

**Application of Pennsylvania-American Water Company for Acquisition of
the Wastewater Assets of the Borough of Kane Authority
66 Pa. C.S. § 1329
Application Filing Checklist – Water/Wastewater
Docket No. A-2019-3014248**

19. Cost of Service.
- a. Provide a copy of the seller's two most recent audited financial statements.

RESPONSE:

- a. See enclosed audited financial statements provided by the Authority for the previous two years (fiscal years ended March 31, 2018 and March 31, 2019). Both financial statements are attached as **Appendix A-19-a**.

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

TABLE OF CONTENTS

	<u>Page No.</u>
INDEPENDENT AUDITOR'S REPORT	1
COMBINED FINANCIAL STATEMENTS	
Statement of Net Position	4
Statement of Revenues, Expenses and Change in Net Position	5
Statement of Cash Flows	6
Notes to Financial Statements	7
SUPPLEMENTARY INFORMATION	
Combining financial statements	
Statement of Net Position	16
Statement of Revenues, Expenses and Change in Net Position	17
Statement of Cash Flows	18

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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	<u>9,377,587</u>
TOTAL ASSETS	<u>11,169,635</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	<u>90,042</u>
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	<u>377,587</u>
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	<u>4,474,527</u>
TOTAL LIABILITIES	<u>4,852,114</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	<u>80,341</u>
NET POSITION	
Invested in capital assets, net of related debt	4,666,108
Unrestricted	<u>1,661,114</u>
TOTAL NET POSITION	<u>\$ 6,327,222</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, 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><u>\$ 6,327,222</u></u>

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>

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	<u>200,000</u>	<u>200,000</u>	<u>-</u>	<u>-</u>	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:

	<u>Balance Outstanding March 31, 2017</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance Outstanding 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.	<u>\$ 4,988,873</u>	<u>\$ -</u>	<u>\$ (282,767)</u>	\$ 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:

<u>Year Ending 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.

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

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 Kane Authority	Borough of Kane Sewer Fund	Eliminations	Combined Totals
ASSETS				
CURRENT ASSETS				
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
TOTAL CURRENT ASSETS	1,915,908	340,676	(474,520)	1,782,064
NOTE RECEIVABLE FROM CUSTOMER	2,473	-	-	2,473
INVENTORY	7,511	-	-	7,511
CAPITAL ASSETS, NET				
Equipment	-	39,668	-	39,668
Sewer System	9,337,919	-	-	9,337,919
TOTAL ASSETS	11,263,811	380,344	(474,520)	11,169,635
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to pensions	-	90,042	-	90,042
LIABILITIES				
CURRENT LIABILITIES				
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)	-
TOTAL CURRENT LIABILITIES	340,981	488,106	(451,500)	377,587
LONG-TERM LIABILITIES:				
Long-term debt	4,415,031	-	-	4,415,031
Net pension liability	-	7,959	-	7,959
Liability for compensated absences	-	51,537	-	51,537
TOTAL LONG-TERM LIABILITIES	4,415,031	59,496	-	4,474,527
TOTAL LIABILITIES	4,756,012	547,602	(451,500)	4,852,114
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to pensions	-	80,341	-	80,341
NET POSITION				
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
TOTAL NET POSITION	\$ 6,507,799	\$ (157,557)	\$ (23,020)	\$ 6,327,222

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		
	Borough of Kane Authority	Borough of Kane Sewer Fund	Eliminations	Combined Totals
OPERATING REVENUES				
Charges for services	\$ -	\$ 1,440,478	\$ -	\$ 1,440,478
Other operating income	1,317	-	-	1,317
Sewer system revenue from Borough of Kane	<u>720,000</u>	<u>-</u>	<u>(720,000)</u>	<u>-</u>
TOTAL OPERATING REVENUES	<u>721,317</u>	<u>1,440,478</u>	<u>(720,000)</u>	<u>1,441,795</u>
OPERATING EXPENSES				
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	<u>-</u>	<u>720,000</u>	<u>(720,000)</u>	<u>-</u>
TOTAL OPERATING EXPENSES	<u>537,620</u>	<u>1,439,065</u>	<u>(720,000)</u>	<u>1,256,685</u>
OPERATING INCOME	<u>183,697</u>	<u>1,413</u>	<u>-</u>	<u>185,110</u>
NON-OPERATING REVENUES (EXPENSES)				
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	<u>(27,677)</u>	<u>-</u>	<u>-</u>	<u>(27,677)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(164,661)</u>	<u>119</u>	<u>-</u>	<u>(164,542)</u>
CHANGE IN NET POSITION	<u>19,036</u>	<u>1,532</u>	<u>-</u>	<u>20,568</u>
NET POSITION, Beginning of year, as restated, Note I	<u>6,488,763</u>	<u>(159,089)</u>	<u>(23,020)</u>	<u>6,306,654</u>
NET POSITION, End of year	<u>\$ 6,507,799</u>	<u>\$ (157,557)</u>	<u>\$ (23,020)</u>	<u>\$ 6,327,222</u>

