

PRELIMINARY OFFICIAL STATEMENT DATED APRIL 12, 2019

NEW ISSUE -- BOOK-ENTRY ONLY

Rating: See "Rating" herein.

In the opinion of Bond Counsel, under existing statutes, regulations, rulings and court decisions, interest on the Bonds, including interest accruing in the form of original issue discount, will not be includible in gross income of the holders thereof for federal income tax purposes, assuming continuing compliance by the Authority with the requirements of the Internal Revenue Code of 1986, as amended. Interest on the Bonds will not be a specific preference for purposes of computing the federal alternative minimum tax on individuals. Under the laws of the Commonwealth of Pennsylvania, as enacted and construed on the date hereof, interest on the Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax, and the Bonds are exempt from personal property taxes in Pennsylvania. See "TAX MATTERS" herein.

\$6,795,000*
BRADFORD CITY WATER AUTHORITY
(McKean County, Pennsylvania)
Water Revenue Bonds, Series of 2019

Dated: Date of Delivery

Principal Due: October 1, as shown herein

Interest Payable: April 1 and October 1

First Interest Payment: October 1, 2019

Bradford City Water Authority (the "Authority") will issue its Water Revenue Bonds, Series of 2019 (the "Bonds"), as fully registered bonds in the denominations of \$5,000 and any integral multiple thereof. The Bonds are being issued as fully registered securities and, when issued, will be registered in the name of Cede & Co., as the registered owner and nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Purchases of the Bonds may be made in book-entry-only form and purchasers (the "Beneficial Owners") will not receive certificates representing their interests in the Bonds. So long as DTC, or its nominee, Cede & Co., or any other nominee of DTC, is the registered owner of the Bonds, payments of the principal of, redemption premium, if any, and interest on the Bonds will be made by U.S. Bank National Association, as Trustee (the "Trustee"), directly to Cede & Co. Disbursement of such payments to DTC Participants is the responsibility of DTC, and disbursement of such payments to Beneficial Owners of the Bonds is the responsibility of DTC Participants and Indirect Participants. See "BOOK-ENTRY-ONLY SYSTEM" herein.

The Bonds are subject to optional and mandatory redemption prior to maturity as more fully set forth herein.

The proceeds of the Bonds will be used for and towards: (i) refunding, on a current period basis, all of the Authority's outstanding Water Revenue Bonds, Series of 2014; (ii) paying the premiums of a debt service reserve fund surety bond and insurance policy; and (iii) paying the costs and expenses of issuing the Bonds.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by _____.

[insurance logo]

MATURITY DATES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS AND PRICES
ARE DISPLAYED INSIDE THE FRONT COVER

The Bonds will be issued pursuant to and secured by the provisions of the Authority's Trust Indenture, dated as of September 15, 1985, as amended and supplemented by a First Supplemental Indenture dated as of August 15, 1986, a Second Supplemental Indenture, dated as of July 15, 1992, a Third Supplemental Indenture, dated as of July 15, 1997, a Fourth Supplemental Indenture, dated as of August 15, 2002, a Fifth Supplemental Indenture, dated as of June 15, 2008, a Sixth Supplemental Indenture, dated as of March 15, 2014, and as further amended and supplemented by a Seventh Supplemental Indenture, dated as of May 16, 2019 (collectively, the "Indenture"), between the Authority and U.S. Bank National Association as Trustee, as more fully described herein. The principal of, redemption premium, if any, and the interest on the Bonds shall be payable solely from the Receipts and Revenues from the Water System, as said phrase is defined in the Indenture to the extent and in the manner provided in the Indenture, as more fully described herein. The principal, redemption premium, if any, and the interest on the Bonds shall also be payable from other receipts, revenues and monies of the Authority as may be made available for such purposes, to the extent and in the manner provided in the Indenture, as more fully described herein. (See "SECURITY FOR THE BONDS" herein).

THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY AND NEITHER THE CREDIT OR TAXING POWER OF ANY POLITICAL SUBDIVISION SERVED BY THE AUTHORITY, THE CITY OF BRADFORD, THE COUNTY OF MCKEAN, THE COMMONWEALTH OF PENNSYLVANIA, OR ANY AGENCY OR POLITICAL SUBDIVISION THEREOF, IS PLEDGED TO PAY THE PRINCIPAL OF AND INTEREST ON THE BONDS. THE AUTHORITY HAS NO TAXING POWER.

For more complete information with respect to the security for and sources of payment of the Bonds and certain risks with respect thereto, see "SECURITY FOR THE BONDS" herein.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement including the Appendices hereto to obtain information essential to making an informed investment decision.

The Bonds are offered, subject to prior sale, withdrawal or modification, when, as and if issued by the Authority and received by _____ (the "Underwriter") and subject to receipt of the legal opinion of Eckert Seamans Cherin & Mellott, LLC, Harrisburg, Pennsylvania, Bond Counsel. Said opinion will be furnished upon delivery of the Bonds. Certain legal matters will be passed upon for the Authority by Lang & Hvizdzak, PLLC, Bradford, Pennsylvania, Solicitor for the Authority. Concord Public Financial Advisors, Inc., Lancaster, Pennsylvania, has acted as financial advisor in connection with the issuance of the Bonds. It is expected that the Bonds will be available for delivery in New York, New York, on or about _____, 2019.

Dated: _____, 2019

*Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion, amendment or other changes without notice. The Bonds may not be sold nor may offers to buy be accepted prior to the time of the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of Bonds in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the applicable securities laws of any such jurisdiction.

\$6,795,000*
BRADFORD CITY WATER AUTHORITY
(McKean County, Pennsylvania)
Water Revenue Bonds, Series of 2019

Dated: Date of Delivery

Principal Due: October 1, as shown below

Interest Payable: April 1 and October 1

First Interest Payment: October 1, 2019

| <u>Year</u> <u>(October 1)</u> | <u>Principal</u> <u>Amount</u> | <u>Interest</u> <u>Rate</u> | <u>Yield</u> | <u>Price</u> | <u>CUSIP</u> ¹ |
|-----------------------------------|-----------------------------------|--------------------------------|--------------|--------------|---------------------------|
|-----------------------------------|-----------------------------------|--------------------------------|--------------|--------------|---------------------------|

\$ _____ % Term Bonds due October 1, _____ – Yield _____ % – Price _____ % – CUSIP

\$ _____ % Term Bonds due October 1, _____ – Yield _____ % – Price _____ % – CUSIP

*Preliminary, subject to change.

¹The CUSIP numbers shown above have been assigned to this issue by an organization not affiliated with the Authority and are included for the convenience of the holders of the Bonds only. Neither the Underwriter nor the Authority is responsible for the selection of the CUSIP numbers, nor is any representation made as to their correctness on the Bonds or as indicated herein.

BRADFORD CITY WATER AUTHORITY

28 Kennedy Street
Bradford, PA 16701

AUTHORITY MEMBERS

| <u>Name</u> | <u>Office</u> |
|----------------------------|---------------------------|
| Ronald L. Orris | Chairman |
| Thomas E. Arrowsmith | Vice Chairman |
| Richard W. Luther | Treasurer |
| Terry D. Lopus | Asst. Secretary/Treasurer |
| Robert P. Douglas | Asst. Treasurer/Secretary |

EXECUTIVE DIRECTOR

Stephen L. Disney

CONSULTING ENGINEER

Bankson Engineers, Inc.
Indianola, Pennsylvania

AUTHORITY SOLICITOR

Lang & Hvizdzak, PLLC
Bradford, Pennsylvania

BOND COUNSEL

Eckert Seamans Cherin & Mellott, LLC
Harrisburg, Pennsylvania

TRUSTEE

U.S. Bank National Association
Pittsburgh, Pennsylvania

FINANCIAL ADVISOR

Concord Public Financial Advisors, Inc.
Lancaster, Pennsylvania

UNDERWRITER

No broker-dealer, salesperson or other person has been authorized by Bradford City Water Authority or the Underwriter to give any information or to make any representations with respect to the Bonds, other than those in this Official Statement, and if given or made, such other information or representations must not be relied upon. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, and there shall not be any sale of the Bonds by any person in any state or other jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale prior to registration or qualification of the Bonds pursuant to the applicable laws of any such jurisdiction. The information set forth herein has been obtained from the Bradford City Water Authority and other sources that are believed to be reliable, but the Underwriter does not guarantee the accuracy or completeness of such information, and such information is not to be construed as a representation by the Underwriter. Any statement herein involving matters of opinion or forecasts of the occurrence of future events or circumstances are, whether or not expressly so stated, intended as such and not as representations of fact. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of Bradford City Water Authority since the date hereof.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME WITHOUT PRIOR NOTICE.

THE ORDER AND PLACEMENT OF THE MATERIALS IN THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES, ARE NOT TO BE DEEMED TO BE A DETERMINATION OF RELEVANCE, MATERIALITY OR IMPORTANCE, AND THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES, MUST BE CONSIDERED IN ITS ENTIRETY. THE OFFERING OF THE BONDS IS MADE ONLY BY MEANS OF THIS ENTIRE OFFICIAL STATEMENT.

THE UNDERWRITER HAS PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT. THE UNDERWRITER HAS REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS PART OF, THEIR RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITER DOES NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

THIS OFFICIAL STATEMENT IS SUBMITTED IN CONNECTION WITH THE SALE OF THE SECURITIES REFERRED TO HEREIN, AND MAY NOT BE REPRODUCED OR BE USED, IN WHOLE OR IN PART, FOR ANY OTHER PURPOSE. NEITHER THE DELIVERY OF THIS OFFICIAL STATEMENT NOR ANY SALE MADE HEREUNDER SHALL UNDER ANY CIRCUMSTANCES AT ANY TIME IMPLY THAT THE INFORMATION HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO ITS DATE.

Neither the Authority's independent auditors, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the forecasted information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the forecasted information.

If and when included in this Official Statement, the words "expects," "forecasts," "projects," "intends," "anticipates," "estimates," "assumes" and analogous expressions are intended to identify forward-looking statements and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those that have been projected. Such risks and uncertainties which could affect the revenues and obligations of the Authority include, among others, changes in economic conditions, mandates from other governments and various other events, conditions and circumstances, many of which are beyond the control of the Authority. Such forward-looking statements speak only as of the date of this Official Statement. The Authority disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any changes in the Authority's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

[insurance paragraph]

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\$6,795,000*
BRADFORD CITY WATER AUTHORITY
(McKean County, Pennsylvania)
Water Revenue Bonds, Series of 2019

INTRODUCTION

This Official Statement, including the cover page hereof and attached appendices, of Bradford City Water Authority (the “Authority”) provides certain information concerning the Authority and its \$6,795,000* Water Revenue Bonds, Series of 2019 (the “Bonds”). The Bonds are being issued by the Authority pursuant to the Constitution and laws of the Commonwealth of Pennsylvania, (the “Commonwealth”) including the Municipality Authorities Act of 1945 (P.L. 382, No. 164), as repealed and replaced by the Municipality Authorities Act, 53 Pa.C.S.A § 5601 *et seq.* (the “Act”), and the Bond Resolution adopted by the Authority on _____, 2019, and are secured under the Authority’s Trust Indenture dated as of September 15, 1985, as amended and supplemented by a First Supplemental Indenture, dated as of August, 15, 1986 (the “First Supplemental Indenture”), a Second Supplemental Indenture, dated as of July 15, 1992 (the “Second Supplemental Indenture”), a Third Supplemental Indenture (the “Third Supplemental Indenture”), dated as of July 15, 1997, a Fourth Supplemental Indenture (the “Fourth Supplemental Indenture”), dated as of August 15, 2002, a Fifth Supplemental Indenture (the “Fifth Supplemental Indenture”), dated as of June 15, 2008, a Sixth Supplemental Indenture (the “Sixth Supplemental Indenture”), dated as of March 15, 2014, and as further amended and supplemented by a Seventh Supplemental Indenture (the “Seventh Supplemental Indenture”), dated as of May 16, 2019 (hereinafter collectively, the “Indenture”), between the Authority and U.S. Bank National Association, as Trustee (the “Trustee”). Capitalized terms and phrases used in this Official Statement unless otherwise defined shall have the meanings ascribed to them in the Indenture.

The Bonds are limited obligations of the Authority, and neither the credit nor the taxing power of the United States of America, the Commonwealth of Pennsylvania (the “Commonwealth”), the City of Bradford, or any political subdivision thereof, other than the Authority, is pledged for the prompt payment, when due, of the principal of, redemption premium, if any, and the interest on the Bonds; nor shall any of the Bonds be deemed to be obligations of the United States of America, the Commonwealth, the City of Bradford, or any political subdivision thereof. The Authority has no taxing power.

PURPOSE OF THE ISSUE

The proceeds of the Bonds will be used for and towards: (i) refunding, on a current period basis, all of the Authority’s outstanding Water Revenue Bonds, Series of 2014 (“2014 Bonds”); (ii) paying the premiums of a debt service reserve fund surety bond and insurance policy; and (iii) paying the costs and expenses of issuing the Bonds.

*Preliminary, subject to change

Sources and Uses of Funds

Sources

| | |
|---------------------------------------|----|
| Bond Proceeds | \$ |
| Net Original Issue Premium/(Discount) | |
| Total Sources | \$ |

Uses

| | |
|---|----|
| Cost of Refunding | \$ |
| Debt Service Reserve Fund Surety Bond Premium | |
| Costs of Issuance(1) | |
| Total Uses | \$ |

(1) Includes underwriter's discount, all legal, financial advisory, printing, rating agency and trustee fees, municipal bond insurance and any other costs associated with the issuance of the Bonds.

Refunding Project

The 2014 Bonds consist of \$6,585,000 aggregate principal amount stated to mature or subject to mandatory redemption on October 1, 2020 through October 1, 2029. The Authority will deposit a portion of the proceeds of the Bonds with U.S. Bank National Association, as paying agent for the 2014 Bonds, which will redeem the 2014 Bonds on or within 90 days of the issuance of the Bonds.

THE BONDS

Description

The Bonds are being issued in the aggregate principal amount of \$6,795,000*, are dated as of their date of Delivery (the "Date of Delivery"), bear interest from that date at the rates shown on the inside cover page hereof, payable April 1 and October 1 of each year, beginning October 1, 2019, and mature on October 1 in each of the years shown on the inside cover page hereof.

The Bonds are available for purchase only in book-entry form. Beneficial ownership of the Bonds may be acquired, in denominations of \$5,000 principal amount or any integral multiple thereof, only under the book-entry system maintained by The Depository Trust Company ("DTC"), New York, New York, through brokers and dealers who are, or act through DTC Participants. The purchasers of the Bonds (the "Beneficial Owners") will not receive any physical delivery of bond certificates, and beneficial ownership of the Bonds will be evidenced only by book entries maintained by DTC.

*Preliminary, subject to change

Payment of Principal and Interest

When issued, the Bonds will be registered in the name of Cede & Co., as nominee for DTC. So long as Cede & Co., as nominee for DTC, is the registered owner of the Bonds, payments of principal of, redemption premium, if any, and interest on the Bonds, when due, are to be made by the Trustee to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC, and all such payments shall be valid and effective to satisfy fully and to discharge the obligations of the Authority with respect to, and to the extent of, principal, redemption premium, if any, and interest so paid.

If the use of a book-entry system for the Bonds is discontinued for any reason, bond certificates will be issued to the Beneficial Owners of the Bonds and payment of principal, redemption premium, if any, and interest on the Bonds shall be made as described in the following paragraphs.

Principal of the Bonds will be paid to the registered owners thereof or assigns, when due, upon surrender of the Bonds to the Trustee at its corporate trust office in Pittsburgh, Pennsylvania (or to any successor trustee at its designated office(s)).

Interest on any Bond held in physical, certificated form is payable to the registered owner of such Bond from the interest payment date next preceding the date of registration and authentication of the Bond, unless: (a) such Bond is registered and authenticated as of an interest payment date, in which event such Bond shall bear interest from said interest payment date; or (b) such Bond is registered and authenticated after a Record Date (hereinafter defined) and before the next succeeding interest payment date, in which event such Bond shall bear interest from such interest payment date; or (c) such Bond is registered and authenticated on or prior to the Record Date next preceding October 1, 2019, in which event such Bond shall bear interest from the Date of Delivery; or (d) as shown by the records of the Trustee, interest on such Bond shall be in default, in which event such Bond shall bear interest from the date to which interest was last paid on such Bond. Interest shall be paid semiannually on April 1 and October 1 of each year, beginning October 1, 2019, until the principal sum is paid. Interest on each Bond while held in physical, certificated form is payable by check drawn on the Trustee, which shall be mailed to the registered owner whose name and address shall appear, at the close of business on the fifteenth (15th) day (whether or not a day on which the Trustee is open for business) next preceding each interest payment date (the "Record Date"), on the registration books maintained by the Trustee, irrespective of any transfer or exchange of the Bond subsequent to such Record Date and prior to such interest payment date, unless the Authority shall be in default in payment of interest due on such interest payment date. In the event of any such default, such defaulted interest shall be payable to the person in whose name the Bond is registered at the close of business on a special record date for the payment of such defaulted interest established by notice mailed by the Trustee to the registered owners of the Bonds not less than fifteen (15) days preceding such special record date. Such notice shall be mailed to the persons in whose names the Bonds are registered at the close of business on the fifth (5th) day preceding the date of mailing.

If the date for the payment of the principal of or interest on any the Bonds shall be a Saturday, Sunday, legal holiday or on a day on which banking institutions in the municipality where the principal corporate trust office of the Trustee is located are authorized or required by law or

executive order to close, then the date for payment of such principal or interest shall be the next succeeding day which is not a Saturday, Sunday, legal holiday or a day on which such banking institutions are authorized or required to close, and payment on such date shall have the same force and effect as if made on the nominal date established for such payment.

Transfer, Exchange and Registration of the Bonds

When issued, the Bonds will be registered in the name of Cede & Co., as nominee for DTC. So long as Cede & Co., as nominee for DTC, is the registered owner of the Bonds, transfers of ownership interests in the Bond are to be accomplished by entries made on the books of DTC Participants acting on behalf of the Beneficial Owners. See “BOOK ENTRY ONLY SYSTEM” herein.

If the use of the Book Entry Only System is discontinued and bond certificates are issued, any Bond will be transferable or exchangeable by the registered owner thereof upon surrender of such Bond to the Trustee, accompanied by a written instrument or instruments in form, with instructions, and with guaranty of signature satisfactory to the Trustee, duly executed by the registered owner of such Bond or his attorney-in-fact or legal representative. The Trustee shall enter any transfer of ownership of such Bond in the registration books and shall authenticate and deliver at the earliest practicable time in the name of the transferee or transferees a new fully registered Bond or Bonds of authorized denominations of the same maturity for the aggregate amount which the registered owner is entitled to receive.

If and when use of the Book-Entry Only System has been discontinued, the Authority and the Trustee shall not be required (a) to issue or register the transfer of or exchange any Bonds then considered for redemption during a period beginning at the close of business on the fifteenth (15th) day next preceding any date of selection of Bonds to be redeemed and ending at the close of business on the day on which the applicable notice of redemption is mailed or (b) to register the transfer of or exchange any portion of any Bond selected for redemption until after the redemption date. Also, Bonds may then be exchanged for a like aggregate principal amount of Bonds of other authorized denominations of the same maturity and series designation.

REDEMPTION OF BONDS

Optional Redemption

The Bonds stated to mature on or after _____, are subject to redemption prior to maturity, at the option of the Authority, in whole or, in part, in any order of maturities selected by the Authority, on any time on or after _____, upon payment of a redemption price of 100% of the principal amount redeemed, plus interest accrued thereon to the redemption date.

Mandatory Sinking Fund Redemption

The Bonds maturing on October 1, ____ and October 1, ____ are subject to mandatory redemption, in part, as drawn by lot by the Paying Agent, prior to the stated maturity date, by application of money available for such purposes in the Bonds Sinking Fund established under the

Resolution, upon payment of the principal amount thereof, together with accrued interest, to the date fixed for redemption or upon maturity, as applicable, on October 1 of the following years and in the following principal amounts:

| <u>Bonds Stated to Mature on October 1, 20xx</u> | | <u>Bonds Stated to Mature on October 1, 20xx</u> | |
|--|---------------------|--|---------------------|
| <u>Year</u> (Maturity) | <u>Amount</u> \$ | <u>Year</u> (Maturity) | <u>Amount</u> \$ |

Notice of Redemption

So long as the Bonds are registered in the name of DTC or its nominee, all notices of redemption shall be given to DTC or its nominee, as registered owner of the Bonds. Conveyance of any such notices to the Beneficial Owners by DTC and by Direct Participants and Indirect Participants in DTC will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

If at any time the book-entry only system shall be discontinued with respect to the Bonds, the Indenture provides that whenever the Authority shall determine to redeem all or part of the Bonds, or whenever the Trustee shall be required under the Indenture to redeem part of the Bonds out of any sinking fund or analogous fund established for the Bonds, a notice of intention to redeem shall be mailed by the Trustee, by first-class mail, to the registered owners of the Bonds to be redeemed in whole or in part, not more than sixty (60) days nor less than thirty (30) days prior to the date fixed for redemption, at the addresses shown on the registration books maintained by the Trustee; provided, however, that failure to mail any notice of redemption, or any defect therein or in the mailing thereof, shall not affect the validity of any proceeding for redemption of other Bonds so called for redemption.

