system. If the project is successfully funded, these costs will be reclassified as sewer system and depreciated over the useful life of the project.

Inventory

Inventories are valued at the lower of cost or market. Cost is determined by the first-in, first-out (FIFO) method.

Capital Grants and Contributions

The Authority receives capital grants from certain governmental agencies to be used for various purposes connected with the planning, modernization, and expansion of sewer facilities. Capital grants to the Authority are reported as capital contributions in the Statement of Revenues, Expenses and Change in Net Position.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

BOROUGH OF KANE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS

NOTE C - CASH DEPOSITS AND RESTRICTED INVESTMENTS

Commonwealth of Pennsylvania Local Government Unit Debt Act, provides for the investment of Authority funds in certain authorized investment types as follows:

- i.) United States Treasury Bills;
- ii.) Short-term obligations of the United States Government or its agencies or instrumentalities;
- iii.) Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund to the extent that such accounts are so insured, and, for any amounts above the insured maximum, provided that approved collateral as provided by law therefore shall be pledged by the depository;
- iv.) 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, the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or of any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

The deposit and investment policy of the Authority adheres to the act and prudent business practice. Deposits are maintained in demand deposits and are captioned as cash in the Statement of Net Position.

Cash Deposits

As of March 31, 2016, the Authority had a bank checking account with a carrying amount and a bank balance of \$115,495 and \$153,184, respectively. The entire deposit was covered by federal depository insurance.

The Authority also has a checking account with a different bank for the purpose of funding the monthly principal and interest payments of the revenue note. The carrying amount and the bank balance of the account at March 31, 2016 was \$111,748 and \$111,748. The entire balance of the account was covered by federal depository insurance.

BOROUGH OF KANE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS

NOTE C - CASH DEPOSITS AND RESTRICTED INVESTMENTS (Continued)

Restricted Investments

As of March 31, 2016, investments consist of the following:

	<u>Fair Value</u>	<u>Investment Maturities</u>			<u>Credit Quality Rating</u>
		<u>Less than 1 year</u>	<u>1-5 years</u>	<u>6-10 years</u>	
U.S. Agency bonds	\$ 740,554	\$ -	\$ 740,554	\$ -	Aaa
Money market fund	43,042	43,042	-	-	N/A
Accrued income	2,200	2,200	-	-	
	<u>\$ 785,796</u>	<u>\$ 45,242</u>	<u>\$ 740,554</u>	<u>\$ -</u>	

Investments are restricted for the maintenance, construction, and debt service of the sewer system.

The Authority is required to maintain a minimum balance in its investments of \$422,266, which represents one year's debt service.

NOTE D - SEWER SYSTEM

The sewer system and equipment consist of:

	<u>March 31, 2015</u>	<u>Additions</u>	<u>Dispositions</u>	<u>March 31, 2016</u>
Depreciable assets:				
New sewer system 1994	\$ 17,927,977	\$ 69,664	\$ -	\$ 17,997,641
Initial sewer system 1967	614,737	-	-	614,737
Sewer extension 2006	660,731	-	-	660,731
Equipment	570,941	45,782	-	616,723
Office equipment	32,950	-	-	32,950
Total capital assets being depreciated	<u>19,807,336</u>	<u>115,446</u>	<u>-</u>	<u>19,922,782</u>