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
CASH FLOWS FROM OPERATING ACTIVITIES:				
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>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
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>
CASH FLOWS FROM INVESTING ACTIVITIES:				
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>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 183,697	\$ 1,413	\$ -	\$ 185,110
Adjustments to reconcile operating income to net cash provided by operating activities:				
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, 2019

HAINES & COMPANY
A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

TABLE OF CONTENTS

	<u>Page No.</u>
INDEPENDENT AUDITOR'S REPORT	1
COMBINED FINANCIAL STATEMENTS	
Statement of Net Position	4
Statement of Revenues, Expenses and Change in Net Position	5
Statement of Cash Flows	6
Notes to Financial Statements	7
SUPPLEMENTARY INFORMATION	
Combining financial statements	
Statement of Net Position	16
Statement of Revenues, Expenses and Change in Net Position	17
Statement of Cash Flows	18

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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

ASSETS	
CURRENT ASSETS	
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
CAPITAL ASSETS, NET	
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>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	<u>140,736</u>
LIABILITIES	
CURRENT LIABILITIES	
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>
LONG-TERM LIABILITIES:	
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>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	<u>50,113</u>
NET POSITION	
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>

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>
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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>
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Net cash provided by operating activities	<u>\$ 727,782</u>
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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:

	<u>March 31,</u> <u>2018</u>	<u>Additions</u>	<u>Dispositions</u>	<u>March 31,</u> <u>2019</u>
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	685,688	19,745	-	705,433
Office equipment	<u>32,950</u>	<u>-</u>	<u>-</u>	<u>32,950</u>
Total capital assets being depreciated	<u>20,015,892</u>	<u>19,745</u>	<u>-</u>	<u>20,035,637</u>
Less accumulated depreciation for:				
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	<u>32,950</u>	<u>-</u>	<u>-</u>	<u>32,950</u>
Total accumulated depreciation	<u>10,677,973</u>	<u>503,158</u>	<u>-</u>	<u>11,181,131</u>
Authority net sewer system	<u>9,337,919</u>	<u>(483,413)</u>	<u>-</u>	<u>8,854,506</u>
Sewer Fund depreciable assets:				
Equipment	<u>211,423</u>	<u>19,986</u>	<u>(1,120)</u>	<u>230,289</u>
Total capital assets being depreciated	<u>211,423</u>	<u>19,986</u>	<u>(1,120)</u>	<u>230,289</u>
Less accumulated depreciation for:				
Equipment	<u>171,755</u>	<u>15,491</u>	<u>(224)</u>	<u>187,022</u>
Total accumulated depreciation	<u>171,755</u>	<u>15,491</u>	<u>(224)</u>	<u>187,022</u>
Sewer Fund net equipment	<u>39,668</u>	<u>4,495</u>	<u>(896)</u>	<u>43,267</u>
Total sewer system and equipment	<u>\$ 9,377,587</u>	<u>\$ (478,918)</u>	<u>\$ (896)</u>	<u>\$ 8,897,773</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, 2018</u>	<u>Additions</u>	<u>Payments</u>	Balance Outstanding <u>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.	<u>\$ 4,706,106</u>	<u>\$ -</u>	<u>\$ (290,962)</u>	\$ 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	Borough of		Combined
	<u>Kane Authority</u>	<u>Kane Sewer Fund</u>	<u>Eliminations</u>	<u>Totals</u>
ASSETS				
CURRENT ASSETS				
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
	<u>2,123,857</u>	<u>365,910</u>	<u>(459,143)</u>	<u>2,030,624</u>
TOTAL CURRENT ASSETS				
NOTE RECEIVABLE FROM CUSTOMER	1,673	-	-	1,673
INVENTORY	5,343	-	-	5,343
CAPITAL ASSETS, NET				
Equipment	-	43,267	-	43,267
Sewer System	8,854,506	-	-	8,854,506
	<u>10,985,379</u>	<u>409,177</u>	<u>(459,143)</u>	<u>10,935,413</u>
TOTAL ASSETS				
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to pensions	-	140,736	-	140,736
	<u>-</u>	<u>140,736</u>	<u>-</u>	<u>140,736</u>
LIABILITIES				
CURRENT LIABILITIES				
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)	-
	<u>311,893</u>	<u>483,913</u>	<u>(451,500)</u>	<u>344,306</u>
TOTAL CURRENT LIABILITIES				
LONG-TERM LIABILITIES:				
Long-term debt	4,115,887	-	-	4,115,887
Net pension liability	-	117,486	-	117,486
Liability for compensated absences	-	54,386	-	54,386
	<u>4,115,887</u>	<u>171,872</u>	<u>-</u>	<u>4,287,759</u>
TOTAL LONG-TERM LIABILITIES				
	<u>4,427,780</u>	<u>655,785</u>	<u>(451,500)</u>	<u>4,632,065</u>
TOTAL LIABILITIES				
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to pensions	-	50,113	-	50,113
	<u>-</u>	<u>50,113</u>	<u>-</u>	<u>50,113</u>
NET POSITION				
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
	<u>6,557,599</u>	<u>(155,985)</u>	<u>(7,643)</u>	<u>6,393,971</u>
TOTAL NET POSITION				