If at the time of mailing of a notice of redemption, the Authority has not deposited with the Trustee moneys sufficient to redeem all Bonds called for redemption, such notice may state that it is conditional, and that redemption of such Bonds is subject to the deposit of the redemption moneys with the Trustee not later than the opening of business on the redemption date, and such notice shall be of no effect unless such moneys are so deposited.

Manner of Redemption

If a Bond is of a denomination larger than \$5,000, a portion of such Bond may be redeemed. For the purposes of redemption, a Bond shall be treated as representing the number of Bonds that is equal to the principal amount thereof divided by \$5,000, each \$5,000 portion of such Bond being subject to redemption. In the case of partial redemption of a Bond, payment of the redemption price shall be made only upon surrender of such Bond in exchange for Bonds of authorized denominations of the same maturity and interest rate, in the aggregate principal amount equal to the unredeemed portion of the principal amount thereof.

If the date fixed for redemption shall be a Saturday, Sunday, legal holiday or on a day on which banking institutions in the municipality where the principal corporate trust office of the Trustee is located are authorized or required by law or executive order to close, then the date for payment of

the redemption price shall be the next succeeding day which is not a Saturday, Sunday, legal holiday or a day on which such banking institutions are authorized or required to close, and payment on such date shall have the same force and effect as if made on the nominal date fixed for redemption.

So long as Cede & Co., as nominee of DTC, is the registered owner of the Bonds, however, payment of the redemption price shall be made to Cede & Co. in accordance with the existing arrangements by and among the Authority, the Trustee and DTC and, if less than all Bonds of any particular maturity are to be redeemed, the amount of the interest of each DTC Participant, Indirect Participant and Beneficial Owner in such Bonds to be redeemed shall be determined by the governing arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. See “BOOK-ENTRY ONLY SYSTEM” herein for further information regarding redemption of Bonds registered in the name of Cede & Co.

BOOK-ENTRY-ONLY SYSTEM

The following information concerning DTC and DTC’s book-entry only system has been obtained from DTC. Neither the Authority nor the Trustee makes any representation as to the accuracy of such information.

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for the Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its

Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, the Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the accuracy thereof.

THE AUTHORITY AND THE TRUSTEE SHALL HAVE NO RESPONSIBILITY OR OBLIGATION TO ANY DTC DIRECT OR INDIRECT PARTICIPANT, ANY BENEFICIAL OWNER OR ANY OTHER PERSON CLAIMING A BENEFICIAL OWNERSHIP INTEREST IN THE BONDS UNDER OR THROUGH DTC OR ANY DTC DIRECT OR INDIRECT PARTICIPANT, OR ANY OTHER PERSON WHICH IS NOT SHOWN ON THE REGISTRATION BOOKS OF THE TRUSTEE AS BEING A BONDHOLDER, WITH RESPECT TO: THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC DIRECT OR INDIRECT PARTICIPANT; THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OF ANY AMOUNT IN RESPECT OF THE PRINCIPAL OF AND PREMIUM, IF ANY, PURCHASE PRICE OR INTEREST ON THE BONDS; ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO BONDHOLDERS UNDER THE INDENTURE; THE SELECTION BY DTC OR ANY DTC DIRECT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE BONDS; ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS BONDHOLDER; OR ANY OTHER PROCEDURES OR OBLIGATIONS OF DTC UNDER THE BOOK-ENTRY SYSTEM.

SO LONG AS CEDE & CO. IS REGISTERED OWNER OF THE BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE BONDHOLDERS OR REGISTERED HOLDERS OF THE BONDS, SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS.

BOND INSURANCE

[to come]

SECURITY FOR THE BONDS

The Indenture

The Bonds will be issued under and secured by the Indenture. The Indenture provides for the issuance of water revenue bonds in addition to the Bonds under the limitations therein set forth, and defines the duties and responsibilities of the parties with respect to the expenditure of the proceeds of the Bonds, the maintenance and operation of the Water System, the conservation and application of all funds of the Authority created pursuant to the Indenture, the security for moneys on deposit, the provisions relating to reserves, the provisions relating to the redemption of the Bonds and the provisions for the payment of the principal of, redemption premium, if any, and the interest on the Bonds. The Bonds are equally and ratably secured, except as otherwise provided in the Indenture, with water revenue bonds of other series which may be issued and outstanding from time to time under the Indenture. The Bonds, together with any such other water revenue bonds, are herein referred to as the “Water Revenue Bonds.”

The Bonds are special limited obligations of the Authority. The principal of, redemption premium, if any, and the interest on the Bonds are payable from the Receipts and Revenues from the Water System, as said phrase is defined in the Indenture, which have been pledged under the Indenture, together with certain other monies and funds available for such purpose, to the extent and in the manner provided in the Indenture.

Pledge of Receipts and Revenues from the Water System

The Indenture creates a pledge of, lien upon and a security interest in all Receipts and Revenues from the Water System, as defined under the Indenture. The Authority is not liable for payment of principal of or interest on Water Revenue Bonds, except for the revenues and moneys subject to the lien of the Indenture.

Receipts and Revenues from the Water System, as defined in the Indenture, do **not** include Receipts from Timber and Mineral sales, which means all money that may be derived by the Authority from the sale of timber, gravel, oil, gas or minerals grown, produced or mined upon property of the Authority and all money representing income or royalties from leases of property of the Authority for the purposes of lumbering, drilling or production of gas or oil, or mining. The Authority may appropriate, expend, pledge and encumber Receipts from Timber and Mineral Sales for such lawful purposes, in such manner and at such times as the Board of the Authority may

determine and as may be permitted by the Act and other applicable provisions of law, and the Indenture places no restrictions thereon.

The Authority covenants under the Indenture to pay over to the Trustee within seven (7) days of receipt, all Receipts and Revenues from the Water System received by the Authority and, until such Receipts and Revenues from the Water System are so paid over to the Trustee, to segregate the same separate and apart from any other funds of the Authority and to hold the same, in trust, for purposes of the Indenture.

For further information regarding the Receipts and Revenues from the Water System pledged under the Indenture, see “**SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Pledge and Security in Receipts and Revenues from the Water System**”, *infra*.

Rate Covenant

The Authority will covenant in the Indenture that the water rentals, rates and other charges imposed by the Authority on consumers served by the Water System (as defined in the Indenture) shall be at least such that the estimated amounts to be received by the Authority therefrom, together with other estimated Receipts and Revenues from the Water System (as defined in the Indenture) to be received by the Authority, and together with money otherwise estimated to be available under provisions of the Indenture for the purposes, will be sufficient to meet the rate covenant set forth in the Indenture.

For further information regarding the Rate Covenant, see “**SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE –Rate Covenant**”, *infra*.

Debt Service Reserve Fund

The Indenture provides for the establishment and maintenance of a debt service reserve fund as security for the Bonds and any Additional Bonds constituting Water Revenue Bonds, as those capitalized phrases are defined in the Indenture, which from time to time may be issued and Outstanding under and in accordance with the Indenture. At settlement for the Bonds, the Debt Service Reserve Fund created under the Indenture will consist solely of a debt service reserve fund policy issued by [bond insurer] in the stated amount of \$ _____ and permitting the Trustee to draw upon the issuer of such policy at such times and in such amounts as money may be needed toward payment of principal or interest due and payable on Bonds to the extent that the Debt Service Fund under the Indenture at any time shall be deficient for such purpose.

For further information concerning the Debt service Reserve Fund, see “**SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Debt Service Reserve Fund**,” *infra*.

Bondholder Rights and Remedies

The Indenture provides that upon the happening and during continuance of any Event of Default, as that phrase is defined in the Indenture, the Trustee and Holders of the Bonds shall have and may exercise certain rights and remedies. For the definition of “Event of Default” and a

summary of the rights and remedies of the Trustee and Bondholders upon and during the continuation of any such Event of Default and certain restrictions and limitations thereon under the terms of the Indenture, see “**SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Bondholders Rights and Remedies,**” *infra*.

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following Summary does not purport to be a full and complete statement of the provisions of the Indenture, and reference is made to the Indenture for a full and complete statement of all of the provisions thereof, to which this Summary is qualified in its entirety. Capitalized terms and phrases not otherwise defined herein shall have the meaning ascribed to them in the Indenture. Copies of the Indenture are available upon request to the Authority.

Pledge and Security in Receipts and Revenues from the Water System

The Indenture creates a pledge of, lien on and security interest in all Receipts and Revenues from the Water System. The Authority is not liable for payment of principal of or interest on the Bonds, except for the moneys subject to the lien of the Indenture. The Authority covenants under the Indenture to pay over to the Trustee within seven (7) days of receipt, all Receipts and Revenues from the Water System received by the Authority and, until such Receipts and Revenues from the Water System are so paid over to the Trustee, to segregate the same separate and apart from any other funds of the Authority and to hold the same, in trust, for purposes of the Indenture.

“Receipts and Revenues from the Water System” is defined in the Indenture to mean:

A. All water rentals, rates and other charges collected by the Authority from consumers served or to be served by the Water System for use thereof and for services rendered by the Authority in connection therewith;

B. All other receipts, revenues and money derived in any manner, from any source, from or in connection with the Water System, by the Authority or on behalf of the Authority, including Receipts and Tapping Fees, **excepting and excluding, however:** (1) money derived from Tapping Fees charged by the Authority in those cases and to the extent that the Authority agrees to refund, or is required by law to refund, such Tapping Fees or any part thereof to a Person who has paid for the construction of any part of the Water System that was constructed by the Authority or that was constructed by such Person under the supervision of the Authority; and (2) Receipts from Assessments, to the extent that such shall be necessary to pay costs and expenses, including legal fees, engineering fees and administrative costs and expenses, of charging and collecting assessments, filing municipal claims or liens therefor and collecting such claims or liens; and (3) Receipts from Timber and Mineral Sales (as defined in the Indenture); and

C. Subject to the provision of the Indenture permitting the Authority to make temporary borrowings in anticipation of receipt of funds to become available in the Bond Redemption and Improvement Fund or the Construction Fund under the Indenture and to the prior payment of costs and expenses mentioned in clause B(2) above, the Receipts from Assessments.

“Receipts from Assessments” is defined in the Indenture to mean all money, including assessments, installments of assessment and interest, penalties and costs, if any derived by the Authority or in behalf of the Authority from the charging by the Authority, in whole or in part, of costs of construction of certain water mains constituting part of the Water System against properties benefitted, improved or accommodated by such construction, and money derived under agreements with owners of property whereby such owners shall be obligated to pay such many in lieu of assessments or which is in the nature of assessments.

“Receipts and Revenues from the Water System” does **not** include “Receipts from Timber and Mineral Sales,” and the same are not pledged for payment of Water Revenue Bonds or other obligations of the Authority under the Indenture. “Receipts from Timber and Mineral Sales” means all money that may be derived by the Authority from the sale of timber, gravel, oil, gas or minerals grown, produced or mined upon property of the Authority and all money representing income or royalties from leases of property of the Authority for the purposes of lumbering, drilling or production of gas or oil, or mining. The Authority may appropriate, expend, pledge and encumber Receipts from Timber and Mineral Sales for such lawful purposes in such manner and at such times as the Board of the Authority may determine and as may be permitted by the Act and other applicable provisions of law.

“Reserve Fund Requirement” shall mean a sum equal to the lesser of (1) the Maximum Annual Debt Service Requirements (excluding the year 2019), (2) 125% of average annual debt service, or (3) 10% of the par amount of Bonds issued.

Funds of the Authority

Construction Fund

There is a Construction Fund established under the Indenture into which money shall be deposited for payment or reimbursement of capital project costs. Payments may be made from the Construction Fund by the Trustee upon receipt of appropriate Requisitions submitted by the Authority accompanied in appropriate cases by a Consulting Engineers’ Certificate or an Opinion of Counsel approving the Requisition.

Clearing Fund

All Receipts and Revenues from the Water System collected by or on behalf of the Authority shall be deposited initially in the Clearing Fund immediately upon receipt by the Trustee. The Trustee shall transfer to the Authority from time to time such amounts as are necessary to pay all reasonable operating costs and administrative expenses of the Water System as specified under the Indenture. Additional transfers to the Debt Service Fund, the Debt Service Reserve Fund and Bond Redemption and Improvement Fund created under the Indenture shall be made as prescribed under the Indenture. Moneys held in the Clearing Fund shall be held by the Trustee in trust and shall be secured as provided in the Indenture. The Authority shall have the option to reserve funds on hand for expenses or transfers expected to be made in future years.

Debt Service Fund

On or before October 1 and April 1 of each year, so long as any Bonds are Outstanding the Trustee shall transfer from the Clearing Fund to the Debt Service Fund created under this Indenture an amount, taking into account moneys already on deposit in the Debt Service Fund, sufficient to pay the interest on any Bonds due on such April 1 and such October 1, respectively, according to the terms of the Bonds and the Indenture, and on or before October 1 of each year an amount sufficient to pay the aggregate principal of the Bonds which mature by their terms or are required to be called for mandatory redemption on such date.

Additional transfers may be made from the Clearing Fund to the Debt Service Fund in amounts and at times sufficient to provide for payment of the debt service on any Additional Bonds constituting Water Revenue Bonds which at the time may be Outstanding under the Indenture.

There shall be created within the Debt Service Fund a special Fund or account designated as the “Series of 2019 Sinking Fund” into which the Trustee shall transfer from the Clearing Fund the amounts required to redeem the Bonds that are subject to mandatory redemption prior to maturity on or before the date on which such Bonds are to be redeemed. A separate sinking fund account may be established within the Debt Service Fund with respect to any Additional Bonds that are term bonds.

Debt Service Reserve Fund

The Indenture provides for the creation of a special fund to be known as the “Debt Service Reserve Fund”, which shall be held by the Trustee, in trust, until applied as provided in the Indenture.

Upon original issuance and delivery of the Bonds, the Debt Service Reserve Fund shall consist of a debt service reserve fund policy issued by [bond insurer] in the stated amount of \$_____ (the “Series 2019 Reserve Fund Policy”), permitting the Trustee to make claims upon the issuer of such policy at such times and in such amounts as money may be needed toward payment of principal or interest due and payable on Bonds to the extent that the Debt Service Fund at any time shall be deficient for such purpose.

The Authority shall be permitted to satisfy the **Reserve Fund Requirement**, other than initially upon settlement for the Bonds as required by the preceding paragraph, with a letter of credit, surety bond or other credit enhancement (each, a “Reserve Fund Credit Instrument”) or to substitute a Reserve Fund Credit Instrument for funds on deposit in the Debt Service Reserve Fund, subject to certain terms and provisions of the Indenture.

The amounts available to the Trustee under the Series of 2019 Reserve Fund Policy and any Reserve Fund Credit Instrument shall be included in any calculation of the amount required to be retained in the Debt Service Reserve Fund; provided that, (A) if the sum of the available policy limit of the Series of 2019 Reserve Fund Policy, the amount available under such Reserve Fund Credit Instrument and the amount of cash and the Value of investments on deposit to the credit of the Debt Service Reserve Fund exceeds the amount required to be on deposit in the Debt Service

Reserve Fund pursuant to the terms of the Indenture, the Authority shall be permitted to (i) cause the amount available under any such Reserve Fund Credit Instrument to be reduced by an amount equal to such excess, or (ii) direct that the excess moneys be transferred to the Clearing Fund, and (B) if the Reserve Fund Credit Instrument has an expiration or termination date and is not extended, renewed or replaced at least ten (10) days prior to its scheduled expiration or termination date, the Trustee shall, not later than one (1) Business Day prior to such scheduled expiration or termination date, draw on the Reserve Fund Credit Instrument for the full amount thereof, unless at least three (3) Business Days prior to the scheduled expiration or termination date of such Reserve Fund Credit Instrument, there shall be delivered to the Trustee cash, in the amount required to maintain proper funding of the Debt Service Reserve Fund.

The Trustee, without further direction from the Authority, shall apply money in the Debt Service Reserve Fund toward payment of principal and interest from time to time becoming payable on Water Revenue Bonds, to the extent that the Debt Service Fund at any time shall be deficient for such purpose. If the cash and proceeds of sale of any investments on deposit in the Debt Service Reserve Fund is not sufficient to make up such deficiency, the Trustee, without further direction or authorization of the Authority, shall make claim upon the Series of 2019 Reserve Fund Policy and/or shall draw upon any Reserve Fund Credit Instrument, as appropriate, in the amounts necessary to make the required payment of principal of and/or interest on Water Revenue Bonds.

Debt Service Reserve Fund monies may be invested as provided in the Indenture, and investments therein shall be valued annually by the Trustee. If, for any reason, the amount on deposit to the credit of the Debt Service Reserve Fund, including the Value of Permitted Investments, the available policy limit of the Series of 2019 Reserve Fund Policy, if the same remains in effect, and the available amount under any Reserve Fund Credit Instrument then in effect, at any time shall be less than the amount of \$_____ or such other amount as at the time shall be required by the Indenture to be maintained in the Debt Serve Reserve Fund, then and in that event, on or before October 1 of each Fiscal Year, after all transfers currently required to be made from the Clearing Fund shall have been made, the Trustee, without further direction from the Authority, shall withdraw from the Clearing Fund and shall deposit in the Debt Service Reserve Fund the balance then remaining in the Clearing Fund or so much thereof as shall be necessary to increase the Debt Service Reserve Fund to the amount of \$_____ or other such lesser amount as at the time shall be required by the Indenture to be held therein.

In the event of issuance of Additional Bonds, constituting Water Revenue Bonds, the supplemental indenture then to be executed shall provide for such transfers or deposits, if any, as shall be made to the credit of the Debt Service Reserve Fund, may provide for the deposit with the Trustee of a Reserve Fund Credit Instrument in lieu of a deposit or deposits of cash, either in whole or in part, and for the amount thereafter to be held in the Debt Service Reserve Fund; provided, however, that so long as the Bonds shall remain Outstanding, the supplemental indenture then to be executed shall provide that payments or deposits into the Debt Service Reserve Fund shall be in such amounts so that the total to be on deposit in the Debt Service Reserve Fund (including the available policy limit of the Series of 2019 Reserve Fund Policy and the amount available for claims upon or draw under any Reserve Fund Credit Instrument then in effect), as of the date of issuance of such Additional Bonds, shall be in such amounts to that the total on deposit in the Debt

Service Reserve Fund shall be not less than the Maximum Annual Debt Service Requirements on all series of Water Revenue Bonds then Outstanding, in each case computed over the remaining life of all such series of Water Revenue Bonds and after giving effect to the issuance of Additional Bonds constituting Water Revenue Bonds about to be issued and if applicable, the redemption of any series of Water Revenue Bonds being refunded.

Money and investments in the Debt Service Reserve Fund shall be held by the Trustee, in trust, for benefit of Holders of Water Revenue bonds for which such shall be a reserve and shall be and is pledged irrevocably as security for payment of principal of and interest on such Water Revenue Bonds until disbursed as authorized by the Indenture. Subject, however, to provisions of the Indenture with respect to certain interest and income to be received from investments and/or deposits of money in the Debt Service Reserve Fund.

Bond Redemption and Improvement Fund

On or before December 31 of each Fiscal Year, after all transfers or reservations of funds currently required to be made from the Clearing Fund shall have been made, the Trustee may, upon written direction of the Authority to be given in its discretion, withdraw from the Clearing Fund, and shall deposit in the Bonds Redemption and Improvement Fund any balance remaining in the Clearing Fund. If a deficiency shall exist in the Debt Service Fund, including any sinking fund, or the Debt Service Reserve Fund, and there shall be insufficient money in the Clearing Fund to eliminate such deficiency, the Trustee without further direction from the Authority, forthwith shall transfer a sufficient amount or amounts, as money shall be available, from the Bond Redemption and Improvement Fund, to eliminate such deficiency.

Moneys in the Bond Redemption and Improvement Fund may be used or applied by the Authority from time to time (provided there is no deficiency in any of the Funds above referred to and no Event of Default has occurred which is continuing), for any of the following purposes, in the manner provided in the Indenture:

- A. For and toward Extraordinary Repairs to the Water System;
- B. For and toward Costs, Costs of Acquisition or Costs of Construction of Capital Additions to the Water System, if necessary;
- C. To redeem any, purchase any, or pay all Outstanding Water Revenue bonds of any series;
- D. To pay, as and when the same shall become due and payable, any expenses, debt, liabilities and obligations of the Authority required or authorized to be paid under the terms of the Indenture and for the payment of which provisions otherwise shall not have been made; and
- E. To pay notes or certificates of indebtedness which may be issued by the Authority as permitted by the Indenture.

Investment of Funds

Under the provisions of the Indenture, money in the Clearing Fund, the Construction Fund, the Debt Service Fund, the Debt Service Reserve Fund and, subject to certain limitations set forth in the Indenture, the Bond Redemption and Improvement Fund may be retained by the Trustee uninvested, as trust funds, and to the extent not insured, secured continuously for the benefit of the Authority and Bondholders as required by the laws of the Commonwealth, or, upon request of the Authority, shall be wholly or partially invested and reinvested by the Trustee in Investment Obligations (as defined in the Indenture).

Securities purchased with moneys from any Fund shall be a part of such Fund, and interest and income received from such securities and any profits realized or losses sustained upon disposition thereof shall be added or charged, as applicable, to the appropriate Fund, and such interest, income, profit or loss shall be considered, except as provided in the Indenture, a part of or charge against the appropriate Fund, as applicable.

Additional Bonds

The Authority may, from time to time, issue Additional Bonds for the purpose of constructing additions to or improvements to the Water System and/or refunding prior water revenue bonds of the Authority, upon satisfaction of certain terms of the Indenture. If issued under and in accordance with the terms of the Indenture, such Additional Bonds will be equally and ratably secured with the Bonds. If additional Water Revenue Bonds are issued under the Indenture, among other things, the Authority must execute a supplemental indenture with the Trustee setting forth terms and conditions relating to the Additional Bonds and confirming the assignment, transfer to and pledge to the Trustee of Receipts and Revenues from the Water System. The Indenture imposes a number of other specific conditions upon the issuance of Additional Bonds.

Events of Default

Each of the following events is declared by the Indenture to be an “Event of Default”:

A. The Authority shall fail to make or provide for payment of interest upon any Water Revenue Bond on the due date expressed therefor; or

B. The Authority shall fail to make or provide for the payment of the principal of, or premium, if any, on any Water Revenue Bond at maturity thereof as therein expressed or when the same shall have become due upon call for redemption or otherwise; or

C. The Authority shall fail or refuse to comply with any provision of the Act or shall be rendered incapable of fulfilling its obligations under the Indenture or under the Act; or

D. If the Authority shall discontinue, unreasonably delay or fail to carry on with reasonable dispatch any construction related to the Water System or any contractor or any surety shall fail or neglect to perform any contract for construction relating to the Water System in accordance with terms thereof, or if any contractor or any surety otherwise shall fail to provide, to the

satisfaction of the Consulting Engineers, for completion of such construction or other work in accordance with terms of such contract and the Authority shall fail to otherwise complete such construction; or

E. The Water System or any part thereof necessary for its efficient operation shall be wholly or partially destroyed or damaged and shall not be repaired, replaced or rebuilt promptly for any reason whatsoever; or

F. The Authority shall default in performance of any agreement made with or for the benefit of Holders of Water Revenue Bonds; or

G. An order or decree shall be entered with consent or acquiescence of the Authority appointing a receiver of the Water System or of any part thereof or of receipts, revenues and money derived therefrom, or if such order or decree, having been entered without consent or acquiescence of the Authority, shall not be vacated, discharged or stayed on appeal within 30 days after entry; or

H. The Authority shall make default in due and punctual performance of any covenant, condition, agreement or provision contained in Water Revenue Bonds or in the Indenture on the part of the Authority required to be performed and such default shall have continued for a period of 30 days after written notice specifying such default and requiring the same to be remedied shall have been given to the Authority by the Trustee, which may give such notice in its discretion and shall give such notice upon written request of Holders of not less than 25% in aggregate principal amount of Water Revenue Bonds then Outstanding or of the insurer of any Water Revenue Bonds Outstanding.

Bondholder Rights and Remedies

The Indenture provides that upon the happening and during continuance of any Event of Default, then and in every such case the Trustee may declare, and upon written request of Holders of not less than 25% in aggregate principal amount of Water Revenue Bonds then Outstanding, shall declare, by written notice delivered to the Authority, the principal of all Water Revenue Bonds then Outstanding (if not then due and payable) and the interest accrued thereon to be due and payable immediately; and upon such declaration the same shall become and shall be due and payable immediately at the place of payment provided therein, anything in the Indenture or in Water Revenue Bonds contained to the contrary notwithstanding; provided, however, that the consent of the bond insurer may be required as a condition precedent to any acceleration of principal and interest on Water Revenue Bonds insured by it, so long as the bond insurer is not in default of its payment obligations under its bond insurance policy.

The foregoing provision, however, is subject to the condition that if, at any time, after the principal of Water Revenue Bonds so shall have been declared to be due and payable, and before entry of final judgment or decree in any suit, action or proceeding instituted on account of such Event of Default, and before completion of enforcement of any other remedy under the Indenture, all arrears of interest upon all Water Revenue Bonds then Outstanding, with interest on overdue installments of interest at the rate of 6% per annum, and the principal of all matured Water Revenue

Bonds then Outstanding (except principal of Water Revenue Bonds not then due by their express terms and interest accrued on such Water Revenue Bonds since the last interest payment date) and all charges, compensation, disbursements, counsel fees, advances and liabilities of the Trustee and reasonable counsel fees of Holders of Water Bonds and all other amounts then payable by the Authority under the Indenture (except as aforesaid) shall have been paid or shall have been provided for by deposit with the Trustee of a sum sufficient to pay the same, and every other Event of Default known to the Trustee shall have been remedied or provision therefor satisfactory to the Trustee shall have been made, then and in every such case, Holders of a majority in aggregate principal amount of Water Revenue Bonds not then due by their express terms and then Outstanding, by written notice delivered to the Authority and the Trustee, may waive every Event of Default and may rescind and annul such declaration and its consequences, but no such waiver, rescission or annulment shall extend to or affect any subsequent Event of Default or impair any right or remedy consequent thereon; provided, however, that before any Event of Default may be so waived, the insurers of insured Water Revenue Bonds shall consent to such waiver.

Furthermore, the Indenture provides that upon happening and during continuance of any Event of Default, the Trustee shall have the right, in its own name or in the name of the Authority, to take actual possession of the Water System, as for condition broken, and the Trustee, in its discretion, with or without force and/or process of law and before or after declaring the principal of Water Revenue Bonds immediately to be due, and without any action on the part of the Bondholders, by its agents or attorneys, may enter upon, take and maintain possession of all or any part of the Water System, together with all records, documents, books, papers and accounts relating thereto, and, as attorney-in-fact or agent for the Authority or in its own name as Trustee, may hold, manage and operate the Water System and may collect all amounts that shall be or shall become payable by reason of such operation and shall apply such amounts as provided in the Indenture. When all arrears of interest, matured principal and all sums payable to or by the Trustee, as provided herein, shall have been paid or a sum sufficient to pay the same shall have been deposited with the Trustee, and when every Event of Default shall have been eliminated, then the Trustee shall restore the Water System to the Authority, its successors or assigns, but without prejudice to the right of the Trustee to enter, as in the Indenture provided, upon happening of any subsequent Event of Default.

Also, the Indenture provides that upon happening and during continuance of any Event of Default, then and in every such case, the Trustee, in its discretion, may proceed, and upon written request of Holders of at least 25% in aggregate principal amount of Water Revenue Bonds then Outstanding and written consent of bond insurers insuring such Water Revenue Bonds, and upon receipt of indemnity to its satisfaction, shall proceed, to protect and enforce its rights and rights of Bondholders under laws of the Commonwealth and under the Indenture by exercise of any proper legal or equitable right or remedy as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights; and, without intending to limit the generality of the foregoing, The Trustee, in its own right:

A. By mandamus or other suit, action or proceeding at law or in equity, shall enforce all rights of Bondholders, including, without intending to limit the generality of the foregoing, the right: (1) to require the Authority to perform any agreement with or for benefit of Bondholders;

(2) to require the Authority to comply with all covenants of the Authority, as specified in the Indenture; (3) to require the Authority to perform its duties under the Act;

B. Shall bring suit upon Bonds;

C. By action or suit in equity, shall require the Authority to account as if it were trustee of an express trust for appropriate Bondholders;

D. By action or suit in equity, shall enjoin any acts or things that may be unlawful or in violation of rights of appropriate Bondholders; and

E. Shall exercise all rights and remedies provided by the Act or any other law and shall proceed by suit, action or special proceeding in equity or at law either for specific performance of any covenant or agreement contained in the Indenture, or in aid of or in execution of any power granted in the Indenture or such Act.

As provided in the Act, the Indenture also provides that the Trustee shall be entitled as of a right to appointment of a receiver; and the Trustee, Bondholders and any receiver so appointed shall have such rights and powers and shall be subject to such limitations and restrictions as are contained in the Act.

Holder of a majority in aggregate principal amount of Water Revenue Bonds then Outstanding shall have the right, by an instrument, in writing, executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee under the Indenture; provided, however that: (1) such direction shall not be contrary to law or provisions of the Indenture; and (2) the Trustee shall have the right to decline to follow such direction which, in its opinion, would be prejudicial unjustly to rights hereunder of Bondholders who are not parties to such direction.

The Indenture provides that no Holder of any Water Revenue Bond shall have any right to institute any suit, action or proceeding in equity or at law upon any Water Revenue Bond or for enforcement or execution of any trust remedy under the Indenture unless such Holder previously shall have given to the Trustee written notice of an Event of Default nor unless also Holders of not less than 25% in aggregate principal amount of Water Revenue Bonds then Outstanding shall have made written request to the Trustee after the right to exercise such powers or rights of action shall have accrued, the bond insurer or insurers insuring any Water Revenue Bonds Outstanding under the Indenture shall have given written consent to the institution of such suit, action or proceeding, and such Holders shall have afforded the Trustee a reasonable opportunity either to proceed to exercise powers granted in the Indenture or to institute such action, suit or proceeding in its or their name, nor unless also there shall have been offered to the Trustee security and indemnity satisfactory to it against costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time; and such notification, request and offer of indemnity are declared, in every such case, at the option of the Trustee, to be conditions precedent to execution of powers and trusts of the Indenture and to any action or cause of action for enforcement of the Indenture, it being understood and intended that not one or more Holders of Water Revenue Bonds shall have any right in any manner

whatsoever by his or their action to affect, disturb or prejudice the security provided in the Indenture, and that all proceedings at law or in equity shall be instituted and maintained in the manner provided in the Indenture and subject to provisions of the Indenture.

Rate Covenant

The Authority covenants under the Indenture to adopt a resolution fixing and charging water rentals, rates and other charges upon owners of improved property that shall be connected to the Water System for use thereof and for services rendered by the Authority in connection therewith. The Authority also covenants to keep such resolution or a subsequent similar resolution or resolutions in full force and effect continuously during the time any Water Revenue Bonds shall remain Outstanding.

The Authority covenants that such water rentals, rates and other charges imposed pursuant to the resolution or resolutions in effect at the time shall be at least such that the estimated amounts to be received by the Authority therefrom, together with other estimated Receipts and Revenues from the Water System to be received by the Authority, and together with money otherwise estimated to be available under provisions of the Indenture for the purposes, will be sufficient:

A. To pay the reasonable Administrative Expenses of the Authority in connection with the Water System and in connection with Water Revenue Bonds issued under the Indenture, in each Fiscal Year, to the extent that such Administrative Expenses otherwise shall not be provided for under the Indenture; and

B. To pay the reasonable Operating Expenses of the Authority, in each Fiscal Year, to the extent that such Operating Expenses otherwise shall not be provided for under the Indenture; and

C. To provide an amount, in each Fiscal Year, so long as the Bonds shall remain Outstanding, beginning with the Fiscal Year ending December 31, 2019, **that will satisfy the Reserve Fund Requirement, including the purchase of a Reserve Fund Credit Instrument to satisfy such Requirement**, in such Fiscal Year, on the Bonds then Outstanding, to the extent that such Debt Service Requirements otherwise shall not be provided for under the Indenture and subject to the further provisions described below.

D. If the Trustee shall have withdrawn any money from the Debt Service Reserve Fund **or made claims against a Reserve Fund Credit Instrument** to cure any deficiency in the Debt Service Fund as provided in the Indenture, to provide an amount that, together with investment income or money remaining in the Debt Service Reserve Fund and other money available or to become available in the Clearing Fund or in the Bond Redemption and Improvement Fund for the purpose, will be sufficient **to satisfy the Reserve Fund Requirement** at or before the end of 12 months following the date of such withdrawal except as may be provided in any future supplements to the Indenture; and

E. To provide an amount, in each Fiscal Year in which Additional Bonds constituting Water Revenue Bonds shall be Outstanding, beginning with the first Fiscal Year in which Debt

Service Requirements on such Additional Bonds shall be payable solely from Receipts and Revenues from the Water System, equal to at least 120% of the Debt Service Requirements, in such Fiscal Year, on the Additional bonds constituting Water Revenue Bonds then Outstanding, plus mandatory payments, if any, required to be made in such Fiscal Year to any Fund created hereunder (including under any supplement hereto in accordance with provisions thereof), to the extent that such Debt Service Requirements or such mandatory payments otherwise shall not be provided for under the Indenture and subject to the further provisions described below.

In determining, for any Fiscal Year, whether or not the Authority is, or will be, as applicable, in compliance with the foregoing covenant, the Indenture provides that the requirements for such Fiscal Year shall be decreased by the aggregate amount or amounts, if any, of Receipts and Revenues from the Water System received by the Authority in any prior Fiscal Year or Fiscal Years that was or were in excess of the aggregate amount or amounts required to be collected in such prior Fiscal Year or Fiscal Years pursuant to the foregoing covenant, but only to the extent that such excess Receipts and Revenues from the Water System shall be available in the Clearing Fund or in other accounts of the Authority maintained as contemplated by the Indenture for the purposes set forth above.

The Indenture also provides that if at any time there shall be on deposit in the Bond Redemption and Improvement Fund an amount at least equal to the Debt service Requirements on all Water Revenue Bonds Outstanding for the succeeding Fiscal Year and the Consulting Engineers shall have given a Consulting Engineers' Certificate to the effect that such amount on deposit in the Bond Redemption and Improvement Fund is not required for extraordinary repairs or capital additions to the Water System, then the Authority covenants that the water rentals, rates and charges imposed will be adequate in such succeeding Fiscal Year to meet the requirements of the rate covenant, but with 100% substituted for "120%" where it appears in subparagraphs C and D of the second paragraph under this heading "**Rate Covenant**".

Covenant to Operate and Maintain

The Authority covenants that, at all times, it will maintain the Water System in good repair and operating condition, operate the Water System continuously, and make all necessary and proper repairs, renewals, replacements and improvements thereto.

Consulting Engineer Covenant

The Authority covenants to employ continuously consulting engineers who shall, among other things, make inspections of the operating methods and policies of the Authority and make annual reports to the Authority containing such recommendations on operating procedures, maintenance, repairs, replacements and renewals, as the Consulting Engineer shall consider appropriate. The Consulting Engineer also has additional duties and responsibilities under the terms of the Indenture relating, among other things, to the issuance of Additional Bonds.

Annual Audit

The Authority will employ a certified public accountant to perform the accounting functions and duties required by the Act. Said accountant shall make an annual audit of the operations, records and accounts of the Authority, including those held by the Trustee. The Authority shall forthwith furnish copies of each annual audit to such holders of the Bonds as make written request therefore.

Modifications and Amendments

The Authority and the Trustee may enter into supplemental indentures in connection with the issuance of Additional Bonds, to cure ambiguities, formal defects or omissions in the Indenture, or to grant additional rights, powers and security for the benefit of the holders of the Bonds, without consent of the holders of the Bonds. All other supplemental indentures or any amendments or modifications to the Indenture require the consent and approval of the Holders of not less than $\frac{66}{100}$ percent of the aggregate principal amount of all Bonds then Outstanding, but no such supplemental indenture shall (1) change maturity, principal, interest rate or redemption provisions on any Bond; (2) permit creation by the Authority of any lien or encumbrance prior to or a parity with the lien described herein; or (3) reduce the percentage of bond holders required to consent to such supplemental indenture, without consent of all holders of affected Bonds then Outstanding.

Discharge of the Indenture

The lien of the Indenture against the Receipts and Revenues from the Water System may be terminated by the Authority by depositing with the Trustee funds sufficient for payment or redemption of the Water Revenue Bonds then Outstanding and interest thereon to the date of maturity or redemption. Such requirements may be satisfied by deposit with the Trustee of a sum of money which, together with interest to be earned thereon when invested in obligations constituting direct obligations of the United States of America as to payment of principal and interest thereon, maturing as to principal and interest in such amounts, at such times and upon such other terms, will assure the availability of sufficient money to pay the principal and interest on the Water Revenue Bonds then Outstanding.

Rights of Bond Insurer

The Indenture establishes particular rights in favor of the Bond Insurer as insurer of the Bonds, including but not limited to, acceleration, annulment of acceleration, notifications, approvals, modifications and amendments to the Indenture, the exercise of remedies, and other matters, all as more particularly described therein. Under the provisions of the Indenture, the Bond Insurer shall be deemed the sole holder of the Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the holders of the Bonds are entitled to take pursuant to the Indenture pertaining to (i) defaults and remedies and (ii) the duties and obligations of the Trustee. Reference is made to the full text of the Indenture for a complete description of the Bond Insurer's rights thereunder, which rights may supersede the rights of holder and beneficial owners of the Bonds.

THE AUTHORITY

Introduction

The Authority is a body corporate and politic, existing pursuant to the provision of the Act and pursuant to the provisions of an Ordinance duly enacted by the City Council of the City of Bradford, McKean County, Pennsylvania (the “City”), and a Certificate of Incorporation issued by the Secretary of the Commonwealth on December 21, 1953.

The governing body of the Authority is a Board consisting of five (5) members appointed by the City Council for five-year terms of office. The terms of the members of the Authority are staggered so that the term of at least one member expires annually. Members of the Board of the Authority may be reappointed. The Authority Board is comprised of the members listed below.

| <u>Name</u> | <u>Office</u> | <u>Term Expires</u> |
|----------------------|---------------------------|---------------------|
| Ronald L. Orris | Chairman | 12/31/2019 |
| Thomas E. Arrowsmith | Vice Chairman | 12/31/2023 |
| Richard W. Luther | Treasurer | 12/31/2021 |
| Terry D. Lopus | Asst. Secretary/Treasurer | 12/31/2020 |
| Robert P. Douglas | Asst. Treasurer/Secretary | 12/31/2022 |

The current term of existence of the Authority extends to December 31, 2050, but the corporate life of the Authority may be extended in the future by appropriate action of the Authority Board and City Council in accordance with the Act. Under the Act and the Articles of Incorporation of the Authority, the Authority is empowered to acquire, hold, construct, improve, maintain, operate, own and lease, either in the capacity of lessor or lessee, waterworks, water supply works and water distribution systems for the City of Bradford and for such other territory as it may lawfully serve.

The Authority currently owns and operates waterworks, water supply works and a water distribution system (the “Water Distribution System”) providing water services to the City and portions of the Township of Bradford, the Township of Foster and the Township of Lafayette, all located in the northern portion of McKean County, Pennsylvania (collectively, the “Service Area Municipalities”). The service area in the Township of Lafayette encompasses approximately 114 households, 22 commercial properties, 2 industrial properties and the Federal Correctional Institution.

For a more complete description of the demographic, economic and financial characteristics of the Service Area Municipalities, reference is hereby made to Appendix A of this Official Statement. See Appendix A – “Bradford City Water Authority Demographic Information.”

Source of Supply

Presently there are three (3) surface water reservoirs which serve as the sources of supply. Total combined capacity of raw water from these reservoirs is one billion gallons. The Authority owns 12,020 acres of pristine watershed in Bradford and Lafayette Townships, West of the City of Bradford, which provide a source of high quality mountain stream water. Sustainable forestry

initiatives are practiced throughout the watershed and timbering activities are successfully managed to provide a source of revenue for Capital Investment.

The water treatment plant, which was completed in 1985 is a conventional packaged filtration plant with a capacity of 6.5 million gallons per day. The plant facilities include chemical pretreatment, flocculating, sedimentation, mixed media filtration, chemical post treatment, and finished water storage. The water treatment plant finished water reservoir has a capacity of 370,000 gallons.

Distribution System

The majority of the distribution system is gravity fed from the finished water storage reservoir at the treatment plant into two (2) finished water locations in the City of Bradford via a 5.2 mile 24" transmission main. The primary finished water location in the city is a 3.5 million gallon capacity in ground concrete reservoir, and the secondary being a 2.0 million gallon steel storage tank.

Within the City, the system is supplied from these two finished water facilities via a gravity fed system into a gridded network of supply mains ranging from 24" down to 4".

Outside of the city, (which cannot be fed via gravity systems), are seven (7) additional ground storage tanks located throughout the distribution system with an additional capacity of finished water supply totaling 1,852,000 gallons. Each of these ground storage tanks has an accompanying pumping station, each with dual redundant pumps. Each of these areas then act as their own independent pressure zone which provides potable water and fire protection to the corresponding areas.

Total finished water storage of the water treatment plant and all finished water reservoirs and tanks total 7,722,000 million gallons.

To serve the highest service areas in the southern most area of the system, a second pumping station with dual supply pumps and chlorine booster station provides the additional pumping required to provide water service.

The distribution has a total of 132 miles of water mains and serves the City of Bradford and surrounding Townships of Bradford, Foster and Lafayette.

All water is measured in gallons by meters furnished and maintained by the Authority.

Utilities Contract

Since 1989, the Authority has provided water service to the United States Bureau of Prisons under a utilities contract with the General Services Administration. Pursuant to the provisions of this utilities contract, the Authority is authorized to provide all water service required by the Federal Correctional Institution in Lafayette Township, McKean County, Pennsylvania. A renewable annual agreement stipulates that the government shall pay the then applicable water rate

per thousand gallons plus the fixed monthly water meter charge. This utilities contract further authorized the levy of a second pumping surcharge subject to annual adjustment based on the actual cost of operation of a second set of pumps.

Metered Service

Customers of the Authority are all provided service through meters to monitor water consumption and to be assessed the proper charges in thousand gallon increments. All customers in Bradford City, Bradford Township, Foster Township and Lafayette Township are individually metered.