See accompanying notes to financial statements

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	
OPERATING REVENUES					
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)	-	
TOTAL OPERATING REVENUES	721,173	1,432,805	(720,000)	1,433,978	
OPERATING EXPENSES					
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)	-	
TOTAL OPERATING EXPENSES	541,639	1,430,667	(720,000)	1,252,306	
OPERATING INCOME	179,534	2,138	-	181,672	
NON-OPERATING REVENUES (EXPENSES)					
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)	
TOTAL NON-OPERATING REVENUES (EXPENSES)	(129,734)	(566)	-	(130,300)	
CHANGE IN NET POSITION	49,800	1,572	-	51,372	
NET POSITION, Beginning of year	6,507,799	(157,557)	(7,643)	6,342,599	
NET POSITION, End of year	\$ 6,557,599	\$ (155,985)	\$ (7,643)	\$ 6,393,971	

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	
CASH FLOWS FROM OPERATING ACTIVITIES:					
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>	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
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>	
CASH FLOWS FROM INVESTING ACTIVITIES:					
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>	
Reconciliation of operating income to net cash provided by operating activities:					
Operating income	\$ 179,534	\$ 2,138	\$ -	\$ 181,672	
Adjustments to reconcile operating income to net cash provided by operating activities:					
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.

**Application of Pennsylvania-American Water Company for Acquisition of
the Wastewater Assets of the Borough of Kane Authority
66 Pa. C.S. § 1329
Application Filing Checklist – Water/Wastewater
Docket No. A-2019-3014248**

19. Cost of Service.
- b. Provide a copy of the seller's two most recent adopted budgets.

RESPONSE:

- b. See enclosed adopted budget of the Borough of Kane's Sewer fund, which shows the budgeted revenue and expenditures for the Authority's system in 2018 and 2019.

Borough of Kane - Sewer Fund Sewer Fund Budget Report January through December 2018

	Jan - Dec 18	Budget	% of Budget
Income			
REVENUE			
340 · INTEREST/RENTS/ROYALTIES			
341.00 · Interest Earnings			
SEWER FUND	28.10		
341.00 · Interest Earnings - Other	301.96	150.00	201.3%
Total 341.00 · Interest Earnings	330.06	150.00	220.0%
Total 340 · INTEREST/RENTS/ROYALTIES	330.06	150.00	220.0%
360 · CHARGES FOR SERVICES			
364.00 · Other Charges for Sanitation			
361.60 · No Lien Letters	180.00	150.00	120.0%
364.01 · Recovery of Bad Debts	703.04	500.00	140.6%
364.04 · Connection Fees	0.00	1,000.00	0.0%
364.05 · Other Sewer Revenue	364.40	2,400.00	15.2%
364.17 · Grinder Pump Repairs	11,643.80	5,000.00	232.9%
Total 364.00 · Other Charges for Sanitation	12,891.24	9,050.00	142.4%
364.10 · Wastewater/Sewer Charges			
364.15 · Sludge Disposal	3,970.00	3,000.00	132.3%
364.10 · Wastewater/Sewer Charges - Other	1,414,681.07	1,388,000.00	101.9%
Total 364.10 · Wastewater/Sewer Charges	1,418,651.07	1,391,000.00	102.0%
Total 360 · CHARGES FOR SERVICES	1,431,542.31	1,400,050.00	102.2%
365.00 · HEALTH			
365.30 · Employee Health Ins. Premiums	0.00	2,000.00	0.0%
Total 365.00 · HEALTH	0.00	2,000.00	0.0%
Total REVENUE	1,431,872.37	1,402,200.00	102.1%
Total Income	1,431,872.37	1,402,200.00	102.1%
Gross Profit	1,431,872.37	1,402,200.00	102.1%
Expense			
EXPENDITURES			
426 · PUBLIC WORKS- SANITATION			
429.00 · Wastewater Collection Treatment			
429.000 · Salaries- Full Time	166,889.56	168,000.00	99.3%
429.01 · Salaries- Manager	24,980.81	25,000.00	99.9%
429.02 · Salaries- Part Time	360.00	3,000.00	12.0%
429.03 · Salaries- Administrative	39,343.16	39,150.00	100.5%
429.05 · Salaries- Overtime	9,227.26	12,500.00	73.8%
429.10 · Materials	35,937.26	35,000.00	102.7%
429.11 · Maintenance	42,006.40	55,000.00	76.4%
429.12 · Property Maintenance	4,400.00	5,000.00	88.0%
429.13 · Vehicle Maintenance	1,086.05	4,082.00	26.6%
429.14 · System Maintenance- Materials	385.00	3,500.00	11.0%
429.15 · System Maintenance- Labor	0.00	6,000.00	0.0%
429.30 · Communications			
0737 · Cell Phones	1,098.15		
1 · Zito Media	2,750.79		
2 · Pump Stations	3,465.00		
429.30 · Communications - Other	7,130.71	16,000.00	44.6%
Total 429.30 · Communications	14,444.65	16,000.00	90.3%
429.41 · Water			
0132671 · Pine Street	2,240.74		
0133064 · Kinzua Road	2,653.32		
429.41 · Water - Other	0.00	6,000.00	0.0%