Timber and Mineral Resources

The Watershed of the Water System contains 12,020 acres of timberland which is owned and managed by the Authority. An appraisal on 8,021 of these acres, which was conducted in 1995 by Keith D. Horn, Inc., of Bradford, Pennsylvania, consulting foresters to the Authority, valued this timberland at approximately \$19,296,525. An appraisal on the remaining 3,999 acres performed in June, 2002, valued the 3,999 acres of timberland at \$24,844,161. At this time, the Authority is undertaking a Timber inventory. The Authority may, from time to time, conduct timber sale programs, with the net receipts from these sales distributed pursuant to the terms and conditions of the Third Timber and Mineral Agreement entered into by and between the Authority and the City on December 22, 2009 (the “Timber and Mineral Agreement”) to replace an earlier such agreement. Receipts from the sale of timber are **not** pledged nor subject to the lien of the Indenture.

The Watershed also contains gravel pits from which the Authority may, from time to time, sell gravel. The Watershed is located in an area containing supplies of natural gas and/or oil. The Authority may, from time to time, lease land for oil and gas drilling and production. Receipts from sales or leases in connection with gravel, oil, gas or other mineral production or mining are **not** pledged under nor subject to the lien of the Indenture.

The Timber and Mineral Agreement provides for a sharing of both the revenues received and the expenses incurred as a result of the operation of the Authority’s Watershed, as described above. Seasonal timber sales are made and royalties are collected from some 115 oil and gas producing wells. With respect to calendar years 2017 and 2018, the Authority received \$971,154.39 and \$698,495.70, respectively, in such revenues pursuant to the Timber and Mineral Agreement; such revenues are **not** pledged under nor subject to the lien of the Indenture.

Authority Employment and Employee Relations

The Authority currently employs 17 full time employees, comprised of 4 salaried administrative personnel and 13 hourly workers. The daily operations of the Authority are overseen by the Executive Director, who serves as the chief operating and fiscal officer. The Executive Director is directly responsible for the Controller, Distribution Superintendent and Purification Manager; these administrators in turn oversee the functions of Data Processing, Meters, Accounting, Operation and Maintenance and Plant Operation & Laboratory.

To ensure continuity of management functions for the long-term, the Authority has an Employment Agreement with its Executive Director which runs until 2019.

Hourly personnel of the Authority are represented for purposes of collective bargaining by Local #47 of the Plumbers & Steamfitters Union. The expiration date of the current collective bargaining agreement is December 31, 2019. Contract negotiations between the Authority and Local #47 are not subject to binding arbitration. The Authority considers its labor relations to be excellent, and it has not experienced any work stoppages.

In addition to the above-described administrative and hourly personnel, the Authority currently retains Lang & Hvizdzak, PLLC as its legal counsel. Bankson Engineers, Inc., of Indianola, Pennsylvania has served as Consulting Engineer to the Authority for the past thirty-seven years, and the Authority's independent auditor is Buffamante Whipple & Buttafaro, PC of Olean, New York.

Pension Plan

The Authority's pension plan is a single-employer defined contribution pension plan controlled by the provisions of a resolution dated January 27, 1987, adopted pursuant to Pennsylvania Act 15. The plan participates in the Pennsylvania Municipal Retirement System ("PMRS"), which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. The plan provides retirement and disability death benefits to plan members and their beneficiaries. As of December 31, 2018, the plan had 17 participants and included all of the Authority's full-time employees. PMRS issues a separate Comprehensive Annual Financial Report ("CAFR"). A copy of the CAFR can be obtained by contacting the PMRS accounting office.

The Authority contributes 8% per eligible employee per year. Employees may contribute up to 15% of wages. Eligible payroll for 2018 was \$1,119,950.50, and contributions to the plan were \$257,627.15, of which \$123,680.66 was the Authority's share and \$133,946.49 was the employees' share.

Schedule of Rates and Service Charges

Based on the current rate schedule for the Water System, the Authority had an approximate surplus of about \$1,226,756.00 for fiscal year 2018. This surplus provided debt service coverage of 170%.

The current schedule of rates, as adopted effective January 1, 2019, is set forth in the following table.

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| Size of Meter (Inches) | Minimum Monthly Charge | Minimum Bi-Monthly Charge |
|---------------------------|---------------------------|------------------------------|
| 5/8 | \$19.00 | \$38.00 |
| 3/4 | 23.00 | 46.00 |
| 1 | 35.00 | 70.00 |
| 1 1/2 | 52.00 | 104.00 |
| 2 | 75.00 | 150.00 |
| 3 | 130.00 | 260.00 |
| 4 | 185.00 | 370.00 |
| 6 | 350.00 | 700.00 |
| 8 | 525.00 | 1,050.00 |

Meter Quantity Charges

All water consumption is billed at the rate of \$3.15 for each thousand gallons consumed, regardless of meter size.

Residential Flat Rate Service

Residential flat rate service is billed at the rate of \$69.50 bi-monthly, or \$34.75 per month.

Penalty Charges

Bills not paid within thirty (30) days are subject to a penalty of ten percent.

Service Line Connection Charges

All applicants pay a service connection charge when submitting an application for service to premises which are currently not connected to the public water supply system. The present schedule of charges is as follows:

| <u>Size of Connection</u> | <u>Connection Charge</u> |
|---------------------------|--|
| 3/4" | \$700.00 |
| 1" | 850.00 |
| Larger than 1" | Minimum of \$850.00 plus additional costs, if required |

Water Usage

| | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> |
|-----------------------------------|---------------|---------------|---------------|---------------|---------------|
| Water Produced | 1,285,639,000 | 1,364,135,000 | 1,541,495,000 | 1,565,450,000 | 1,595,096,000 |
| Water Sold | 810,136,115 | 776,679,850 | 772,753,368 | 754,590,780 | 765,741,165 |
| Unmetered | 144,045,000 | 154,295,000 | 70,889,322 | 78,503,029 | 74,905,802 |
| Consumption Unaccounted for Water | 331,457,885 | 433,160,150 | 697,852,310 | 479,868,131 | 754,449,023 |
| Unaccounted for %(1) | 25.78% | 31.75% | 45.27% | 30.65% | 47.29% |

(1) Includes water used for in-plant uses, such as backwash water.

Customer Base

The number of Water System customers by classification, as of December 31 for each of the past five years, is as follows:

| <u>Customer Classification</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> |
|--------------------------------|-------------|-------------|-------------|-------------|-------------|
| Residential | 5,473 | 5,466 | 5,456 | 5,435 | 5,411 |
| Commercial | 623 | 624 | 627 | 636 | 633 |
| Industrial | 79 | 78 | 76 | 76 | 80 |
| Institutional | 9 | 9 | 9 | 9 | 9 |
| Bulk Sales | 1 | 1 | 1 | 1 | 1 |
| Total | 6,185 | 6,178 | 6,169 | 6,157 | 6,134 |

Source: Annual Consulting Engineer's Report for Operating Year Ending December 31, 2018.

Revenue by Customer Class

The Water System revenue generated by customer classification for the past five years is outlined below.

| <u>Customer Classification</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> |
|--------------------------------|-------------|-------------|-------------|-------------|-------------|
| Residential | \$1,743,004 | \$1,719,728 | \$1,793,899 | \$1,833,720 | \$1,866,237 |
| Commercial | 349,063 | 350,839 | 383,745 | 379,375 | 391,747 |
| Industrial | 1,114,420 | 1,076,226 | 1,250,108 | 1,231,085 | 1,249,787 |
| Institutional | 53,575 | 53,437 | 57,945 | 55,877 | 63,399 |
| Bulk Sales | 49,995 | 45,282 | 52,437 | 53,609 | 59,200 |
| Total | \$3,310,057 | \$3,245,512 | \$3,538,134 | 3,553,666 | 3,630,370 |

Top Water Customers

The top users of the Authority's Water System as of December 31, 2018 are shown in the table below, classified by revenue.

| <u>Customer</u> | <u>2018 Revenue</u> |
|--------------------------------------|-------------------------|
| American Refining Group | \$811,012 |
| Federal Correctional Institute | 228,400 |
| McKean County Housing Authority | 74,372 |
| Zippo Manufacturing Company | 60,671 |
| University of Pittsburgh at Bradford | 60,069 |
| Lewis Run Borough | 59,200 |
| Kaleida Health | 43,787 |
| Hennard, Todd L. (Rentals) | 32,364 |
| Emery Towers | 26,734 |
| Bradford Area School District | 19,066 |

Source: Authority officials

BRADFORD CITY WATER AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FISCAL YEARS ENDED DECEMBER 31,

| | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|
| Operating Revenues: | | | | | |
| Water service | \$3,418,186 | \$3,318,276 | \$3,641,185 | \$3,729,578 | \$3,765,937 |
| Merchandise sales and job work | 27,113 | 35,260 | 21,573 | 35,999 | 44,437 |
| Administration fees - sewer billing | <u>24,000</u> | <u>24,000</u> | <u>24,000</u> | <u>24,000</u> | <u>30,000</u> |
| Total Operating Revenues | 3,469,299 | 3,377,536 | 3,686,758 | 3,789,577 | 3,840,374 |
| Operating Expenses: | | | | | |
| Administrative | 1,003,735 | 1,118,653 | 1,246,961 | 1,225,205 | 1,117,620 |
| Collection and storage | 65,299 | 49,496 | 88,921 | 82,371 | 100,008 |
| Purification | 492,908 | 540,274 | 529,311 | 541,738 | 554,663 |
| Pumping | 118,553 | 134,096 | 133,754 | 116,435 | 135,229 |
| Distribution | 691,843 | 881,971 | 639,353 | 702,019 | 770,011 |
| Depreciation | 792,095 | 767,248 | 808,670 | 889,854 | 928,660 |
| Amortization | <u>140</u> | <u>139</u> | <u>133</u> | <u>124</u> | <u>810</u> |
| Total Operating Expenses | 3,164,573 | 3,491,877 | 3,447,103 | 3,557,746 | 3,607,001 |
| Operating Income | 304,726 | (114,341) | 239,655 | 231,831 | 233,373 |
| Nonoperating Revenues (Expenses) | | | | | |
| Net revenues sale of timber/mineral | 711,969 | 1,224,257 | 488,242 | 765,465 | 665,214 |
| Contributions to City of Bradford | (401,742) | (509,431) | (351,438) | (400,000) | (300,397) |
| Investment income | 9,628 | 9,164 | 9,752 | 20,191 | 43,444 |
| Interest expense | (319,566) | (235,806) | (231,719) | (220,347) | (205,706) |
| Gain (loss) on disposal of assets | 0 | 0 | (10,047) | 5,000 | 25,191 |
| Pollution remediation expense | 0 | 0 | 0 | (250,000) | (75,000) |
| Bond issuance costs | (164,410) | 0 | 0 | 0 | 0 |
| Capital contributions | 0 | 0 | 0 | 684,434 | 120,518 |
| Miscellaneous revenue | 91,093 | <u>54,385</u> | <u>66,238</u> | <u>49,755</u> | <u>63,913</u> |
| Total Nonoperating Revenues (Expenses) | (73,028) | 542,569 | (28,972) | 654,498 | 337,177 |
| Income before Capital Contributions | <u>231,698</u> | <u>428,228</u> | <u>210,683</u> | <u>886,329</u> | <u>570,550</u> |
| Capital Contributions | 220,565 | 3,736,256 | 0 | 0 | 0 |
| Change in Net Position | 452,263 | 4,164,484 | 0 | 0 | 0 |
| Net Position, Beginning of Year | 27,847,283 | 28,299,546 | 32,515,397 | 32,726,080 | 33,612,409 |
| Net Position, End of Year | <u>\$28,299,546</u> | <u>\$32,464,030</u> | <u>\$32,726,080</u> | <u>\$33,612,409</u> | <u>\$34,182,959</u> |

Source: Authority Audited Financial Statements.

RATING

S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P") is expected to assign their municipal bond rating to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the payment when due of the principal of and interest on the Bonds will be issued by _____. Currently, _____ financial strength is rated "____" (____ outlook) by S&P. S&P has assigned the Authority an underlying rating of "____" (____ outlook). There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by the rating agency if in its judgment circumstances so warrant. Any such downward revision or withdrawal of a rating may have an adverse effect on the marketability or market price of outstanding securities.

Such rating reflects only the view of S&P and any desired explanation of the significance of such rating should be obtained from S&P. A rating is not a recommendation to buy, sell or hold any of the Bonds. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own.

An explanation of the significance of the rating given by S&P may be obtained from Standard & Poor's at 55 Water Street, New York, New York 10041 (212-438-2124).

LEGAL MATTERS

Legal Opinions

The issuance and delivery of the Bonds are subject to the legal opinion of Eckert Seamans Cherin & Mellott, LLC, Harrisburg, Pennsylvania, Bond Counsel. Certain legal matters will be passed upon by Lang & Hvizdzak, PLLC, Bradford, Pennsylvania, Solicitor to the Authority.

Litigation

There is no litigation of any nature pending or, to its knowledge, threatened against the Authority at the date of this Official Statement to restrain or enjoin the issuance, sale, execution or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds, any proceedings of the Authority taken with respect to the issuance or sale thereof, the existence or powers of the Authority, or which, if determined adversely to the Authority would have a material adverse affect on its financial condition or affect the ability of the Authority to issue the Bonds, operate its water system, or grant the security pledged under the Indenture. At the time of delivery of the Bonds, the Authority will furnish a certificate to the effect that no such litigation is then pending.

Authorized Investments

Under the Probate, Estates and Fiduciaries Code, the Bonds are authorized investments for fiduciaries and personal representatives (as defined in that Code) in the Commonwealth of Pennsylvania.

Future Financing

The Authority currently maintains and updates from time to time a capital plan for the Water System. The capital plan is funded with various sources of funding including but not limited to operating revenues, grant funding and proceeds from long term financings. It is anticipated in the next two years, the Authority will undertake long term financing of approximately \$25,000,000 to add a redundant transmission main and rehabilitation of the existing transmission main to improve system performance.

Negotiability

The Bonds are investment securities under Article 8 of the Pennsylvania Uniform Commercial Code and are negotiable instruments to the extent provided therein.

TAX MATTERS

Federal

Exclusion of Interest from Gross Income

In the opinion of Bond Counsel, under existing statutes, regulations, rulings and court decisions, interest on the Bonds, including interest in the form of original issue discount, will not be includible in gross income of the holders thereof for federal income tax purposes assuming continuing compliance by the Authority with the requirements of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Bonds will not be a specific preference item for purposes of computing federal alternative tax on individuals.

In rendering its opinion, Bond Counsel has assumed compliance by the Authority with its covenants contained in the Resolution and its representations in the Tax Compliance Certificate executed by the Authority on the date of issuance of the Bonds relating to actions to be taken by the Authority after issuance of the Bonds necessary to effect or maintain the exclusion from gross income of the interest on the Bonds for federal income tax purposes. These covenants and representations relate to, *inter alia*, the use and investment of proceeds of the Bonds, and the rebate to the United States Department of Treasury of specified arbitrage earnings if any. Failure to comply with such covenants could result in interest on the Bonds becoming includible in gross income for federal income tax purposes from the date of issuance of the Bonds.

Other Federal Tax Matters

Ownership or disposition of the Bonds may result in other federal tax consequences to certain taxpayers, including, without limitation, certain S corporations, foreign corporations with branches in the United States, property and casualty insurance companies, taxpayers who have an initial basis in the Bonds greater or less than the principal amount thereof, individual recipients of Social Security or Railroad Retirement benefits, and taxpayers, including banks, thrift institutions and other financial institutions subject to Section 265 of the Code, who may be deemed to have incurred or continued indebtedness to purchase or to carry the Bonds.

Bond Counsel is not rendering any opinion regarding any federal tax matters other than as described under the caption “Exclusion of Interest from Gross Income-Bonds” above and expressly stated in the form of the opinion of Bond Counsel included as APPENDIX C. Prospective purchasers of the Bonds should consult their independent tax advisors with regard to all federal tax matters.

Pennsylvania

In the opinion of Bond Counsel, under the laws of the Commonwealth as enacted and construed on the date hereof, interest on the Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax, and the Bonds are exempt from personal property taxes in Pennsylvania; however, under the laws of the Commonwealth, as enacted and construed on the date hereof, any profits, gains or income derived from the sale, exchange or other disposition of the Bonds will be subject to Pennsylvania taxes and local taxes within the Commonwealth.

Bond Counsel is not rendering any opinion as to any Commonwealth of Pennsylvania tax matters other than those described under the caption “Pennsylvania” above and expressly stated in the form of the opinion of Bond Counsel included as APPENDIX C hereto.

Prospective purchasers of the Bonds should consult their independent tax advisors with regard to all Commonwealth of Pennsylvania tax matters.

Other

The Bonds and the interest thereon may be subject to state and local taxes in jurisdictions other than the Commonwealth under applicable state or local tax laws.

Purchasers of the Bonds should consult their independent tax advisors with regard to all state and local tax matters that may affect them.

QUALIFIED TAX-EXEMPT OBLIGATIONS

Each of the Bonds will be designated by the Authority as a “qualified tax-exempt obligation” pursuant to Section 265(b)(3) of the Code.

CONTINUING DISCLOSURE CERTIFICATE

In accordance with the requirements of Rule 15c-12 (the “Rule”) promulgated by the Securities and Exchange Commission (“SEC”), the Authority pursuant to the Resolution authorizing issuance of the Bonds, dated as of the Date of Delivery, will execute and deliver a written continuing disclosure obligation with respect to the Bonds. See the form of the Continuing Disclosure Agreement (the “Agreement”) at Appendix D to this Official Statement.

Under the terms of its Continuing Disclosure Agreement, the Authority will undertake to file with the Municipal Securities Rulemaking Board (MSRB) through its Electronic Municipal

Market Access (EMMA) System, which may be accessed on the internet at <http://www.emma.msrb.org>., financial and other information concerning the Authority (annual audited financial statements and notice of certain events affecting the Authority). The Authority’s obligations with respect to continuing disclosure shall terminate upon the prior redemption or payment in full of all of the Bonds.

The MSRB has been designated by the SEC to be the central and sole repository for continuing disclosure information filed by issuers of municipal securities since July 1, 2009. Information and notices filed by municipal issuers (and other “obligated persons” with respect to municipal securities issues) are made available through the MSRB’s Electronic Municipal Market Access (EMMA) System.

The Authority’s filing history of its annual financial statements and operating data during the past five (5) years is outlined in the table below:

| <u>Fiscal Year End</u> | <u>Filing Due Date</u> | <u>Audit Filing Date</u> | <u>Budget Filing Date</u> |
|----------------------------|----------------------------|------------------------------|-------------------------------|
| 12/31/2014* | 9/27/2015 | 9/30/2015 | 9/30/2015 |
| 12/31/2015 | 9/26/2016 | 9/12/2016 | 9/12/2016 |
| 12/31/2016 | 9/27/2017 | 9/19/2017 | 9/19/2017 |
| 12/31/2017 | 9/27/2018 | 9/19/2018 | 9/19/2018 |
| 12/31/2018 | 9/1/2019 | 4/11/2019 | 4/11/2019 |

*Failure to file posted to EMMA April 9, 2019

MISCELLANEOUS

The Trustee

The principal of, interest and premium, if any, on the Bonds will be payable at the designated corporate trust office of the Trustee, provided that interest may be paid by check drawn on the Trustee and mailed to the Registered Owner on the appropriate Record Date.

The obligations and duties of the Trustee are described in the Indenture and the Trustee has undertaken only those obligations and duties which are expressly set out in the Indenture. The Trustee has not independently passed upon the validity of the Bonds, the security therefore, the adequacy of the provisions for payment thereof or the tax-exempt status of the interest on the Bonds.

Underwriting

The Bonds are being purchased by the Underwriter. The Underwriter has agreed to purchase the Bonds at a purchase price of \$_____ (representing the principal amount of the Bonds plus net original issue premium of \$_____, less an underwriting discount of \$_____). The Bond Purchase Agreement for the Bonds provides that the Underwriter will purchase all the Bonds, if any are purchased, in accordance with its terms. The initial public offering price, set forth on the inside

front cover page of this Official Statement, may be changed by the Underwriter from time to time without any requirement of prior notice. The Underwriter reserves the right to join with other dealers in offering the Bonds to the public, and said Bonds offered to other dealers may be at prices lower than those offered to the public.

Financial Advisor

The Authority has retained Concord Public Financial Advisors, Inc., Lancaster, Pennsylvania as financial advisor (the “Financial Advisor”) in connection with the preparation, authorization and issuance of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in the Official Statement. The Financial Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading, or distributing municipal securities or other public securities.

Other

All the summaries of the provisions of the Act, and other laws, the Bonds and the Indenture hereinabove set forth are made subject to all the detailed provisions thereof, to which reference is hereby made for further information, and do not purport to be complete statements of any or all such provisions. Copies of the Indenture may be obtained from the Trustee for a complete statement of the terms and conditions thereof.

All information, estimates and assumptions herein have been obtained from officials of the Authority, other governmental bodies, trade and statistical services and other sources which are believed to be reliable, but no representations whatsoever are made that such estimates or assumptions are correct or will be realized. So far as any statements herein involve matters of opinion, whether or not expressly so stated, they are intended as such and not as representations of fact.

This Official Statement is not to be construed as a contract or agreement between or among the Authority and the purchasers or holders of any of the Bonds.

Appendices attached hereto are expressly incorporated herein as a part thereof.