Borough of Kane - Sewer Fund Sewer Fund Budget Report January through December 2018

	Jan - Dec 18	Budget	% of Budget
Total 429.41 · Water	4,894.06	6,000.00	81.6%
429.42 · Gasoline/ Oil	2,102.24	3,000.00	70.1%
429.43 · Electric- WWTP			
05150-1 · Pine Street	34,480.84		
21950-1 · Kinzua Road	37,206.72		
429.43 · Electric- WWTP - Other	0.00	83,000.00	0.0%
Total 429.43 · Electric- WWTP	71,687.56	83,000.00	86.4%
429.44 · Electric- Pump Station			
02510-1 · West Kane Road- #1	513.60		
04150-1 · Pond Street- #4	2,325.92		
05400-1 · Grinder Pump	116.89		
06050-1 · Rt 321 S- #5	4,117.43		
07950 · Willow Run Road	361.91		
10550-1 · Rt 6- #6	866.45		
13450-1 · Rt 66- #2 (3 Phase)	5,342.74		
19450-1 · West Wind Road- #3	955.65		
429.44 · Electric- Pump Station - Other	0.00	19,000.00	0.0%
Total 429.44 · Electric- Pump Station	14,600.59	19,000.00	76.8%
429.50 · Sludge Removal	21,521.83	35,000.00	61.5%
429.55 · Engineering Service	0.00	2,500.00	0.0%
429.60 · Testing/ Analysis	42,216.09	35,000.00	120.6%
429.61 · Lab Supplies	1,453.05	2,500.00	58.1%
429.70 · Training	1,782.00	1,500.00	118.8%
429.73 · Fuel - Natural Gas			
5001 · Kinzua Road	8,278.34		
6001 · Pine Street	10,215.56		
429.73 · Fuel - Natural Gas - Other	0.00	20,000.00	0.0%
Total 429.73 · Fuel - Natural Gas	18,493.90	20,000.00	92.5%
429.75 · Office Supplies/ Postage	7,210.65	10,000.00	72.1%
429.80 · Grinder Pump Repair	4,355.53	10,000.00	43.6%
429.81 · Minor Equipment	0.00	900.00	0.0%
429.92 · Employee- Drug Testing	133.31	200.00	66.7%
429.95 · Usage Data/Sewer Billing			
001 · Usage data	4,294.35		
002 · Sewer Billing	20,108.54		
429.95 · Usage Data/Sewer Billing - Other	0.00	27,000.00	0.0%
Total 429.95 · Usage Data/Sewer Billing	24,402.89	27,000.00	90.4%
Total 429.00 · Wastewater Collection Treatment	553,913.85	627,832.00	88.2%
Total 426 · PUBLIC WORKS- SANITATION	553,913.85	627,832.00	88.2%
480 · EMPLOYER PD BENEFITS/ WITHHOLDI			
429.21 · Workers' Compensation Insurance	16,641.98	16,000.00	104.0%
481.00 · Withholding Taxes/ Unempl Comp			
SEWER FUND			
429.23 · FICA	18,421.34	20,000.00	92.1%
429.29 · Unemployment Compensation	0.00	1,300.00	0.0%
429.96 · Pension/Retirement Fund Contrib	0.00	16,858.00	0.0%
Total SEWER FUND	18,421.34	38,158.00	48.3%
Total 481.00 · Withholding Taxes/ Unempl Comp	18,421.34	38,158.00	48.3%
487.00 · Group Insurance/ Other Benefits			
SEWER FUND			
429.24 · BC/ BS	57,067.43	66,000.00	86.5%
429.25 · BC/BS Reimbursements	4,162.07	6,000.00	69.4%
429.26 · Dental	1,900.92	2,000.00	95.0%
429.27 · Life/ Disability Insurance	1,114.59	1,000.00	111.5%

Borough of Kane - Sewer Fund Sewer Fund Budget Report January through December 2018

	Jan - Dec 18	Budget	% of Budget
429.31 · Vision	596.70	850.00	70.2%
Total SEWER FUND	64,841.71	75,850.00	85.5%
Total 487.00 · Group Insurance/ Other Benefits	64,841.71	75,850.00	85.5%
Total 480 · EMPLOYER PD BENEFITS/ WITHHOLDI	99,905.03	130,008.00	76.8%
486 · INSURANCE			
SEWER			
429.20 · Property Liability Insurance	12,059.20	14,625.00	82.5%
429.22 · Auto Insurance	592.73	1,816.00	32.6%
Total SEWER	12,651.93	16,441.00	77.0%
Total 486 · INSURANCE	12,651.93	16,441.00	77.0%
491 · OTHER FINANCING USES			
493.10 · Sewer Exp - Transfer to KBA	720,000.00	627,919.00	114.7%
Total 491 · OTHER FINANCING USES	720,000.00	627,919.00	114.7%
Total EXPENDITURES	1,386,470.81	1,402,200.00	98.9%
Total Expense	1,386,470.81	1,402,200.00	98.9%
Net Income	45,401.56	0.00	100.0%

Borough of Kane - Sewer Fund Sewer Fund Budget Report January 1 through November 8, 2019

	Jan 1 - Nov 8, 19	Budget	% of Budget
Income			
REVENUE			
340 · INTEREST/RENTS/ROYALTIES			
341.00 · Interest Earnings			
SEWER FUND	276.15	0.00	100.0%
341.00 · Interest Earnings - Other	0.00	150.00	0.0%
Total 341.00 · Interest Earnings	276.15	150.00	184.1%
340 · INTEREST/RENTS/ROYALTIES - Other	0.00	0.00	0.0%
Total 340 · INTEREST/RENTS/ROYALTIES	276.15	150.00	184.1%
360 · CHARGES FOR SERVICES			
364.00 · Other Charges for Sanitation			
361.60 · No Lien Letters	160.00	150.00	106.7%
364.01 · Recovery of Bad Debts	831.36	500.00	166.3%
364.04 · Connection Fees	0.00	1,000.00	0.0%
364.05 · Other Sewer Revenue	3,491.58	2,400.00	145.5%
364.17 · Grinder Pump Repairs	7,161.21	5,000.00	143.2%
364.00 · Other Charges for Sanitation - Other	0.00	0.00	0.0%
Total 364.00 · Other Charges for Sanitation	11,644.15	9,050.00	128.7%
364.10 · Wastewater/Sewer Charges			
364.15 · Sludge Disposal	2,982.00	3,000.00	99.4%
364.10 · Wastewater/Sewer Charges - Other	1,220,213.95	1,415,760.00	86.2%
Total 364.10 · Wastewater/Sewer Charges	1,223,195.95	1,418,760.00	86.2%
360 · CHARGES FOR SERVICES - Other	0.00	0.00	0.0%
Total 360 · CHARGES FOR SERVICES	1,234,840.10	1,427,810.00	86.5%
365.00 · HEALTH			
365.30 · Employee Health Ins. Premiums	2,944.56	2,000.00	147.2%
365.00 · HEALTH - Other	0.00	0.00	0.0%
Total 365.00 · HEALTH	2,944.56	2,000.00	147.2%
REVENUE - Other	0.00	0.00	0.0%
Total REVENUE	1,238,060.81	1,429,960.00	86.6%
Total Income	1,238,060.81	1,429,960.00	86.6%
Gross Profit	1,238,060.81	1,429,960.00	86.6%
Expense			
EXPENDITURES			
426 · PUBLIC WORKS- SANITATION			
429.00 · Wastewater Collection Treatment			
429.000 · Salaries- Full Time	145,992.00	167,570.00	87.1%
429.01 · Salaries- Manager	21,153.88	25,000.00	84.6%
429.02 · Salaries- Part Time	890.00	3,000.00	29.7%
429.03 · Salaries- Administrative	36,156.48	41,221.00	87.7%
429.05 · Salaries- Overtime	6,142.53	10,000.00	61.4%
429.10 · Materials			
*1 · Uniforms	916.98	0.00	100.0%
429.10 · Materials - Other	34,065.55	35,000.00	97.3%
Total 429.10 · Materials	34,982.53	35,000.00	100.0%
429.11 · Maintenance	46,340.95	50,000.00	92.7%
429.12 · Property Maintenance	8,728.21	5,000.00	174.6%
429.13 · Vehicle Maintenance			
Veh #1 · Vac Truck	2,334.59	0.00	100.0%
Veh #2 · 2019 F150 Truck	927.88	0.00	100.0%
Veh #3 · F350 Truck	113.12	0.00	100.0%
429.13 · Vehicle Maintenance - Other	599.68	4,082.00	14.7%