BRADFORD CITY WATER AUTHORITY

By: _____
Chairman

APPENDIX A
BRADFORD CITY WATER AUTHORITY
DEMOGRAPHIC INFORMATION

BRADFORD CITY WATER AUTHORITY DEMOGRAPHIC AND INFRASTRUCTURE

General

The City of Bradford (the “City”) is located in the northwestern part of McKean County, which is in the northwestern region of Pennsylvania, on the New York border. The City is the largest municipality in McKean County and is the economic center of the area. The community relies on a diversified economy, including production of electronic components, machinery, pipe fittings and valves, cutlery, cigarette lighters, paper products and wood and petroleum products.

The City encompasses a land area of 3.45 miles. The 2010 U.S. Census population was 8,770.

Population

Shown below are statistics from the Bureau of Census illustrating population trends over the last three decades for the County of McKean (the “County”) and comparable statistics for the City of Bradford.

| | <u>2010</u> | <u>2000</u> | <u>1990</u> | <u>% Change 2000-2010</u> |
|------------------|-------------|-------------|-------------|-------------------------------|
| City of Bradford | 8,770 | 9,175 | 9,625 | (4.61)% |
| County of McKean | 43,450 | 45,936 | 47,131 | (5.72)% |
| Commonwealth | 12,702,379 | 12,281,054 | 11,884,643 | 3.23% |

Age and Households

A breakdown of age composition for the City, County and Commonwealth population is provided below:

| | Below 19 <u>Years</u> | 20-34 <u>Years</u> | 35-44 <u>Years</u> | 45-64 <u>Years</u> | 65+ <u>Years</u> |
|------------------|--------------------------|-----------------------|-----------------------|-----------------------|---------------------|
| City of Bradford | 2,329 | 1,788 | 1,117 | 2,241 | 1,295 |
| County of McKean | 10,510 | 7,522 | 5,772 | 12,265 | 7,381 |
| Pennsylvania | 3,179,390 | 2,385,265 | 1,615,669 | 3,562,748 | 1,959,307 |

Source: U.S. Census Bureau, Census 2010.

Housing

The table below shows housing data for the City, County and Commonwealth.

| | Total Housing <u>Units</u> | <u>Occupied Housing Units</u> | | | Persons Per <u>Household</u> |
|------------------|----------------------------------|-------------------------------|--------------------------|-------------------------|------------------------------------|
| | | Total <u>Occupied</u> | Owner <u>Occupied</u> | Median <u>Value*</u> | |
| City of Bradford | 4,157 | 3,653 | 1,890 | \$58,400 | 2.13 |
| County of McKean | 21,225 | 17,183 | 12,640 | 77,100 | 2.14 |
| Pennsylvania | 5,567,315 | 5,018,904 | 3,491,722 | 170,500 | 2.45 |

*Owner Occupied Housing Units; U.S. Census Bureau, 2013-2017 American Community Survey, 5-Year Estimates.
Source: U.S. Census Bureau, Census 2010.

Income

The table below shows recent trends in per capita income for the City, McKean County and the Commonwealth over the 2000 and 2017 (estimate) period.

| | <u>2000</u> | <u>2017*</u> | Percentage Change <u>2000-2017*</u> |
|------------------|-------------|--------------|---|
| City of Bradford | \$17,537 | \$22,065 | 20.52% |
| County of McKean | 16,777 | 24,868 | 32.54 |
| Pennsylvania | 20,880 | 31,476 | 33.66 |

Source: U.S. Census Bureau, Census 2000.

*U.S. Census Bureau, 2013-2017 American Community Survey, 5-Year Estimates.

CLASSIFICATION OF BERKS COUNTY MANUFACTURING EMPLOYMENT DISTRIBUTION OF EMPLOYMENT ERIE, PA MSA*

| | February <u>2019</u> | February <u>2018</u> |
|-------------------------------------|-------------------------|-------------------------|
| Total Nonfarm | 127,200 | 126,500 |
| Total Private | 110,800 | 110,200 |
| Goods Producing | 23,400 | 22,800 |
| Service-Providing | 103,800 | 103,700 |
| Private Service Providing | 87,400 | 87,400 |
| Mining, Logging, and Construction | 3,700 | 3,600 |
| Manufacturing | 19,700 | 19,200 |
| Trade, Transportation and Utilities | 20,900 | 21,100 |
| Information | 1,000 | 1,100 |
| Financial Activities | 6,500 | 6,300 |
| Professional and Business Services | 10,200 | 10,100 |
| Education and Health Services | 29,400 | 29,700 |
| Leisure and Hospitality | 13,400 | 13,100 |
| Other Services | 6,000 | 6,000 |
| Government | 16,400 | 16,300 |

Source: Pennsylvania State Employment Service

*Non-Agricultural Wage and Salary Employment; establishment data.

Unemployment Rates

| | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2019*</u> |
|----------------------------|-------------|-------------|-------------|-------------|-------------|--------------|
| McKean County | | | | | | |
| Civilian Labor Force (000) | 19.7 | 19.3 | 19.0 | 18.5 | 18.1 | 17.8 |
| Employment (000) | 18.1 | 18.1 | 17.8 | 17.3 | 17.0 | 17.1 |
| Unemployment (000) | 1.6 | 1.2 | 1.2 | 1.2 | 1.1 | 0.8 |
| Unemployment Rate | 8.2% | 6.4% | 6.1% | 6.6% | 6.2% | 4.2% |
| Pennsylvania | | | | | | |
| Civilian Labor Force (000) | 6,442.0 | 6,396.0 | 6,421.0 | 6,453.0 | 6,427.0 | 6,469.0 |
| Employment (000) | 5,968.0 | 6,021.0 | 6,080.0 | 6,105.0 | 6,112.0 | 6,209.0 |
| Unemployment (000) | 475.0 | 375.0 | 340.0 | 348.0 | 316.0 | 261.0 |
| Unemployment Rate (000) | 7.4% | 5.9% | 5.3% | 5.4% | 4.9% | 4.0% |

Source: Pennsylvania Department of Labor & Industry.

*As of February, 2019

Industrial and Commercial Employers. The major industrial and commercial employers located within the County and their approximate employment are shown hereunder:

| <u>Employer</u> | <u>Business Type</u> | <u>Approximate Employment</u> |
|----------------------------------|--------------------------|-------------------------------|
| Bradford Regional Medical Center | Hospital | 679 |
| Bradford Area School District | Education | 422 |
| ARG Refinery | Manufacturing | 255 |
| Dresser Manufacturing | Manufacturing | 170 |
| Ecumenical Home | Nursing Care Facility | 163 |
| Zippo | Manufacturing | 128 |
| Guidance Center | Mental Health Counseling | 118 |
| KOA Speer Electronics | Manufacturing | 97 |
| City of Bradford | Local Government | 80 |
| Graham Packaging | Manufacturing | 75 |

Source: City Officials

Recreation and Tourism

The Allegheny National Forest, a portion of which is located in McKean County, provides outdoor recreational activities year round, including boating, fishing, hunting, camping, cross country skiing, downhill skiing and hiking trails. The Kinzua Dam recreational area, with approximately 11 miles of shoreline, is located within the Allegheny National Forest.

Education

The City is one of six municipalities which comprise the Bradford Area School District (the “School District”), the others being the Borough of Lewis Run and the Townships of Bradford, Corydon, Foster and LaFayette. The School District includes two elementary schools, one middle school and one high school.

The University of Pittsburgh, Bradford Center, located in the City, is a state-related four year college, offering bachelor’s degree programs for approximately 1,400 students. Nearby, St. Bonaventure University in Allegany, New York provides both bachelor and graduate degrees for approximately 1,600 students.

APPENDIX B

AUTHORITY AUDITED FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDING DECEMBER 31, 2018

**BRADFORD CITY WATER AUTHORITY
A COMPONENT UNIT OF
THE CITY OF BRADFORD**

REPORT ON FINANCIAL STATEMENTS

**YEARS ENDED
DECEMBER 31, 2018 AND 2017**

BRADFORD CITY WATER AUTHORITY

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Bradford City Water Authority
Bradford, Pennsylvania

We have audited the accompanying financial statements of the **Bradford City Water Authority**, a component unit of the City of Bradford, Pennsylvania, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Water 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 fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 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 financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on 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 financial statement presentation.

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 **Bradford City Water Authority** as of December 31, 2018 and 2017, and the changes in its financial position and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 6, schedule of employer contributions on page 20, and the schedule of net pension liability and related ratios on page 21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Matters (continued)

Other information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise **Bradford City Water Authority's** basic financial statements. The schedules of costs of sales and services and administrative expenses (page 18) and statement of revenues, expenses and changes in net position – budget and actual (page 19) is presented for purposes of additional analysis and is not a required part of the financial statements. The schedules of costs of sales and services and administrative expenses and statement of revenues, expenses and changes in net position – budget and actual are the responsibility of management and was derived from and relates 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2019, on our consideration of **Bradford City Water 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 the 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 **Bradford City Water Authority's** internal control over financial reporting and compliance.

Buffamante Whipple Buttafaro PC

BUFFAMANTE WHIPPLE BUTTAFARO, P.C.

**Olean, New York
March 20, 2019**

I. Discussion and Analysis

The following is a discussion and analysis of the *Bradford City Water Authority* financial performance for the year ended December 31, 2018. This section is a summary of the Authority's financial activities based on currently known facts, decisions, or conditions. It is based on the financial statements. The results of the current year in comparison with the prior year are discussed in the following paragraphs. This section is only an introduction and should be read in conjunction with the Authority's financial statements, which follow this section.

II. Financial Highlights

The following items are the financial highlights experienced by the *Bradford City Water Authority* during the year ended December 31, 2018:

- Overall net position increased approximately \$571,000 for the year ended December 31, 2018.
- The Authority's total revenue was approximately \$4,759,000 during 2018 as compared with approximately \$5,314,000 during 2017. This was primarily due to a decrease in capital contributions in the current year.
- The Authority's total expenses and other uses were approximately \$4,188,000 during 2018 as compared to approximately \$4,428,000 during 2017. This decrease was primarily related to pollution remediation costs incurred in the prior year as well as a decrease in the City of Bradford share of mineral and timber sales.
- The Authority had capital purchases during the current year in the amount of \$1,189,000 which is related to the insertion valve project, Helen Lane line replacement, gravel storage building and many small construction projects.

III. Overview of the Financial Statements

This annual report consists of three parts: MD&A (this section), the basic financial statements, and required supplementary information.

A. Reporting the Agency as a Whole:

The financial statements report information about the entity as a whole using accounting methods similar to those used by private-sector companies.

1. Statements of Net Position

The Statement of Net Position (page 7) shows the "assets" (what is owned) deferred outflows of resources, "liabilities" (what is owed) deferred inflows of resources, and the "net position" (the resources that would remain if all obligations were settled) of the Water Authority. The Statement categorizes assets to show that some assets are very liquid, such as cash and cash equivalents. Some assets are designated for certain purposes or reserved for emergencies and cash flow purposes. Some assets are available to fund budgets of the following year.

2. Statements of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position (page 8) shows the amounts of the business activities over the course of the fiscal year and information as to how the net position changed during the year.

3. Statements of Cash Flow

The Statement of Cash Flows (page 9) presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipts and cash disbursement information without considering when funds are earned, when an expense arises, or depreciation of capital assets.

**BRADFORD CITY WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2018**

IV. Financial Analysis of the Water Authority as a Whole

Net Position

The Authority's total net position increased approximately \$571,000 during the year and totaled approximately \$34,183,000 as of December 31, 2018.

Revenue

The Authority's total revenue and other sources were approximately \$4,759,000 during the year ended December 31, 2018.

Figure A-2 presents the major sources of revenue of the Authority. The most significant sources of governmental revenue in the Authority are more thoroughly discussed as follows:

- Revenue from water service charges represents approximately 79% of the Authority's total revenue increased approximately \$36,000 or 1% during the year ended December 31, 2018. This increase was the result of an increase in water consumption.
- Revenue from sale of timber represents approximately 1% of the Authority's total revenue decreased approximately \$100,000 during 2018 compared to that of 2017. This was primarily a result of more timber contracts in the prior year.
- Revenue from capital contributions represents approximately 2% of the Authority's total revenue decreased approximately \$563,000 during 2018 compared to that of 2017. This was primarily a result of fewer capital projects in the current year.

Expenses

The total cost of all programs and services of the Authority was approximately \$4,188,000. The Authority's expenses consist primarily of administrative, collection and storage, purification, pumping, and distribution expenses related to their water services.

The Authority's expenses are more thoroughly discussed as follows:

- The Authority's administrative expenses represents approximately 27% of the total expenses and decreased approximately \$107,000 during 2018 compared to that of 2017. This decrease in costs was primarily the result of employee benefits decreasing due to GASB 68.

IV. Financial Analysis of the Water Authority as a Whole (continued)

Expenses (continued)

- The Authority's distribution expense represents approximately 18% of the total expenses and increased approximately \$68,000 during 2018 compared to that of 2017. This increase in costs was primarily the result of an increase in materials and supplies due to paving projects in the current year.
- The Authority's purification expense represents approximately 13% of the total expenses and increased approximately \$13,000 during 2018 compared to that of 2017. This increase in costs was primarily the result of an increase in utilities.
- All other operating costs of the Authority totaled approximately \$1,165,000 in 2018. This represents depreciation, amortization, collection and storage, and pumping. Other operating costs increased approximately \$76,000 primarily related to higher depreciation.
- Non-operating expenses of the Authority totaled approximately \$581,000 and represents the City of Bradford share of mineral and timber sales, interest expense, and pollution remediation costs. These costs decreased by approximately \$289,000 which was primarily due to the lagoon remediation costs incurred in the prior year.

Figure A-1 – Statements of Net Position

| <i>Bradford City Water Authority Statements of Net Position</i> | | | |
|---|----------------------|----------------------|----------|
| | Total | | |
| | 2018 | 2017 | % Change |
| Assets | | | |
| Current and other assets | \$ 7,546,920 | \$ 7,584,330 | 0% |
| Capital assets, net | 34,103,457 | 33,765,414 | 1% |
| Total assets | 41,650,377 | 41,349,744 | 1% |
| Deferred outflows of resources | | | |
| Deferred outflows related to pensions | 155,498 | 308,390 | -50% |
| Deferred outflows of resources and assets | \$ 41,805,875 | \$ 41,658,134 | 0% |
| Liabilities | | | |
| Current liabilities | \$ 1,057,808 | \$ 998,345 | 6% |
| Long-term liabilities | 6,111,026 | 6,995,662 | -13% |
| Total liabilities | 7,168,834 | 7,994,007 | -10% |
| Deferred inflows of resources | | | |
| Deferred inflows related to pensions | 454,082 | 51,718 | 778% |
| Deferred inflows of resources and liabilities | 7,622,916 | 8,045,725 | -5% |
| Net position | | | |
| Net investment in capital assets | 27,456,256 | 26,692,347 | 3% |
| Unrestricted | 6,726,703 | 6,920,062 | -3% |
| Total net position | 34,182,959 | 33,612,409 | 2% |
| Total liabilities and net position | \$ 41,805,875 | \$ 41,658,134 | 0% |

Figure A-2 Statements of Revenues, Expenses and Changes in Net Position

| Bradford City Water Authority Statement of Revenues, Expenses and Changes in Net Position | | | |
|--|-------------------|-------------------|-------------|
| | Total | | |
| | 2018 | 2017 | % Change |
| Operating Revenue | | | |
| Water service | \$ 3,765,937 | \$ 3,729,578 | 1% |
| Merchandise sales and job work | 44,437 | 35,999 | 23% |
| Sewer billing | 30,000 | 24,000 | 25% |
| Total revenue | 3,840,374 | 3,789,577 | 1% |
| Operating Expenses | | | |
| Administration | 1,117,620 | 1,225,205 | -9% |
| Collection and storage | 100,008 | 82,371 | 21% |
| Purification | 554,663 | 541,738 | 2% |
| Pumping | 135,229 | 116,435 | 16% |
| Distribution | 770,011 | 702,019 | 10% |
| Depreciation | 928,660 | 889,854 | 4% |
| Amortization | 810 | 124 | 553% |
| Total | 3,607,001 | 3,557,746 | 1% |
| Non-operating Revenues (Expenses) | | | |
| Net revenues from sale of timber | 665,214 | 765,465 | -13% |
| City of Bradford share of mineral and timber sales | (300,397) | (400,000) | -25% |
| Investment income | 43,444 | 20,191 | 115% |
| Interest expense | (205,706) | (220,347) | -7% |
| Gain (loss) on disposal of assets | 25,191 | 5,000 | 404% |
| Pollution remediation expense | (75,000) | (250,000) | n/a |
| Capital contributions | 120,518 | 684,434 | n/a |
| Miscellaneous revenue | 63,913 | 49,755 | 28% |
| Total | 337,177 | 654,498 | -48% |
| Change in net position | \$ 570,550 | \$ 886,329 | -36% |

Figure A-3 Sources of Revenue

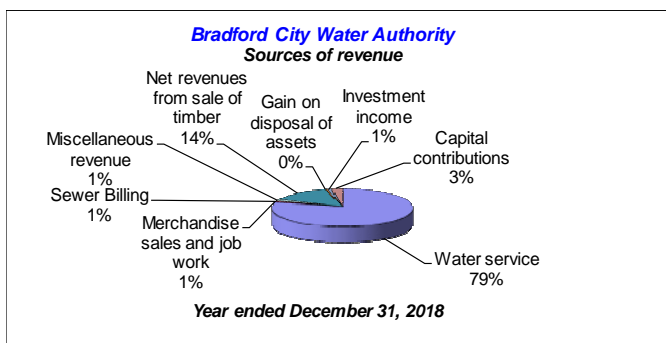
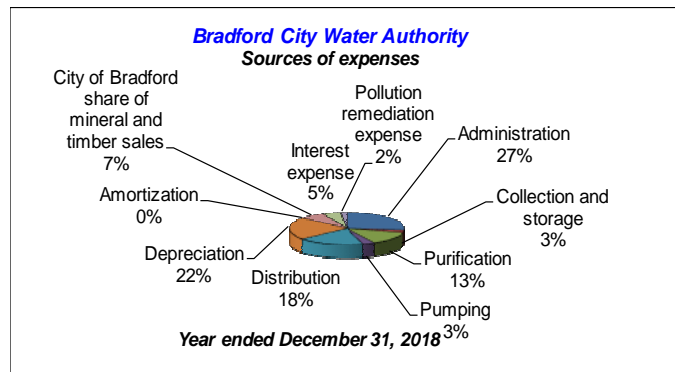


Figure A-4 - Expenses



V. Capital Asset and Debt Administration

Capital Assets

As depicted in Figure A-5, as of December 31, 2018, the Authority had invested approximately \$34,103,000 in a broad range of capital assets, including improvements, water treatment plant, and construction in progress. Capital additions during the year ended December 31, 2018, totaled \$1,189,384 which is related to the insertion valve project, Helen Lane line replacement, gravel storage building and many small construction projects.

Long-term Debt

As depicted in Figure A-6, as of December 31, 2018, the Authority had approximately \$6,585,000 revenue bonds which decreased approximately \$514,000. This decrease was related to the Authority making regular principal payments on long term debt. The Authority had approximately \$0 in a net pension liability which decreased approximately \$362,000, and compensated absences of approximately \$93,000 which increased \$5,000.