**Borough of Kane - Sewer Fund
 Sewer Fund Budget Report
 January 1 through November 8, 2019**

	Jan 1 - Nov 8, 19	Budget	% of Budget
Total 429.13 · Vehicle Maintenance	3,975.27	4,082.00	97.4%
429.14 · System Maintenance- Materials	3,645.25	3,500.00	104.2%
429.15 · System Maintenance- Labor	1,923.50	6,000.00	32.1%
429.30 · Communications			
0737 · Cell Phones	1,102.61	0.00	100.0%
1 · Zito Media	2,140.80	0.00	100.0%
2 · Pump Stations	2,520.00	0.00	100.0%
429.30 · Communications - Other	6,781.15	16,000.00	42.4%
Total 429.30 · Communications	12,544.56	16,000.00	78.4%
429.41 · Water			
0132671 · Pine Street	1,945.08	0.00	100.0%
0133064 · Kinzua Road	2,103.17	0.00	100.0%
429.41 · Water - Other	0.00	6,000.00	0.0%
Total 429.41 · Water	4,048.25	6,000.00	67.5%
429.42 · Gasoline/ Oil	2,015.36	3,000.00	67.2%
429.43 · Electric- WWTP			
05150-1 · Pine Street	32,564.84	0.00	100.0%
21950-1 · Kinzua Road	35,600.44	0.00	100.0%
429.43 · Electric- WWTP - Other	0.00	78,000.00	0.0%
Total 429.43 · Electric- WWTP	68,165.28	78,000.00	87.4%
429.44 · Electric- Pump Station			
02510-1 · West Kane Road- #1	408.97	0.00	100.0%
04150-1 · Pond Street- #4	1,881.99	0.00	100.0%
05400-1 · Grinder Pump	95.37	0.00	100.0%
06050-1 · Rt 321 S- #5	4,047.21	0.00	100.0%
07950 · Willow Run Road	298.23	0.00	100.0%
10550-1 · Rt 6- #6	843.15	0.00	100.0%
13450-1 · Rt 66- #2 (3 Phase)	5,574.17	0.00	100.0%
19450-1 · West Wind Road- #3	816.53	0.00	100.0%
429.44 · Electric- Pump Station - Other	0.00	16,000.00	0.0%
Total 429.44 · Electric- Pump Station	13,965.62	16,000.00	87.3%
429.50 · Sludge Removal	27,189.66	20,000.00	135.9%
429.55 · Engineering Service	0.00	2,500.00	0.0%
429.60 · Testing/ Analysis	27,270.45	35,000.00	77.9%
429.61 · Lab Supplies	1,682.21	2,500.00	67.3%
429.70 · Training	1,098.09	1,500.00	73.2%
429.73 · Fuel - Natural Gas			
5001 · Kinzua Road	7,640.13	0.00	100.0%
6001 · Pine Street	9,911.85	0.00	100.0%
429.73 · Fuel - Natural Gas - Other	0.00	20,000.00	0.0%
Total 429.73 · Fuel - Natural Gas	17,551.98	20,000.00	87.8%
429.75 · Office Supplies/ Postage	5,962.32	10,000.00	59.6%
429.80 · Grinder Pump Repair	1,555.95	10,000.00	15.6%
429.81 · Minor Equipment	0.00	900.00	0.0%
429.92 · Employee- Drug Testing	48.63	200.00	24.3%
429.95 · Usage Data/Sewer Billing			
001 · Usage data	5,661.00	0.00	100.0%
002 · Sewer Billing	16,827.42	0.00	100.0%
429.95 · Usage Data/Sewer Billing - Other	0.00	27,000.00	0.0%
Total 429.95 · Usage Data/Sewer Billing	22,488.42	27,000.00	83.3%
429.00 · Wastewater Collection Treatment - Other	0.00	0.00	0.0%
Total 429.00 · Wastewater Collection Treatment	515,517.38	598,973.00	86.1%
426 · PUBLIC WORKS- SANITATION - Other	0.00	0.00	0.0%

Borough of Kane - Sewer Fund Sewer Fund Budget Report January 1 through November 8, 2019

	Jan 1 - Nov 8, 19	Budget	% of Budget
Total 426 · PUBLIC WORKS- SANITATION	515,517.38	598,973.00	86.1%
480 · EMPLOYER PD BENEFITS/ WITHHOLDI			
429.21 · Workers' Compensation Insurance			
484.20 · SEWER FUND	0.00	0.00	0.0%
429.21 · Workers' Compensation Insurance - Other	14,203.08	16,000.00	88.8%
Total 429.21 · Workers' Compensation Insurance	14,203.08	16,000.00	88.8%
481.00 · Withholding Taxes/ Unempl Comp			
SEWER FUND			
429.23 · FICA	16,090.95	20,000.00	80.5%
429.29 · Unemployment Compensation	0.00	1,300.00	0.0%
429.96 · Pension/Retirement Fund Contrib	0.00	16,858.00	0.0%
SEWER FUND - Other	0.00	0.00	0.0%
Total SEWER FUND	16,090.95	38,158.00	42.2%
Total 481.00 · Withholding Taxes/ Unempl Comp	16,090.95	38,158.00	42.2%
487.00 · Group Insurance/ Other Benefits			
SEWER FUND			
429.24 · BC/ BS	58,029.94	66,000.00	87.9%
429.25 · BC/BS Reimbursements	4,583.09	6,000.00	76.4%
429.26 · Dental	1,663.90	2,000.00	83.2%
429.27 · Life/ Disability Insurance	962.64	1,000.00	96.3%
429.31 · Vision	607.01	850.00	71.4%
SEWER FUND - Other	0.00	0.00	0.0%
Total SEWER FUND	65,846.58	75,850.00	86.8%
487.00 · Group Insurance/ Other Benefits - Other	0.00	0.00	0.0%
Total 487.00 · Group Insurance/ Other Benefits	65,846.58	75,850.00	86.8%
480 · EMPLOYER PD BENEFITS/ WITHHOLDI - Other	0.00	0.00	0.0%
Total 480 · EMPLOYER PD BENEFITS/ WITHHOLDI	96,140.61	130,008.00	73.9%
486 · INSURANCE			
SEWER			
429.20 · Property Liability Insurance	10,967.67	10,600.00	103.5%
429.22 · Auto Insurance	1,500.00	1,500.00	100.0%
SEWER - Other	0.00	0.00	0.0%
Total SEWER	12,467.67	12,100.00	103.0%
486 · INSURANCE - Other	0.00	0.00	0.0%
Total 486 · INSURANCE	12,467.67	12,100.00	103.0%
491 · OTHER FINANCING USES			
493.10 · Sewer Exp - Transfer to KBA	574,065.80	688,879.00	83.3%
491 · OTHER FINANCING USES - Other	0.00	0.00	0.0%
Total 491 · OTHER FINANCING USES	574,065.80	688,879.00	83.3%
EXPENDITURES - Other	0.00	0.00	0.0%
Total EXPENDITURES	1,198,191.46	1,429,960.00	83.8%
Total Expense	1,198,191.46	1,429,960.00	83.8%
Net Income	<u>39,869.35</u>	<u>0.00</u>	<u>100.0%</u>

**Application of Pennsylvania-American Water Company for Acquisition of
the Wastewater Assets of the Borough of Kane Authority
66 Pa. C.S. § 1329
Application Filing Checklist – Water/Wastewater
Docket No. A-2019-3014248**

19. Cost of Service.
- c. Provide a copy of the seller's most recent annual report filed with the Commonwealth's Department of Community and Economic Development.

RESPONSE:

- c. See enclosed the 2019 annual report that the Borough of Kane filed, on behalf of Kane Borough Authority, with the Commonwealth's Department of Community and Economic Development.

2019 ANNUAL REPORT OF MUNICIPAL AUTHORITIES AND NEIGHBORHOOD IMPROVEMENT DISTRICTS

KANE BORO AUTHORITY 420728

PRIMARY INFORMATION

Information on file	
Name:	KANE BORO AUTHORITY
Address:	PO BOX 79
	KANE, PA 16735
Phone:	(814) 837-9240
Fax:	
Contact Person:	DAVID PETERSON
Title:	CHAIRMAN
Email:	
Year Authority Organized	1963
Year Authority Terminates	2044
Fiscal Year Ends (month/day):	03/31
Number of Employees	
Full Time Equivalent:	0
Part Time Equivalent:	0
Filing Status:	Active
Facility Type:	
Sewer	

KANE BORO AUTHORITY**OFFICIALS LIST (CURRENT OFFICIALS)**

President	DAVE PETERSON
Address:	PO BOX 79 KANE, PA 16735
Phone:	(814) 837-9240
Fax:	
e-mail:	
Secretary	ED SLEEMAN
Address:	PO BOX 79 KANE, PA 16735
Phone:	(814) 837-9240
Fax:	
e-mail:	
Treasurer	ED SLEEMAN
Address:	PO BOX 79 KANE, PA 16735
Phone:	(814) 837-9240
Fax:	
e-mail:	
Solicitor	ERIK ROSS
Address:	PO BOX 360 67 FRALEY STREET KANE, PA 16735
Phone:	(814) 837-8720
Fax:	
e-mail:	

KANE BORO AUTHORITY

GEOGRAPHICAL AREAS SERVED

Municipality Name

KANE BORO

WETMORE TWP

County

MCKEAN

MCKEAN

KANE BORO AUTHORITY
**STATEMENT OF NET POSITION
FOR THE FISCAL YEAR ENDING 2019**

CURRENT ASSETS	
Cash and cash equivalents	235,398
Investments	1,407,913
Receivables (net of allowance for uncollectibles)	459,143
Lease rental payments receivable (Financing authorities, only)	
Due from other governments	
Inventories	
Prepays	
Restricted current assets:	
Cash or cash equivalents	
Investments	
Lease rental payments receivable (Financing authorities, only)	
Intergovernmental receivables	
Other current assets	21,403
TOTAL CURRENT ASSETS	2,123,857

NON-CURRENT ASSETS	
Restricted non-current assets:	
Investments	
Lease rental payments receivable (Financing authorities, only)	
Capital assets not being depreciated:	
Land	
Construction in progress	
Capital assets net of accumulated depreciation:	
Buildings and system	8,719,489
Improvements other than buildings	
Furnishings, machinery and equipment	135,017
Infrastructure	
Lease rental payments receivable (Financing authorities, only)	
Other non-current assets	7,016
TOTAL NON-CURRENT ASSETS	8,861,522
TOTAL ASSETS	10,985,379

DEFERRED OUTFLOWS OF RESOURCES

Deferred amount of debt refundings	
Deferrals related to pensions	
Other deferred outflows of resources	
TOTAL DEFERRED OUTFLOWS OF RESOURCES	0
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	10,985,379