Figure A-5 – Capital Assets

| Bradford City Water Authority Capital Assets | | | | |
|---|-----------|-------------------|-----------|-------------------|
| | 2018 | | 2017 | |
| Office equipment | \$ | 88,867 | \$ | 88,867 |
| Building and improvements | | 205,615 | | 196,885 |
| Source of supply plant | | 17,620,802 | | 17,437,949 |
| Pumping plant | | 840,078 | | 831,984 |
| Water treatment plant | | 11,835,072 | | 11,762,302 |
| Trans & distribution plant | | 16,742,969 | | 16,321,554 |
| General plant | | 2,422,890 | | 2,210,760 |
| Timber & mineral assets | | 256,282 | | 256,282 |
| Construction-in-progress | | 411,370 | | 128,928 |
| Accumulated depreciation | | (16,320,488) | | (15,470,097) |
| Capital Assets - net | \$ | 34,103,457 | \$ | 33,765,414 |

Figure A-6 – Long-term Debt

| Bradford City Water Authority Outstanding Long-Term Debt and Liabilities | | | | |
|---|-----------|------------------|-----------|------------------|
| | 2018 | | 2017 | |
| Compensated absences | \$ | 92,578 | \$ | 87,831 |
| Net pension liability | | - - | | 361,609 |
| Water revenue bonds | | 6,585,000 | | 7,099,190 |
| Long-term debt and liabilities | \$ | 6,677,578 | \$ | 7,548,630 |

VI. Factors Bearing on the Water Authority's Future

At the time these financial statements were prepared and audited, the Authority was not aware of any existing circumstances that could significantly affect its financial health in the future:

VII. Contacting the Water Authority's Financial Management

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the finances of the Authority and to demonstrate our accountability with the money we receive. If you have any questions about this report or need additional financial information, please contact:

Attention: Steve L. Disney, Executive Director
Bradford City Water Authority
28 Kennedy Street
Bradford, Pennsylvania 16701

BRADFORD CITY WATER AUTHORITY
STATEMENTS OF NET POSITION
AS OF DECEMBER 31,

| | 2018 | 2017 |
|---|---------------|---------------|
| Assets | | |
| Cash and cash equivalents | | |
| Unrestricted | \$ 6,177,071 | \$ 6,498,507 |
| Receivables | | |
| Timber and mineral receivables | 141,184 | 68,190 |
| Other receivables, net of allowance for uncollectible accounts | 696,759 | 673,574 |
| Capital contribution receivable | - | 103,535 |
| Prepaid insurance | 5,782 | 6,698 |
| Material and supply inventories | 278,626 | 233,826 |
| Capital assets, net | 34,103,457 | 33,765,414 |
| Net pension asset | 247,498 | - |
| Total assets | 41,650,377 | 41,349,744 |
| Deferred Outflows of Resources | | |
| Deferred outflows related to pensions | 155,498 | 308,390 |
| Total assets and deferred outflows of resources | \$ 41,805,875 | \$ 41,658,134 |
| Liabilities, Deferred Inflows of Resources, and Net Position | | |
| Liabilities | | |
| Current liabilities | | |
| Accrued salaries and withholdings | \$ 25,539 | \$ 21,956 |
| Current compensated absences | 41,552 | 37,968 |
| Accounts payable | 33,208 | 30,890 |
| Other payables - timber and mineral | 85,318 | 64,514 |
| Accrued revenue bond interest | 49,495 | 52,070 |
| Capital accounts payable | 111,696 | 25,947 |
| Pollution remediation obligation | 186,000 | 250,000 |
| Current maturities of revenue bonds | 525,000 | 515,000 |
| Total current liabilities | 1,057,808 | 998,345 |
| Long-term liabilities | | |
| Revenue bonds, net of current maturities | 6,060,000 | 6,584,190 |
| Net pension liability | - | 361,609 |
| Compensated absences, less current | 51,026 | 49,863 |
| Total long-term liabilities | 6,111,026 | 6,995,662 |
| Deferred Inflows of Resources | | |
| Deferred inflows related to pensions | 454,082 | 51,718 |
| Total liabilities | 7,622,916 | 8,045,725 |
| Net Position | | |
| Net investment in capital assets | 27,456,256 | 26,692,347 |
| Unrestricted | 6,726,703 | 6,920,062 |
| Total net position | 34,182,959 | 33,612,409 |
| Total liabilities, deferred inflows of resources, and net position | \$ 41,805,875 | \$ 41,658,134 |

BRADFORD CITY WATER AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31,

| | 2018 | 2017 |
|--|----------------------|----------------------|
| Operating revenue | | |
| Water service | \$ 3,765,937 | \$ 3,729,578 |
| Merchandise sales and job work | 44,437 | 35,999 |
| Administrative fees - sewer billing | 30,000 | 24,000 |
| Total operating revenue | <u>3,840,374</u> | <u>3,789,577</u> |
| Operating expenses | | |
| Administration | 1,117,620 | 1,225,205 |
| Collection and storage | 100,008 | 82,371 |
| Purification | 554,663 | 541,738 |
| Pumping | 135,229 | 116,435 |
| Distribution | 770,011 | 702,019 |
| Depreciation | 928,660 | 889,854 |
| Amortization | 810 | 124 |
| Total operating expenses | <u>3,607,001</u> | <u>3,557,746</u> |
| Operating income | <u>233,373</u> | <u>231,831</u> |
| Non-operating revenues (expenses) | | |
| Net revenues from sale of timber and mineral | 665,214 | 765,465 |
| City of Bradford share of mineral and timber sales | (300,397) | (400,000) |
| Investment income | 43,444 | 20,191 |
| Interest expense | (205,706) | (220,347) |
| Gain on disposal of assets | 25,191 | 5,000 |
| Pollution remediation expense | (75,000) | (250,000) |
| Capital contributions | 120,518 | 684,434 |
| Miscellaneous revenue | 63,913 | 49,755 |
| Total non-operating revenues (expenses) | <u>337,177</u> | <u>654,498</u> |
| Change in net position | 570,550 | 886,329 |
| Net position, beginning of year | <u>33,612,409</u> | <u>32,726,080</u> |
| Net position, end of year | <u>\$ 34,182,959</u> | <u>\$ 33,612,409</u> |

BRADFORD CITY WATER AUTHORITY
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31,

| | 2018 | 2017 |
|--|---------------------|---------------------|
| Cash flows from operating activities | | |
| Cash received from customers | \$ 3,787,189 | \$ 3,719,922 |
| Cash received from administrative fees - sewer billing | 30,000 | 24,000 |
| Cash paid to suppliers | (1,639,523) | (1,376,373) |
| Cash paid to or on behalf of employees | (1,125,095) | (1,238,863) |
| Net cash provided by operating activities | <u>1,052,571</u> | <u>1,128,686</u> |
| Cash flows from investing activities | | |
| Investment income | 43,444 | 20,191 |
| Net cash received from sales of timber and mineral | 620,772 | 772,036 |
| Cash contributions to City of Bradford for share of mineral and timber sales | (300,397) | (400,000) |
| Net cash provided by investing activities | <u>363,819</u> | <u>392,227</u> |
| Cash flows from noncapital financing activities | | |
| Miscellaneous receipts | 63,913 | 49,755 |
| Pollution remediation payments | (139,000) | - |
| Net cash provided by (used in) noncapital financing activities | <u>(75,087)</u> | <u>49,755</u> |
| Cash flows from capital and related financing activities | | |
| Acquisition and construction of capital assets | (1,189,384) | (1,545,519) |
| Capital contributions | 224,053 | 580,899 |
| Cash receipts from sale of capital assets | 25,873 | 29,050 |
| Interest payments | (208,281) | (224,369) |
| Principal payments on revenue bonds | (515,000) | (495,000) |
| Net cash used in capital and related financing activities | <u>(1,662,739)</u> | <u>(1,654,939)</u> |
| Net decrease in cash and cash equivalents | (321,436) | (84,271) |
| Cash and cash equivalents, beginning of year | <u>6,498,507</u> | <u>6,582,778</u> |
| Cash and cash equivalents, end of year | <u>\$ 6,177,071</u> | <u>\$ 6,498,507</u> |
| Reconciliation of income from operations to net cash provided by operating activities | | |
| Income from operations | \$ 233,373 | \$ 231,831 |
| Adjustments | | |
| Depreciation | 928,660 | 889,854 |
| Amortization | 810 | 124 |
| Change in net pension asset/liability, net of amortization of deferred inflows and outflows | (53,851) | 78,983 |
| Changes in operating assets and liabilities | | |
| Increase in material and supply inventories | (44,800) | (16,383) |
| Decrease in prepaid expenses | 916 | 1,069 |
| Increase in other receivables | (23,185) | (45,655) |
| Increase in accrued salaries and withholdings | 3,583 | 1,118 |
| Increase (decrease) in accounts payable | 2,318 | (7,474) |
| Increase (decrease) in compensated absences | 4,747 | (4,781) |
| Net cash provided by operating activities | <u>\$ 1,052,571</u> | <u>\$ 1,128,686</u> |

BRADFORD CITY WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Bradford City Water Authority, located in Bradford, Pennsylvania, was established in 1953 to finance the construction and operation for the Bradford Municipal Water system. The Authority, an operating authority, is incorporated under the Municipal Authorities Act of 1945. It is an uncombined unit of the City of Bradford, from which its board members are appointed.

The Authority's operations consist primarily of the sale of water to customers in the City of Bradford and surrounding townships on credit terms that the Authority establishes for individual customers. The Authority's sales are to industrial, commercial, and residential customers. The Authority does not have taxing powers and operations are funded from customer revenues for their water services. The acquisition and construction of property and equipment are funded with these customer revenues, capital contributions, and the general net position of the Authority.

Basis of Accounting

The financial statements of the **Bradford City Water Authority** have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

All activities of the Authority are combined within a single proprietary fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operations are included in the statements of net assets. Net position (i.e., total position net of total liabilities) is segregated into net investment in capital assets, restricted, and unrestricted components.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (continued)

The principal operating revenues of the Authority are charges to customers for water services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those results.

Cash and Cash Equivalents

For the purposes of the Statements of Cash Flows, the Water Authority considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Property and Equipment

Land, buildings, and equipment are stated at acquisition cost, with the following exception: valuation of the transmission-distribution plant is based on replacement costs for assets acquired prior to December 31, 1982. Valuation of general plant assets acquired before August 1, 1978, is based on "sound value" which is estimated cost. Expenditures for maintenance and repairs are charged to income currently. Renewals or betterments are capitalized. When items of property or equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in revenues. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

It is the Authority's policy to capitalize assets purchased that cost \$2,500 or more individually.

Assets are depreciated on the straight-line method. Deprecation is calculated using the following estimated useful lives:

| | Years |
|---|--------|
| Source of supply plant | 10-50 |
| Pumping plant | 10-50 |
| Water treatment plant | 10-50 |
| Transmission – distribution plant | 10-100 |
| General plant | 3-40 |
| Office building and building improvements | 5-40 |
| Timberlands | 5-20 |

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Timberlands

Costs attributed to forest regeneration are charged against income when incurred. The costs of roads and land improvements are capitalized and depreciated over their economic lives.

Capital Contributions

Capital contributions are recognized in the statements of revenues, expenses, and changes in net position when earned. Capital contributions include federal and state grants in support of system improvements, private contributions, and contributed constructed water systems from surrounding municipalities.

Compensated Absences

Employees of the Authority are entitled to paid vacation and personal days, depending on job classification, length of service, and other factors. Employees are represented by a labor union, and the contract contains provisions for employee-compensated absences. In addition, management and other non-union employees have agreements with the Authority that provide for paid vacation and personal days. The liability for compensated absences (paid vacation and personal days) is based upon unpaid accumulated amounts at year-end.

Reclassifications

Certain amounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

Restricted assets, cash, investments, and receivables

In accordance with the terms of the trust indenture securing the bonded debt, monies of the Authority are segregated in various accounts for specific use and for the security of the bondholders and maintained by an independent trustee. The cash basis of accounting is used by the trustee in accordance with the terms of the trust indenture. These accounts are adjusted to the accrual basis of accounting at year-end.

A. Clearing account

Cash Reserve account associated with all receipts and revenue of the water system to disburse administrative and operating expenses of the Authority by requisitions. The balance as of December 31, 2018 and 2017 totaled \$1,429,004 and \$2,129,291, respectively.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted assets, cash, investments, and receivables (continued)

The Authority's revenue bond agreements has a debt reserve requirement in the amount of \$724,363. The Authority purchased an insurance policy that would cover a value of up to \$724,363 in the event of a default.

Restricted assets also include customer accounts receivable used for operating and capital expenses of the water system. Operating revenues are required by the trust indenture to be deposited into the clearing account, and as a result, are considered restricted.

The Authority's policy for restricted and unrestricted resources is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Deferred Outflows and Inflows of Resources

The Authority reports decreases in net position that relate to future periods as deferred outflows of resources in a separate section of its financial statements. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority has two items that qualify for reporting in this category. The first item is related to collective differences during the measurement period between the actual and expected experience and earnings, along with any changes in assumptions. The second item is the Authority's contributions to the pension systems subsequent to the measurement date.

The Authority reports increases in net assets that relate to future periods as deferred inflows of resources in a separate section of its financial statements. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has one item that qualifies for reporting in this category. This represents the collective differences during the measurement period between the actual and expected experience.

BRADFORD CITY WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 2 – CASH AND INVESTMENTS

Deposits and Custodial Risk

The Water Authority investment policies are governed by State statutes. Authority monies must be deposited in FDIC-insured commercial banks or trust companies located within the Commonwealth of Pennsylvania. Deposits in excess of amounts covered by the Federal Deposit Insurance Corporation are collateralized in accordance with Act 72 of 1971 of the Pennsylvania State Legislature, which requires financial institutions to pool collateral for all governments and have the collateral held by an approved custodian in the institutions' names. The financial institution balances at December 31, 2018, per the bank, were approximately \$6,392,000 of which \$750,000 was secured by FDIC insurance and \$5,642,000 was secured by the banks as required by Act 72 of 1971.

Investments

Investing is performed in accordance with investment policies complying with state statutes. Funds may be invested in: (1) direct obligations of the United States government pledged by its full faith and credit; (2) certificates of deposit at savings and loan associations and federally insured banks, when fully insured; and (3) savings accounts at savings and loan associations and banks, to the extent fully insured; and (4) any bond, note, or other indebtedness issued by agencies, authorities, or public entities issued by any public trust of which the Authority is the sole beneficiary. The Authority has no policy that would further limit its investment choices.

The market value of the investments at December 31, 2018 is based on unadjusted quoted prices in active markets for identical assets and liabilities.

At December 31, 2018 and 2017, the Authority had investments with First American Government Obligation Fund CI Y in the amounts of \$1,351,157 and \$1,458,081, respectively and are reported as unrestricted cash on the statement of net position.

NOTE 3 – RECEIVABLES

Accounts receivables are composed of the following amounts for the years ended December 31, 2018 and 2017:

| | 2018 | 2017 |
|---------------------------------|------------|------------|
| Billed customer services | \$ 380,753 | \$ 381,766 |
| Unbilled services | 388,004 | 391,455 |
| Other services | 32,212 | 4,563 |
| Allowance for doubtful accounts | (104,210) | (104,210) |
| Total other receivable | \$ 696,759 | \$ 673,574 |
| Timber and mineral receivables | \$ 141,184 | \$ 68,190 |
| Contribution receivable | \$ - | \$ 103,535 |

NOTE 4 - PROPERTY AND EQUIPMENT

Major classes of property and equipment consist of the following as of December 31:

| | Beginning Balance 12/31/17 | Net Change | Ending Balance 12/31/18 |
|-----------------------------------|----------------------------|--------------|-------------------------|
| Capital assets in service | | | |
| Source of supply plant | \$ 17,437,949 | \$ 182,853 | \$ 17,620,802 |
| Pumping plant | 831,984 | 8,094 | 840,078 |
| Water treatment plant | 11,762,302 | 72,770 | 11,835,072 |
| Transmission - distribution plant | 16,321,552 | 421,417 | 16,742,969 |
| General plant | 2,210,762 | 212,128 | 2,422,890 |
| Office buildings and improvements | 285,752 | 8,730 | 294,482 |
| Timberlands | 256,282 | -- | 256,282 |
| Capital assets in service | 49,106,583 | 905,992 | 50,012,575 |
| Construction in progress | | | |
| Transmission Main | -- | 168,175 | 168,175 |
| Carbon injection system | -- | 30,736 | 30,736 |
| Gilbert Bridge | -- | 119,201 | 119,201 |
| Helen Lane relocation | 78,074 | (78,074) | -- |
| Marilla improvements | 11,219 | (11,219) | -- |
| GIS | 32,216 | 21,657 | 53,873 |
| Misc. | 7,419 | 31,966 | 39,385 |
| Total construction in progress | 128,928 | 282,442 | 411,370 |
| Total capital assets | 49,235,511 | 1,188,434 | 50,423,945 |
| Less accumulated depreciation: | (15,470,097) | \$ (850,391) | (16,320,488) |
| Total net book value | \$ 33,765,414 | | \$ 34,103,457 |

Depreciation expense for the years December 31, 2018 and 2017 was allocated as followed:

| | 2018 | 2017 |
|--|------------|------------|
| Operating expenses | \$ 928,660 | \$ 889,854 |
| Net revenues from sale of timber and mineral | 7,748 | 8,630 |
| | \$ 936,408 | \$ 898,484 |

BRADFORD CITY WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 5 - LONG-TERM DEBT

Summary

General long-term debt obligations and long-term liabilities changed as follows:

| | Balance at Dec. 31, 2018 | Balance at Dec. 31, 2017 | Amounts Due Within One Year |
|--------------------------|-----------------------------------|-----------------------------------|---|
| Compensated absences | \$ 92,578 | \$ 87,831 | \$ 41,552 |
| Net pension liability | -- | 361,609 | -- |
| 2014 Series bond | 6,585,000 | 7,099,190 | 525,000 |
| | <u>\$ 6,677,578</u> | <u>\$ 7,548,630</u> | <u>\$ 566,552</u> |

Changes

During the year, the Authority made principal payments on its revenue bond in the amount of \$515,000. The net change in compensated absences was a net increase of \$4,747 during the year. Lastly, the net change in the pension liability was a net decrease of \$361,609 in the current year. The net pension liability changed to net pension asset during the year.

Long-term Debt Interest

Interest expense for the year ended December 31, 2018 and 2017 totaled \$205,706 and \$220,347, respectively.

Revenue Bonds Payable

The following is a description of the terms of the long-term bonds issued in connection with the Authorities construction projects:

| | <u>Amount Outstanding</u> |
|--|-------------------------------|
| 2014 Series to refund the Series of 2002 and 2008 to fund the debt service reserve account. Have a maturity date of October 1, 2029, bonds carry interest from 0.20% to 3.75%. | <u>\$ 6,585,000</u> |

Maturity Schedule

A summary of the principal and interest payments is as follows:

| December 31, | <u>2014 Series</u> | |
|--------------|---------------------|---------------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2019 | \$ 525,000 | \$ 197,981 |
| 2020 | 535,000 | 187,481 |
| 2021 | 545,000 | 176,781 |
| 2022 | 560,000 | 163,838 |
| 2023 | 575,000 | 149,138 |
| 2024-2028 | 3,150,000 | 463,888 |
| 2029 | 695,000 | 26,063 |
| Total | <u>\$ 6,585,000</u> | <u>\$ 1,365,170</u> |

NOTE 5 - LONG-TERM DEBT (CONTINUED)

Debt Issuance Costs

Debt issuance costs resulting from bond and other debt refinancing are expensed in the year they were incurred.

Bond Premiums and Discounts

Bond premiums earned and bond discounts resulting from bond and other debt refinancing are being amortized over the life of the related debt using the interest method. These premiums and discounts are deferred and added to or subtracted from the outstanding principal balances for the bonds.

NOTE 6 – RETIREMENT PLAN

Administration

The Bradford City Water Authority pension plan is a single-employer defined benefit pension plan controlled by the provisions of a resolution dated January 27, 1987, adopted pursuant to Act 15. The plan participates in the Pennsylvania Municipal Retirement System (PMRS) which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. Responsibility for the organization and administration of PMRS is vested in the eleven member Board. Each individual municipality has the authority to amend its respective benefits and employee contribution rates subject to the Board approval. PMRS issues a separate Comprehensive Annual Financial Report (CAFR). A copy of the CAFR can be obtained by contacting the PMRS accounting office at Pennsylvania Municipal Retirement System, PO Box 1165, Harrisburg, PA 17108.

Funding

At January 1, 2017, plan membership consisted of the following:

| | |
|--|-----------|
| Inactive employees or beneficiaries currently receiving benefits | 9 |
| Inactive employees entitled to but not yet receiving benefits | 1 |
| Active employees | 17 |
| Total participant count | <u>27</u> |

The Authority contributes 8%-11% of covered wages per eligible employee per year. Employees are required to contribute 5% of covered wages and can make voluntary contributions up to 18% of wages.

NOTE 6 - RETIREMENT PLAN (CONTINUED)

Plan Description

Covered employees: Membership in the Plan is mandatory for full-time municipal employees of the Authority and prohibited for elected officials, part-time employees, seasonal and temporary employees.

Retirement: A member shall be eligible for a superannuation retirement benefit upon reaching sixty years of age. A member who terminates service after twenty years of credit service may apply for an early retirement benefit. The retirement benefit will be actuarial reduced for each year or partial year prior to the superannuation retirement age that early retirement takes place.

Vesting: A member shall vest upon the completion of three years of credited service provided the member files an application to vest with the Board within ninety days of the Member's Date of Termination of Service.

Retirement Benefit: The annual basic benefit shall equal to a single life annuity starting on the effective date of retirement with a present value equal to the member's accumulated deductions and municipal contribution made on behalf of the member. An annual excess interest benefit shall be equal to a single life annuity starting on the effective date of retirement with a present value equal to the member's excess investment account.

Death Benefit: In the event of the death of an annuitant who has elected to receive a single life annuity before the annuitant has received in total annuity payments an amount equal to the full amount of the accumulated deductions plus excess interest standing to the member's credit on the effective date of retirement, the difference between the total payments made to the date of death and the accumulated deductions plus excess interest shall be paid to the beneficiary. If member elects reduced annuity options at the time of retirement, there are also options for payment to beneficiaries.

Disability Provision: The Plan has provisions in the event that a member becomes disabled.

Contribution Rate: The Authority contributes 8%-11% of covered wages per eligible employee per year. Employees may contribute up to 18% of wages.

Interest Rate Credited to Member Contributions: The Board shall annually allocate regular interest to the credit of each member's account, municipal account and the retired member's reserve account. The Board may, after deducting money to pay for regular interest and any appropriate expenses of the System, award excess interest to the Authority in accordance with Board adopted policy.

Covered payroll: Eligible payroll for 2017 and 2016 was \$1,099,446 and \$1,168,036, respectively.

NOTE 6 - RETIREMENT PLAN (CONTINUED)

Plan Description (continued)

Contributions: Contributions to the Plan in 2017 were \$246,258, of which \$121,549 was the Authority's share and \$124,799 was the employees' share. Contributions to the Plan in 2016 were \$255,002, of which \$129,024 was the Authority's share and \$125,978 was the employees' share.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2018 and 2017, the Authority reported a pension asset of \$247,498 and a liability of \$361,609, respectively. The net pension liability (asset) was measured as of December 31, 2017 and 2016, and the total pension liability used to calculate the net pension liability was determined by rolling forward the Plan's total pension liability (asset) as of December 31, 2016 to December 31, 2017 and December 31, 2015 to December 31, 2016. The components of the net pension liability (asset) as of December 31, 2017 and 2016 were as follows:

| | 2017 | 2016 |
|-------------------------------|--------------|--------------|
| Total pension liability | \$ 5,875,511 | \$ 5,715,437 |
| Plan fiduciary net position | 6,123,009 | 5,353,828 |
| Net pension liability (asset) | \$ (247,498) | \$ 361,609 |

For the year ended December 31, 2018 and 2017, the Authority recognized pension expense of \$69,830 and \$200,442, respectively. At December 31, 2018 and 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | 2017 | |
|--|--------------------------------|-------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between projected and actual investment earnings | \$ -- | \$ 415,293 |
| Difference between expected and actual experience | 7,640 | 38,789 |
| Changes in assumptions | 24,177 | -- |
| Contributions subsequent to the measurement date | 123,681 | -- |
| | \$ 155,498 | \$ 454,082 |

NOTE 6 - RETIREMENT PLAN (CONTINUED)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

| | 2016 | |
|--|--------------------------------|-------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between projected and actual investment earnings | \$ 147,161 | \$ -- |
| Difference between expected and actual experience | 9,550 | 51,718 |
| Changes in assumptions | 30,220 | -- |
| Contributions subsequent to the measurement date | 121,459 | -- |
| | <u>\$ 308,390</u> | <u>\$ 51,718</u> |

\$123,681 reported as deferred outflows of resources related to pensions resulting from Authority contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability (asset) in the year ended December 31, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:

| | |
|----------------|---------------------|
| 2019 | \$ (67,815) |
| 2020 | (88,892) |
| 2021 | (148,456) |
| 2022 | (117,102) |
| 2023 | -- |
| 2024 and after | -- |
| | <u>\$ (422,265)</u> |

Actuarial assumptions

The total pension liability as of December 31, 2018 and 2017 was determined by using the December 31, 2017 and 2016 actuarial valuation using the following actuarial assumptions, applied to all periods included in the measurement:

NOTE 6 - RETIREMENT PLAN (CONTINUED)

Actuarial assumptions (continued)

- Actuarial cost method – Entry Age Normal
- The liability discount rate assumed investment return was decreased from 5.5% to 5.25% as of January 1, 2017.
- Assumed salary scale is 2.80%-7.05%
- The mortality assumption table used is the RP 2000, based upon experience study completed in 2015.

The actuarial assumptions used in the December 31, 2017 and 2016 valuation were based on data and other information provided by the Authority.

The net pension liability (asset) for the plan was measured as of December 31, 2017 and 2016. Because the beginning and end of the year total pension liability is based upon different actuarial valuation dates, there is a difference between the expected and actual experiences reported in 2018 and 2017. The beginning of the year total pension liability are based upon the January 1, 2017 and 2016, actuarial valuation, with liabilities measured at December 31, 2016 and 2015, rolled forward to December 31, 2017 and 2016. The end of the year total pension liability are based upon the January 1, 2017, actuarial valuation with liabilities measured at December 31, 2017 and 2016.

The discount rate adopted by the PMRS Board and used to measure the total pension liability was 5.25%.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The best estimates of arithmetic real rates of return for each major asset class included in the plan's target asset allocation as of December 31, 2017 and 2016 are summarized as follows:

| Asset Class | Long-term Expected Real Rate of Return per Year 2017 | Long-term Expected Real Rate of Return per Year 2016 |
|----------------------|--|--|
| | Domestic equity | 5.6%-7.2% |
| International equity | 4.6%-8.7% | 3.7%-7.9% |
| Real estate | 6.2% | 7.0% |
| Fixed income | 2.1% | 2.4% |
| Cash | 0.0% | 0.0% |

NOTE 6 - RETIREMENT PLAN (CONTINUED)

Actuarial assumptions (continued)

Members of the PMRS Board are trustees of the System's assets. They have exclusive responsibility for the management of such assets and have full power to invest the System's assets, subject to the terms, conditions, limitations, and restrictions imposed by Commonwealth law upon fiduciaries. The PMRS Board has adopted its Statement on Investment Policy to formally document investment objectives and responsibilities. This policy, as well as applicable state law, establishes guidelines for permissible investments of PMRS. The pension plan's policy in regard to the allocation of invested plan assets is established and may be amended by the Board. The Board established its allocation goals as follows:

| Asset Class | Target Allocation 2017 | Target Allocation 2016 |
|---|------------------------------|------------------------------|
| Domestic equity – large caps | 25% | 25% |
| Domestic equity – small caps | 15% | 15% |
| International equity - developed | 15% | 15% |
| International equity – emerging markets | 10% | 10% |
| Fixed income | 15% | 15% |
| Real estate | 12.5% | 12.5% |
| Timberland | 7.5% | 7.5% |
| | <u>100%</u> | <u>100%</u> |

Sensitivity of the Net Pension Liability to the Net Discount Rate Assumption

The following presents the net pension liability, calculated using the discount rate of 5.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (4.25%) or 1-percentage point higher (6.25%) that the current rate:

| | 2017 | | |
|-------------------------------|-------------------------|---------------------------|-------------------------|
| | Current | | |
| | 1% Decrease 4.25% | Discount Rate 5.25% | 1% Increase 6.25% |
| Net pension liability (asset) | \$ 676,553 | \$ (247,498) | \$ (1,150,594) |

| | 2016 | | |
|-------------------------------|-------------------------|---------------------------|-------------------------|
| | Current | | |
| | 1% Decrease 4.25% | Discount Rate 5.25% | 1% Increase 6.25% |
| Net pension liability (asset) | \$ 1,288,121 | \$ 361,609 | \$ (546,825) |

NOTE 7 – RELATED-PARTY TRANSACTIONS

The City of Bradford performs certain administrative functions for the Authority for a fee. Payments for these services amounted to \$27,600 in both 2018 and 2017.

The Authority provides billing services and rents office space to the Bradford Sanitary Authority. Revenue for these services was \$40,200 for the years ended 2018 and 2017.

NOTE 8 – MINERAL AND TIMBER AGREEMENT

The Authority is a party to a revenue-sharing agreement with the City of Bradford regarding the timber and mineral rights of the Authority's watershed. Proceeds from the sales and development of timber and mineral rights are allocated to the City and the Authority on a pro-rata basis after deductions of related sales expenses and fees imposed by the Authority on the City. Net revenues received and/or accrued by the Authority under the agreement amounted to \$665,214 and \$765,465 for 2018 and 2017, respectively. The City of Bradford share of mineral and timber sales were \$300,397 and \$400,000 for 2018 and 2017, respectively.

NOTE 9 – TRUST INDENTURE PROVISIONS – DEBT SERVICE PROVISION

Under the terms of the trust indenture, the operating revenues and other receipts of the Authority less operating expenses are to be maintained at 120% of debt service requirements. During 2018, the coverage was 170%, as follows:

| | | |
|---|--------------------|---------------------|
| Income Available for Debt Service | | |
| Operating revenues | \$ 3,840,374 | |
| Miscellaneous revenues | 63,913 | |
| Less: Operating expenses before depreciation and amortization | <u>(2,677,531)</u> | |
| | | <u>\$ 1,226,756</u> |
| Debt Service Requirements | | |
| Principal | \$ 515,000 | |
| Interest | <u>205,706</u> | |
| | | <u>\$ 720,706</u> |
| | | <u>170%</u> |

NOTE 10 – ECONOMIC DEPENDENCY

The Authority sells a substantial portion of its water to one customer. During 2018 and 2017, sales to that customer totaled \$811,224 (21.5%) and \$799,585 (21.5%), respectively.

NOTE 11 – BUDGET-TO-ACTUAL RECONCILIATION

The actual column on the statement of revenues, expenses, and changes in net position - page 8, is reported on accrual basis of accounting, where the budget and actual, page 19, doesn't consider depreciation, amortization, and interest expense on long-term debt. Below is a reconciliation of the differences.

| | |
|--|---------------------|
| Change in net position reported on the statement of revenues, expenses and changes in net position- GAAP (page 8) | \$ 570,550 |
| Differences – budget to GAAP: | |
| Operating expenses | |
| Depreciation | 928,660 |
| Amortization | 810 |
| Non-operating (revenue) expenses | |
| Net revenues from sale of timber and mineral | (665,214) |
| City of Bradford share of mineral and timber sales | 300,397 |
| Investment income | (43,444) |
| Gain on disposal of assets | (25,191) |
| Pollution remediation expense | 75,000 |
| Capital contributions | (120,518) |
| Interest on long-term debt | 205,706 |
| Change in net position reported on the statement of revenues, expenses and changes in net position- budget basis (page 19) | <u>\$ 1,226,756</u> |

NOTE 12 – CAPITAL CONTRIBUTIONS

Water Line Relocation

During the year ended December 31, 2017 the Authority entered into a reimbursement agreement with the University of Pittsburgh, whereas the Authority agreed to relocate and replace water lines that run under the University's athletic complex. The University agreed to reimburse the Authority for the costs associated with line relocation. The Authority received \$467,752 in 2017. The project was completed in 2017 and the Authority did not receive any reimbursements in 2018 related to this agreement.

The Authority entered into various agreements with Pennsylvania Department of Transportation to share costs of relocation of water lines. The Authority will pay 25% of the costs and the Pennsylvania Department of Transportation will pay the remaining 75% of the total costs of the project. The Authority received \$120,518 and \$104,417 as of December 31, 2018 and 2017, respectively, from these agreements.

NOTE 12 – CAPITAL CONTRIBUTIONS (CONTINUED)

Canoe and Boat Launch

The Authority received contributions from McKean County Conservation District for the construction of fishing and boating access at Gilbert and Marilla Reservoirs. The Authority received \$112,265 as of December 31, 2017. The project was completed in 2017 and the Authority did not receive any reimbursements in 2018 related to this agreement.

NOTE 13 – POLLUTION REMEDIATION

During 2017, the Authority received notices from the Pennsylvania Department of Environmental Protection Bureau of Clean Water that the Authority had violated the National Pollutant Discharge Elimination System (NPDES) permit for exceedances in concentrations of aluminum and manganese in the lagoon during the period from May-August 2017. The Authority accrued \$250,000 in remediation costs for the year ended December 31, 2017 based on lagoon remediation costs at other surrounding Authority's. The project went out to bid and the project began in 2018 in which now the total estimated costs are \$325,000. The Authority accrued an additional \$75,000 during the year ended December 31, 2018. During the current year the Authority paid \$139,000 towards the project and applied it against the liability. The Authority has a remaining pollution obligation of \$186,000 as of December 31, 2018.

NOTE 14 – LITIGATION

The Authority is subject to litigation that arises in the ordinary course of business. During 2017, a claim related to a water line break was filed against the Authority which was referred to its legal counsel. The Authority is vigorously defending this action. Management is of the opinion that any unfavorable outcome resulting from these actions would not have a material effect on the Authority's financial position.

NOTE 15 – SUBSEQUENT EVENTS

Subsequent events were evaluated by Management through March 20, 2019, which is the date the financial statements were available to be issued.

The Authority was approved for a grant of \$350,000 from the Commonwealth of Pennsylvania on September 18, 2018. The grant is for construction and engineer costs associated with an installation of water lines located in McKean County. The Authority is expecting work to begin in 2019.

SUPPLEMENTAL INFORMATION

BRADFORD CITY WATER AUTHORITY
SCHEDULES OF COSTS OF SALES AND SERVICES AND
ADMINISTRATIVE EXPENSES
YEARS ENDED DECEMBER 31,

| | 2018 | 2017 |
|---|---------------------|---------------------|
| Administrative Expenses | | |
| Personal services | \$ 349,349 | \$ 318,965 |
| Contractual services | 88,167 | 76,157 |
| Employee benefits | 417,382 | 544,401 |
| Materials and supplies | 67,063 | 70,704 |
| Insurance | 91,358 | 103,159 |
| Advertising | 5,928 | 6,236 |
| Board and officer expense | 55,297 | 50,350 |
| Miscellaneous | 34,641 | 43,096 |
| Maintenance | 8,435 | 12,137 |
| Total Administrative Expenses | \$ 1,117,620 | \$ 1,225,205 |
| Collection and Storage Expenses | | |
| Personal services | \$ 42,464 | \$ 46,289 |
| Materials and supplies | 56,210 | 34,597 |
| Heat, light, and power | 1,334 | 1,485 |
| Total Collection and Storage Expense | \$ 100,008 | \$ 82,371 |
| Purification | | |
| Personal services | \$ 278,852 | \$ 276,613 |
| Contractual services | 53,032 | 48,670 |
| Materials and supplies | 161,146 | 162,632 |
| Heat, light, power, and communication | 53,619 | 47,741 |
| Miscellaneous | 8,014 | 6,082 |
| Total Purification Expenses | \$ 554,663 | \$ 541,738 |
| Pumping | | |
| Personal services | \$ 47,145 | \$ 43,606 |
| Heat, light, and power | 77,699 | 67,524 |
| Materials and supplies | 10,385 | 5,305 |
| Total Pumping Expenses | \$ 135,229 | \$ 116,435 |
| Distribution | | |
| Personal services | \$ 446,666 | \$ 447,944 |
| Materials and supplies | 249,898 | 212,590 |
| Heat, light, and power | 27,587 | 23,564 |
| Miscellaneous | 45,860 | 17,921 |
| Total Distribution Expenses | \$ 770,011 | \$ 702,019 |

BRADFORD CITY WATER AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION -
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2018

Page 19

| | Budget (Original) | Budget (Amended) | Actual (Budgetary Basis) | Fav (Unfav) Variance |
|---|----------------------|---------------------|-----------------------------|-------------------------|
| Operating revenue | | | | |
| Water service | \$ 3,662,750 | \$ 3,662,750 | \$ 3,765,937 | \$ 103,187 |
| Merchandise sales and job work | 18,000 | 18,000 | 44,437 | 26,437 |
| Sewer billing | 30,000 | 30,000 | 30,000 | -- |
| Total operating revenue | <u>3,710,750</u> | <u>3,710,750</u> | <u>3,840,374</u> | <u>129,624</u> |
| Operating expenses | | | | |
| Administration | 1,187,500 | 1,187,500 | 1,117,620 | 69,880 |
| Collection and storage | 101,100 | 101,100 | 100,008 | 1,092 |
| Purification | 654,900 | 654,900 | 554,663 | 100,237 |
| Pumping | 130,500 | 130,500 | 135,229 | (4,729) |
| Distribution | 784,300 | 784,300 | 770,011 | 14,289 |
| Depreciation * | -- | -- | -- | -- |
| Amortization* | -- | -- | -- | -- |
| Total operating expenses | <u>2,858,300</u> | <u>2,858,300</u> | <u>2,677,531</u> | <u>180,769</u> |
| Income from operations | <u>852,450</u> | <u>852,450</u> | <u>1,162,843</u> | <u>310,393</u> |
| Non-operating revenue (expenses) | | | | |
| Net revenues from sale of timber and mineral* | -- | -- | -- | -- |
| City of Bradford share of mineral and timber sales* | -- | -- | -- | -- |
| Investment income* | -- | -- | -- | -- |
| Gain on disposal of assets* | -- | -- | -- | -- |
| Pollution remediation expense* | -- | -- | -- | -- |
| Capital contributions | -- | -- | -- | -- |
| Miscellaneous revenue | 44,450 | 44,450 | 63,913 | 19,463 |
| Interest expense * | -- | -- | -- | -- |
| Total non-operating revenue (expenses) | <u>44,450</u> | <u>44,450</u> | <u>63,913</u> | <u>19,463</u> |
| Change in net position | <u>\$ 896,900</u> | <u>\$ 896,900</u> | <u>\$ 1,226,756</u> | <u>\$ 329,856</u> |

* Actual amounts for these categories are not included on this statement as described in Note 11

BRADFORD CITY WATER AUTHORITY
SCHEDULE OF EMPLOYER CONTRIBUTIONS

| Fiscal year ended | Annual Required Contribution | Employer Contribution | Contribution Deficiency/ (Excess) | Covered Payroll | Contribution as a % of Payroll |
|-------------------|------------------------------|-----------------------|-----------------------------------|-----------------|--------------------------------|
| 12/31/2017 | \$ 121,459 | \$ 121,459 | \$ - - | \$ 1,099,446 | 11.05% |
| 12/31/2016 | 128,964 | 129,024 | (60) | 1,168,036 | 11.05% |
| 12/31/2015 | 126,089 | 125,074 | 1,015 | 1,141,904 | 10.95% |
| 12/31/2014 | 104,368 | 103,545 | 823 | 1,038,878 | 9.97% |

BRADFORD CITY WATER AUTHORITY
SCHEDULE OF NET PENSION LIABILITY AND RELATED RATIOS

| Fiscal Year | 2017 | 2016 | 2015 | 2014 |
|---|---------------------|---------------------|---------------------|---------------------|
| Service Cost (Beginning of Year) | \$ 245,738 | \$ 254,462 | \$ 241,566 | \$ 197,816 |
| Interest (Includes Interest on Service Cost) | 286,109 | 296,415 | 274,191 | 256,478 |
| Changes of Benefit Terms | -- | -- | -- | -- |
| Differences Between Expected and Actual Experience | -- | 5,226 | 7,273 | (90,505) |
| Changes in Assumptions | -- | 32,822 | 4,014 | -- |
| Transfers | -- | -- | -- | -- |
| Benefit Payments, Including Refunds on Employee Contributions | (371,773) | (265,780) | (56,625) | (76,188) |
| Net Change in Total Pension Liability | 160,074 | 323,145 | 470,419 | 287,601 |
| Total Pension Liability - Beginning | 5,715,437 | 5,392,292 | 4,921,873 | 4,634,272 |
| Total Pension Liability - Ending | 5,875,511 | 5,715,437 | 5,392,292 | 4,921,873 |
| Employer Contributions | 120,939 | 128,484 | 124,594 | 103,545 |
| PMRS Assessment Contributions | 520 | 540 | 480 | -- |
| Employee Contributions | 124,799 | 125,978 | 115,957 | 93,928 |
| PMRS Investment Income | 282,936 | 296,717 | 274,710 | 256,915 |
| Market Value Investment Income | 625,292 | 92,100 | (297,806) | (105,394) |
| Transfers | -- | -- | -- | -- |
| Benefit Payments, Including Refunds on Employee Contributions | (371,773) | (265,780) | (56,625) | (76,188) |
| PMRS Administrative Expenses | (520) | (480) | (480) | (480) |
| Additional Administrative Expenses | (13,012) | (14,536) | (11,452) | (9,853) |
| Net Change in Plan Fiduciary Net Position | 769,181 | 363,023 | 149,378 | 262,473 |
| Plan Fiduciary Net Position - Beginning | 5,353,828 | 4,990,805 | 4,841,427 | 4,578,954 |
| Plan Fiduciary Net Position - Ending | \$ 6,123,009 | \$ 5,353,828 | \$ 4,990,805 | \$ 4,841,427 |
| Net Pension Liability (Asset) - Ending | \$ (247,498) | \$ 361,609 | \$ 401,487 | \$ 80,446 |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 104.21% | 93.67% | 92.55% | 98.37% |
| Covered Employee Payroll | \$ 1,099,446 | \$ 1,168,036 | \$ 1,141,904 | \$ 1,038,878 |
| Net Pension Liability (Asset) as a Percentage of Covered Employee Payroll | -22.51% | 30.96% | 35.16% | 7.74% |

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

To the Board of Directors
Bradford City Water Authority
Bradford, Pennsylvania

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of ***Bradford City Water Authority***, a component unit of the City of Bradford, Pennsylvania, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise ***Bradford City Water Authority's*** basic financial statements and have issued our report thereon dated March 20, 2019.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses as items I.A.2018-001 and I.A. 2018-002.

Compliance and Other Matters

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

Bradford City Water Authority Responses to Findings

Bradford City Water Authority responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. ***Bradford City Water Authority*** responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Buffamante Whipple Buttafaro PC

BUFFAMANTE WHIPPLE BUTTAFARO, P.C.

**Olean, New York
March 20, 2019**

I. FINANCIAL STATEMENTS AUDIT - FINDINGS

A. INTERNAL CONTROL OVER FINANCIAL REPORTING

2018-001 Adjusting Journal Entries and Required Disclosures to the Financial Statements

Year ended December 31, 2018

Condition and criteria: During the current year, adjusting journal entries, along with footnote disclosures were proposed by the auditors and accepted by the Water Authority to properly reflect the financial statements in accordance with generally accepted accounting principles. Some of the adjustments and footnotes were related to recording assets and liabilities on the accrual basis of accounting. In addition, a draft of the financial statements was prepared by the auditors.

Cause: The Water Authority requires assistance for external financial reporting in accordance with accounting principles generally accepted in the United States of America.

Effect: AU-C Section 265 entitled Communicated Internal Control Related Matters Identified in an Audit, issued by the American Institute of Certified Public Accountants (AICPA) considers the need for significant adjusting journal entries and assistance when preparing the financial statements to be indicative of an internal control deficiency. Without this assistance, the potential risk exists of the Water Authority's financial statements not conforming with Generally Accepted Accounting Principles (GAAP).

Auditor's Recommendations: Although auditors may continue to provide such assistance both now and in the future, under the pronouncement, the Water Authority should continue to review and accept both proposed adjusting journal entries and footnote disclosures, along with the drafted financial statements.

Water Authority's Response: The Water Authority has received, reviewed and approved all journal entries, footnote disclosures and draft financial statements proposed for the current year audit. The Water Authority will continue to review and approve similar information in future years. Further, the Water Authority believes it has a thorough understanding of these financial statements and the ability to make informed judgments on those financial statements. Lastly, the Water Authority considers such assistance provided by the auditors to be the most cost effective manner to prepare such information.