CURRENT LIABILITIES

Accounts payable	1,877
Accrued payroll and withholdings	
Accrued interest payable	10,759
Due to other governments	
Unearned revenue	
Funds held as fiduciary	
Debt due within one year	299,257
Other current liabilities	
TOTAL CURRENT LIABILITIES	311,893

NON-CURRENT LIABILITIES

Debt due in more than one year	4,115,887
Net pension liabilities	
Other non-current liabilities	
TOTAL NON-CURRENT LIABILITIES	4,115,887
TOTAL LIABILITIES	4,427,780

DEFERRED INFLOWS OF RESOURCES

Deferred amount on debt refundings	
Deferrals related to pensions	
Other deferred inflows of resources	
TOTAL DEFERRED INFLOWS OF RESOURCES	0
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	4,427,780

NET POSITION

Net investment in capital assets	4,439,362
Restricted	
Unrestricted	2,118,237
TOTAL NET POSITION	6,557,599
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES AND NET POSITION	10,985,379

KANE BORO AUTHORITY
Sewer
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDING 2019

SEWER OPERATING REVENUES	
Charges for service	720,000
Lease rental income (Financing authorities, only)	
Operating grants:	
Federal	
State	
Local	
Other	
Contributions	
Interest income	
Assessment revenue*	
Payments in lieu of assessments*	
Program income*	
Other operating revenue	1,173
TOTAL SEWER OPERATING REVENUES	721,173

SEWER OPERATING EXPENSES	
Administrative	8,971
Contracted services	
Personnel services	
Supplies and materials	2,438
Repairs and maintenance	2,168
Utilities	
Other services and charges	14,904
Depreciation and amortization	503,158
Fundraising*	
Program services*	
Other operating expenses	10,000
TOTAL SEWER OPERATING EXPENSES	541,639
SEWER OPERATING INCOME (LOSS)	179,534

SEWER NONOPERATING REVENUES / (EXPENSES)	
Nonoperating grants:	
Federal	
State	

Local	
Other	
Investment earnings / (losses)	28,024
Interest expense	(129,744)
Gain / (loss) on sale of assets	
Other financing sources / (uses)	
Other nonoperating revenues	
Other nonoperating (expenses)	(28,014)
Debt service principal and interest (expense)**	
TOTAL SEWER NONOPERATING REVENUES (EXPENSES)	(129,734)

CAPITAL CONTRIBUTIONS	
CHANGE IN NET POSITION	49,800
NET POSITION - BEGINNING OF YEAR	6,507,799
PRIOR PERIOD ADJUSTMENT	
SEWER NET POSITION - END OF YEAR	6,557,599

*Business/Neighborhood Improvement Districts

**See the *Annual Report of Municipal Authorities and Neighborhood Improvement Districts Tip Sheet* available from your Start Page.

KANE BORO AUTHORITY

**DEBT STATEMENT
FISCAL YEAR ENDING 2019**

Purpose	Issuance Type	Issue Year (YYYY)	Maturity Year (YYYY)	Original Amount of Issue	Outstanding Beginning of Year	Principal Incurred This Year	Principal Paid This Year	Current Year Accretion on Compound Interest Bonds	Outstanding at Year End
General Obligation Bonds and Notes									
04	Note	2013	2033	6,000,000	4,706,106	0	290,962	0	\$4,415,144
Total Bonds and Notes Outstanding									\$4,415,144
Capitalized Lease Obligations									\$0
Plus (Less) Unamortized Premium (Discount)									0
NET DEBT									\$4,415,144

KANE BORO AUTHORITY

SIGNATURE AND VERIFICATION

I certify that the foregoing information is correct and complete for the 2019 fiscal year.

Name: Haines & Company

Title: CPA

Phone: (814) 723-7741

**Application of Pennsylvania-American Water Company for Acquisition of
the Wastewater Assets of the Borough of Kane Authority
66 Pa. C.S. § 1329
Application Filing Checklist – Water/Wastewater
Docket No. A-2019-3014248**

19. Cost of Service.
- d. Provide calculations quantifying the projected revenues and expenses for the acquisition.

RESPONSE:

- d. The projected revenues and expenses for the acquisition are enclosed at **Appendix K**.

**Application of Pennsylvania-American Water Company for Acquisition of
the Wastewater Assets of the Borough of Kane Authority
66 Pa. C.S. § 1329
Application Filing Checklist – Water/Wastewater
Docket No. A-2019-3014248**

19. Cost of Service.
- e. State whether the seller has any outstanding loans on the utility plant and identify the nature, terms, and payment history.

RESPONSE:

- e. The Authority has approximately \$4.4 million in debt as of March 31, 2019; all of which is associated with the System. This information is found at Note E on pages 13-14 of the Authority's 2019-audited financial statement, which provides details of its outstanding debt and related debt service obligations. A copy of the audited financial statements provided by the Authority is attached at **Appendix A-19-a**. This is the most current information from the Authority that is available.