2018-002 Segregation of Duties

Year ended December 31, 2018

Conditions and Criteria: The limited number of accounting staff prevents a proper segregation of accounting functions necessary to assure adequate internal control. It is difficult, if not impossible, to segregate duties of the general accounting, general ledger, and journal entry functions from custody of and control over assets such as cash.

Cause: The Water Authority is a small government with a limited number of personnel.

Effect: A fundamental element of an effective internal control system is the proper segregation of duties. Proper segregation of duties provides for a system of checks and balances and entails assigning responsibilities of authorizing and recording transactions among different people in the Water Authority.

Auditor's recommendation: Management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable. Under these conditions, the most effective controls lie in the Board's knowledge of matters relating to the Authority's operations. The Board's continued involvement in the Authority's operations is needed to mitigate the lack of segregated duties. The Authority could enhance its internal controls by having a member of the Board of Directors or someone independent of the preparer perform the following functions: review monthly bank reconciliations; review journal entries; review payroll journals that summarize employee compensation; and review check registers.

Water Authority's Response: Because of the limited number of personnel in the office, the Water Authority recognizes the limitations with regard to segregation of duties and therefore will consider mitigating controls. The Water Authority will continue to have a Supervisor review monthly bank reconciliations.

BRADFORD CITY WATER AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2018

I. FINANCIAL STATEMENTS AUDIT - FINDINGS (CONTINUED)

B. COMPLIANCE AND OTHER MATTERS

Year ended December 31, 2018

There were no findings related to compliance and other matters reported upon during the year ended December 31, 2018.

I. FINANCIAL STATEMENTS AUDIT - FINDINGS

A. INTERNAL CONTROL OVER FINANCIAL REPORTING

2017-001 Adjusting Journal Entries and Required Disclosures to the Financial Statements

Year ended December 31, 2017

Summary of Prior Year Finding: Adjusting journal entries, along with footnote disclosures were proposed by the auditors and accepted by the Water Authority to properly reflect the financial statements in accordance with generally accepted accounting principles. Some of the adjustments and footnotes were related to recording assets and liabilities on the accrual basis of accounting. In addition, a draft of the financial statements was prepared by the auditors. AU-C Section 265 entitled Communicated Internal Control Related Matters Identified in an Audit, issued by the American Institute of Certified Public Accountants (AICPA) considers the need for significant adjusting journal entries and assistance when preparing the financial statements to be indicative of an internal control deficiency.

Current Status: Similar finding related to internal control over financial reporting is being reported upon during the year ended December 31, 2018 as finding 2018-001.

2017-002 Segregation of Duties

Year ended December 31, 2017

Summary of Prior Year Finding: The limited number of accounting staff prevents a proper segregation of accounting functions necessary to assure adequate internal control. It is difficult, if not impossible, to segregate duties of the general accounting, general ledger, and journal entry functions from custody of and control over assets such as cash. A fundamental element of an effective internal control system is the proper segregation of duties. Proper segregation of duties provides for a system of checks and balances and entails assigning responsibilities of authorizing and recording transactions among different people in the Water Authority.

Current Status: Similar finding related to internal control over financial reporting is being reported upon during the year ended December 31, 2018 as finding 2018-002.

B. COMPLIANCE AND OTHER MATTERS

Year ended December 31, 2017

There were no findings related to compliance and other matters during the year ended December 31, 2017.

APPENDIX C

FORM OF BOND COUNSEL OPINION

FORM OF OPINION OF BOND COUNSEL

The form of the approving legal opinion of Eckert Seamans Cherin & Mellott, LLC, Bond Counsel, is set forth below. The actual opinion will be signed and delivered on the date of delivery of the Bonds and may vary from the form set forth to reflect circumstances both factual and legal at the time of such delivery. Recirculation of this Preliminary Official Statement or Official Statement shall create no implication that Eckert Seamans Cherin & Mellott, LLC, has reviewed any of the matters set forth in such opinion subsequent to the date thereof.

_____, 2019

Re: Bradford City Water Authority
\$____,____,000 Aggregate Principal Amount
Water Revenue Bonds, Series of 2019

To the Purchasers of the Within-Described Bonds:

We have served as Bond Counsel to Bradford City Water Authority, McKean County, Pennsylvania (“Authority”) in connection with the issuance of \$____,____,000, aggregate principal amount, Water Revenue Bonds, Series of 2019 (“Bonds”), by the Authority. The Bonds are being issued by the Authority under the provisions of the Pennsylvania Municipality Authorities Act, 53 Pa. C.S. § 5601 *et seq.*, as amended and supplemented (“Act”), and pursuant to a Trust Indenture, dated as of September 15, 1985 (the “Original Indenture”), as amended and supplemented, including a Seventh Supplemental Indenture, dated as the date of the Bonds (collectively, the “Indenture”), by and between the Authority and U.S. Bank National Association, as trustee (“Trustee”).

The Bonds are being issued for the purpose of providing funds which will be applied by the Authority to: (i) refund all of the Authority’s outstanding Water Revenue Bonds, Series of 2014, (ii) pay the premiums of a debt service reserve fund surety bond and insurance policy; and (iii) pay the costs and expenses of issuing the Bonds.

Under the Indenture, as security for the payment of principal or redemption price of and interest on the Bonds, the Authority has pledged and granted a security interest in all Receipts and Revenues from the Water System (as defined in the Indenture). The Authority is permitted

by the Indenture to issue additional bonds on parity with or subordinate to the Bonds as to the above-mentioned pledge and security interest, on the conditions set forth in the Indenture.

As Bond Counsel to the Authority, we have examined: (i) the relevant provisions of the Constitution of the Commonwealth of Pennsylvania (“Commonwealth”); (ii) the Act; (iii) the proceedings of the Authority relative to the issuance of the Bonds; (iv) an original counterpart of or a certified copy of the Indenture; and (v) certain statements, certifications, affidavits and other documents and matters of law which we have considered relevant, including, without limitation, a certificate dated the date hereof (“Tax Compliance Certificate”) of officials of the Authority having responsibility for issuing the Bonds, given pursuant to the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder (“Code”), an opinion of the Authority’s Solicitor as to various matters (“Authority Solicitor’s Opinion”), and other documents, certifications, instruments and records filed with the Trustee on the date of original delivery of the Bonds. We have also examined a fully executed and authenticated Bond, or a true copy thereof, and we assume all other Bonds are in such form and are similarly executed and authenticated.

The Authority has designated or is deemed to have designated each of the Bonds as a “qualified tax-exempt obligation” as defined in and for the purposes of Section 265(b)(3) of the Code.

In rendering this opinion, we have relied upon the genuineness, accuracy and completeness of all documents, records, certifications and other instruments we have examined, including, without limitation, the authenticity of all signatures appearing thereon. We have also relied, in the opinion set forth below, upon the Authority Solicitor’s Opinion as to all matters of fact and law set forth therein.

Except with respect to paragraph 5 below, our opinion is given only with respect to the internal laws of the Commonwealth as enacted and construed on the date hereof.

Based on the foregoing, we are of the opinion that:

1. The Authority is validly existing as a body politic and corporate pursuant to the Act, with full power and authority to (a) execute and deliver the Indenture and (b) issue and sell the Bonds pursuant to the Act and the Indenture.
2. The Seventh Supplemental Indenture has been duly authorized, executed and delivered by the Authority and is valid, binding and enforceable in accordance with the terms thereof, except to the extent that enforcement thereof may be affected by bankruptcy, insolvency,

reorganization, moratorium or other similar laws or legal or equitable principles affecting the enforcement of creditors' rights ("Creditors' Rights Limitations").

3. The Bonds have been duly authorized, executed, issued and delivered by the Authority, have been duly authenticated, and are valid and binding obligations of the Authority, enforceable in accordance with the terms thereof, except to the extent that enforcement thereof may be affected by Creditors' Rights Limitations, and are entitled to the benefit and security of the Indenture to the extent provided therein.

4. Under the laws of the Commonwealth as enacted and construed on the date hereof, interest on the Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax, and the Bonds are exempt from personal property taxes in the Commonwealth; however, under the laws of the Commonwealth as enacted and construed on the date hereof, any profits, gains or income derived from the sale, exchange or other disposition of the Bonds will be subject to Commonwealth taxes and local taxes within the Commonwealth.

5. Under existing statutes, regulations, rulings and court decisions, interest on the Bonds, including interest in the form of original issue discount, will not be includible in gross income of the holders thereof for federal income tax purposes, assuming continuing compliance by the Authority with the requirements of the Code. Interest on the Bonds will not be a specific preference item for purposes of computing the federal alternative minimum tax on individuals.

In rendering this opinion, we have assumed compliance by the Authority with its covenants contained in the Indenture and its representations in the Tax Compliance Certificate relating to actions to be taken by the Authority after issuance of the Bonds necessary to effect or maintain the exclusion from gross income of interest on the Bonds for federal income tax purposes. These covenants and representations relate to, inter alia, the use and investment of proceeds of the Bonds, and the rebate to the United States Department of Treasury of specified arbitrage earnings, if any. Failure to comply with such covenants could result in the interest on the Bonds becoming includible in gross income for federal income tax purposes from the date of issuance of the Bonds.

We call your attention to the facts that the Bonds are payable solely from the Receipts and Revenues from the Water System and do not constitute a debt or liability of the City of Bradford, McKean County, Pennsylvania or the Commonwealth or any of its other political subdivisions. The Authority has no taxing power.

We express no opinion as to any matter not set forth in the numbered paragraphs herein. This opinion is rendered on the basis of federal law and the laws of the Commonwealth of Pennsylvania as enacted and construed on the date hereof. This opinion is rendered as of the

date hereof and we assume no obligation to supplement this opinion to reflect changes in law that may hereafter occur or changes in facts or circumstances that may hereafter come to our attention. Without limiting the generality of the foregoing, we express no opinion with respect to, and assume no responsibility for, the accuracy, adequacy or completeness of the preliminary official statement or the official statement prepared in respect of the offering of the Bonds, and make no representation that we have independently verified the contents thereof.

Very truly yours,

ECKERT SEAMANS CHERIN & MELLOTT, LLC

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

FORM OF CONTINUING DISCLOSURE CERTIFICATE

\$ __, __, 000

**BRADFORD CITY WATER AUTHORITY
WATER REVENUE BONDS, SERIES OF 2019**

CONTINUING DISCLOSURE CERTIFICATE

This **CONTINUING DISCLOSURE CERTIFICATE**, dated _____, 2019 (the “**Disclosure Certificate**”), is executed and delivered by **BRADFORD CITY WATER AUTHORITY** (the “**Issuer**”), in connection with the issuance of the Issuer’s \$ __, __, 000, aggregate principal amount, Water Revenue Bonds, Series of 2019 (the “**Bonds**”). The Bonds are being issued pursuant to the Trust Indenture, dated as of September 15, 1985, as amended and supplemented, including by the Seventh Supplemental Indenture, dated as of _____, 2019 (collectively, the “**Indenture**”), between the Issuer and U.S. Bank National Association, as trustee (the “**Trustee**”).

In consideration of the purchase of the Bonds by the Underwriter (defined below), the Issuer, hereby covenants and agrees as follows:

**ARTICLE I
The Undertaking**

Section 1.1. Purpose. This Disclosure Certificate shall constitute a written undertaking for the benefit of the holders of the Bonds, and is being executed and delivered solely to assist the Underwriter in complying with subsection (b)(5) of the Rule.

Section 1.2. Annual Financial Information. (a) The Issuer shall provide Annual Financial Information with respect to each fiscal year of the Issuer, commencing with the fiscal year ending December 31, 2018, by no later than the following September 1st after the end of each respective fiscal year, to the MSRB through the EMMA System.

(b) The Issuer shall provide, in a timely manner, notice of any failure of the Issuer to provide the Annual Financial Information by the date specified in subsection (a) above to the MSRB through the EMMA System.

Section 1.3. Audited Financial Statements. If not provided as part of the Annual Financial Information by the date required by Section 1.2 hereof, the Issuer shall provide Audited Financial Statements when and if available, to the MSRB through the EMMA System.

Section 1.4. Disclosure Event Notices. (a) If a Disclosure Event occurs, the Issuer shall provide, in a timely manner not in excess of (10) ten business days after the occurrence of the Disclosure Event, notice of such Disclosure Event to the MSRB through the EMMA System and (ii) to the Trustee.

(b) Any such notice of a defeasance of Bonds shall state whether the Bonds have been escrowed to maturity or to an earlier redemption date and the timing of such maturity or redemption.

Section 1.5. Additional Disclosure Obligations. The Issuer acknowledges and understands that other state and federal laws, including, but not limited to, the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Issuer and that, under some

circumstances, additional disclosures or other action may be required to enable the Issuer to fully discharge all of its duties and obligations under such laws.

Section 1.6. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Financial Information or notice of Disclosure Event hereunder, in addition to that which is required by this Disclosure Certificate. If the Issuer chooses to do so, the Issuer shall have no obligation under this Disclosure Certificate to update such additional information or include it in any future Annual Financial Information or notice of a Disclosure Event hereunder.

ARTICLE II Operating Rules

Section 2.1. Reference to Other Documents. It shall be sufficient for purposes of Section 1.2 hereof if the Issuer provides Annual Financial Information by specific reference to documents (i) either (1) provided to the MSRB through the EMMA System, or (2) filed with the SEC, or (ii) if such document is a Final Official Statement, available from the MSRB.

Section 2.2. Submission of Information. Annual Financial Information may be provided in one document or multiple documents, and at one time or in part from time to time.

Section 2.3. Disclosure Event Notices. Each notice of a Disclosure Event hereunder shall be captioned "Notice of Disclosure Event" and shall prominently state the title, date and CUSIP numbers of the Bonds.

Section 2.4. Transmission of Information and Notices. Unless otherwise required by law and, in the Issuer's sole determination, subject to technical and economic feasibility, the Issuer shall employ such methods of information and notice transmission as shall be requested or recommended by the herein-designated recipients of the Issuer's information and notices.

Section 2.5. Fiscal Year. (a) The Issuer's current fiscal year is January 1 to December 31, and the Issuer shall promptly provide written notice of each change in its fiscal year. The Issuer shall provide such notice to (i) the MSRB through the EMMA System and (ii) the Trustee.

(b) Annual Financial Information shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months.

ARTICLE III Effective Date, Termination, Amendment, Default, and Enforcement

Section 3.1. Effective Date, Termination. (a) This Disclosure Certificate shall be effective upon the issuance of the Bonds.

(b) The Issuer's obligations under this Disclosure Certificate shall terminate upon a legal defeasance, prior redemption or payment in full of all of the Bonds or on the date that the Issuer shall no longer be deemed an "obligated person" with respect to the Bonds within the meaning of the Rule.

(c) This Disclosure Certificate, or any provision hereof, shall be null and void in the event that (1) the Issuer receives an opinion of Counsel to the effect that those portions of the Rule which require this Disclosure Certificate, or such provision, as the case may be, do not or no longer apply to the Bonds, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (2) the Issuer delivers a copy of such opinion to the MSRB through the EMMA System.

Section 3.2. Amendment. (a) This Disclosure Certificate may be amended, without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the Issuer or the type of business conducted thereby, (2) this Disclosure Certificate as so amended would have complied with the requirements of the Rule as of the date of this Disclosure Certificate, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) the Issuer shall have received an opinion of Counsel to the same effect as set forth in clause (2) above, (4) the Issuer shall have received an opinion of Counsel or a determination by a person, in each case unaffiliated with the Issuer (such as bond counsel or the paying agent) and acceptable to the Issuer, addressed to the Issuer, to the effect that the amendment does not materially impair the interests of the holders of the Bonds, and (5) the Issuer shall have delivered copies of such opinion(s) and amendment to the MSRB through the EMMA System.

(b) In addition to subsection (a) above, this Disclosure Certificate may be amended without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (1) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date of this Disclosure Certificate which is applicable to this Disclosure Certificate, (2) the Issuer shall have received an opinion of Counsel to the effect that performance by the Issuer under this Disclosure Certificate as so amended will not result in a violation of the Rule and (3) the Issuer shall have delivered copies of such opinion and amendment to the MSRB through the EMMA System.

(c) To the extent any amendment to this Disclosure Certificate results in a change in the type of financial information or operating data provided pursuant to this Disclosure Certificate, the first Annual Financial Information provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

(d) If an amendment is made to the accounting principles to be followed by the Issuer in preparing its financial statements, the Annual Financial Information for the fiscal year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

Section 3.3. Default. In the event of a failure of the Issuer to comply with any provision of this Disclosure Certificate, the rights of the holders of the Bonds to enforce the provisions of this Disclosure Certificate shall be limited solely to the right, by action in mandamus or for specific performance, to cause the Issuer to comply with obligations under this Disclosure Certificate. The sole remedy under this Disclosure Certificate in the event of any failure of the Issuer to comply with this Disclosure Certificate shall be an action to compel performance, and no person or entity shall be entitled to recover monetary damages under this Disclosure Certificate.

Section 3.4. Benefit: Third-Party Beneficiaries: Enforcement. (a) The provisions of this Disclosure Certificate shall constitute a contract with and inure solely to the benefit of the Underwriter and the holders from time to time of the Bonds, except that beneficial owners of Bonds shall be third-party beneficiaries of this Disclosure Certificate and shall be deemed to be holders of Bonds for purposes of Section 3.4(b) hereof. The provisions of this Disclosure Certificate shall create no rights in any person or entity except as provided in this subsection (a).

(b) The obligations of the Issuer to comply with the provisions of this Disclosure Certificate shall be enforceable in the case of enforcement of obligations to provide financial statements, financial information, operating data and notices, by any holder of the Bonds. The holders' rights to enforce the provisions of this Disclosure Certificate shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the Issuer's obligations under this Disclosure Certificate.

(c) This Disclosure Certificate shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this Disclosure Certificate shall be instituted in a court of competent jurisdiction in the State; provided, however, that to the extent this Disclosure Certificate addresses matters of federal securities laws, including the Rule, this Disclosure Certificate shall be construed in accordance with such federal securities laws and official interpretations thereof.

ARTICLE IV Definitions

Section 4.1. Definitions. The following terms used in this Disclosure Certificate shall have the following respective meanings:

“**Annual Financial Information**” means, collectively,

- (i) the Audited Financial Statements,
- (ii) a summary of the budget for the current fiscal year, and
- (iii) the information regarding amendments to this Disclosure Certificate required pursuant to Sections 3.2(c) and (d) of this Disclosure Certificate.

“**Audited Financial Statements**” means the annual financial statements, if any, of the Issuer, audited by the Issuer's independent public accountants. Audited Financial Statements shall be prepared in accordance with GAAP.

“**Counsel**” means any nationally recognized bond counsel or counsel expert in federal securities laws.

“**Disclosure Event**” means any of the following events with respect to the Bonds, whether relating to the Issuer or otherwise:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults, if material;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other

- material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- (7) Modifications to rights of security holders, if material;
 - (8) Bond calls, if material, and tender offers;
 - (9) Defeasances;
 - (10) Release, substitution, or sale of property securing repayment of the Bonds;
 - (11) Rating changes;
 - (12) Bankruptcy, insolvency, receivership or similar event of the obligated person;
 - (13) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
 - (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material; and
 - (15) Incurrence of a Financial Obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the obligated person, any of which affect security holders, if material; and
 - (16) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the obligated person, any of which reflect financial difficulties.

For the purposes of the event identified in paragraph (12) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

“**EMMA System**” means the MSRB’s Electronic Municipal Market Access system (<http://emma.msrb.org/>), or such other electronic system prescribed by the MSRB.

“**Final Official Statement**” means a “final official statement,” as defined in paragraph (f)(3) of the Rule.

“**Financial Obligation**” means a: (A) debt obligation; (B) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (C) guarantee of (A) or (B). The term Financial Obligation shall not include municipal securities as to which a Final Official Statement has been provided to the MSRB consistent with the Rule.

“**GAAP**” means generally accepted accounting principles as prescribed from time to time by the Financial Accounting Standards Board or any successor to the duties or responsibilities thereof.

“**MSRB**” means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934.

“**Rule**” means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934 (17 CFR Part 240, §240.15c2-12), as in effect on the date of this Disclosure Certificate, including any official interpretations thereof issued either before or after the effective date of this Disclosure Certificate which are applicable to this Disclosure Certificate.

“**SEC**” means the United States Securities and Exchange Commission.

“**Underwriter**” shall have the meaning given thereto under Rule 15c2-12, or any successor to such underwriter or underwriters known to the Issuer.

ARTICLE V Miscellaneous

Section 5.1. Disclosure Dissemination Agent. The Issuer may appoint a disclosure dissemination agent to assume the responsibilities for compliance with disclosure requirements pursuant to the Rule performed by the Issuer under this Disclosure Certificate for the benefit of the holders of the Bonds and Underwriter.

Section 5.2. Severability. If any provision hereof shall be held invalid or unenforceable by a court of competent jurisdiction, the remaining provisions hereof shall survive and continue in full force and effect.

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IN WITNESS WHEREOF, the Issuer has caused its duly authorized officer to execute this Disclosure Certificate as of the day and year first written above.

BRADFORD CITY WATER AUTHORITY

By: _____
(Vice) Chairman

APPENDIX E

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

APPENDIX F

DEBT SERVICE SCHEDULE