

**SOUTHWEST DELAWARE COUNTY
MUNICIPAL AUTHORITY
ANNUAL FINANCIAL REPORT**

For the Year Ended December 31, 2007

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY
YEAR ENDED DECEMBER 31, 2007

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Zelenkofske Axelrod LLC

Independent Auditors' Report

Board of Directors
Southwest Delaware County Municipal Authority

We have audited the accompanying financial statements of the Southwest Delaware County Municipal Authority (the "Authority"), as of and for the year ended December 31, 2007, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We were unable to obtain sufficient appropriate audit evidence for adjustments made to the accounts receivable, and we were unable to satisfy ourselves regarding the accounts receivable balance as of December 31, 2007, using alternative auditing procedures. Because of the inadequacy of the accounting records, we were unable to form an opinion regarding the amount at which the accounts receivable is recorded in the accompanying balance sheet at December 31, 2007.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the records concerning the accounts receivable been adequate, the financial statements referred to in the first paragraph present fairly, in all material aspects, the financial position of the Southwest Delaware County Municipal Authority as of December 31, 2007, and the results of its operations and cash flows for the year ended, in conformity with accounting principles generally accepted in the United States of America.



ZELENKOFKSKE AXELROD LLC

Jamison, Pennsylvania
June 16, 2009

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SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FISCAL YEAR JANUARY 1, 2007 TO DECEMBER 31, 2007

This section presents management's discussion of the financial condition and operating performance of the Southwest Delaware County Municipal Authority over the course of Fiscal Year 2007 and comparison to fiscal year 2006. Please read this analysis in conjunction with the Authority's financial statements included with this document.

SUMMARY OF THE ORGANIZATION:

The Authority is a municipal corporation created by Aston Township under the Pennsylvania Municipal Authorities Act of 1945, as amended, (Act) for the purpose of financing, engineering, and constructing the public sanitary sewer system.

The Aston Township commissioners appoint a seven member Board of Directors to staggered five year terms. The Authority hires its own employees and professional advisors.

The Authority is an operating authority under the Act. The Authority owns and maintains the treatment works, and collection system within its service area. The Authority through contractual and inter-municipal agreements acts as the treating agency for several bordering municipalities.

The Authority owns and maintains a treatment and collection system that consists of over 63 miles of collection system piping and a 6.0 million gallon design capacity treatment plant.

The Authority has no taxing power under the Act, but relies on sewer rental rates and charges imposed under the Act. Tapping fees, connection fees, and other service charges may be assessed for connections to the system. These fees are not generally included in budget forecasts until developers agreement has been executed with the Authority.

FINANCIAL AND ADMINISTRATIVE COMMENTS:

The Authority in fiscal year 2004 changed its customer billing format from a standard flat charge per equivalent dwelling unit to a usage rate based upon two components. The new rate structure was designed to enhance the revenue of the Authority to meet operational expenses and to reflect charges based on system utilization. The base charge or flat rate is assessed to each customer that maintains a connection to the system. The second portion of the rate is based on water usage as reported by the supplier of the potable water.

The financial statements adequately reflect the Authority's financial position at the end of fiscal year 2007.

The Authority meets all terms of the trust agreement and other borrowings and the change in the amount owed (a reduction of \$693,362 total debt) is a direct result of scheduled payments.

Fiscal Year	Bonds Payable	Notes Payable	Total Debt
2007	\$ 12,531,797	\$ 4,522,029	\$ 17,053,826
2006	\$ 13,016,883	\$ 4,807,330	\$ 17,824,213

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FISCAL YEAR JANUARY 1, 2007 TO DECEMBER 31, 2007

A summarized comparison of the Authority's statements of revenues, expenses and changes in net assets for the years 2007, 2006 follows:

Operational expenses were less than budget estimates. Revenue was less than below budget.

The following table compares fiscal year 2007 operations to fiscal year 2006 and reflects an improved financial condition. The Authority realized a reduction in operating expenses and an increase in operating income. The change in net income is a result of improved collection of the billed revenue.

The decrease in operational expense is a result of improved operations and was achieved despite increases in labor, sludge handling and employee benefit costs. Some of the decrease can also be attributed to the normal purchasing cycle and a further reduction in contracted service costs.

Statement of Revenues, Expenses and Changes in Net Assets

	<u>2007</u>	<u>2006</u>
Revenues		
Operating Revenues	\$ 5,362,300	\$ 5,327,303
Operating Expenses	4,578,873	4,372,441
Operating Income	783,427	954,862
Non-Operating revenues (expenses)	(225,426)	(343,070)
Net Income	558,001	611,792
Other Income	-	7,477
Increase (Decrease) in Net Assets	558,001	619,269
Net Assets Beginning of Year	2,991,214	2,458,716
Prior Period Adjustment	357,137	(86,771)
Net Assets at end of Year	3,906,352	2,991,214

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FISCAL YEAR JANUARY 1, 2007 TO DECEMBER 31, 2007

The assets of the Authority exceeded its liabilities by \$3.9 million. \$3.0 million of the assets were restricted by legal requirements and were not available to finance the day to day operations of the Authority. Unrestricted assets were \$1.6 million.

The largest asset increase was in accounts receivable. Implementation of the billing rate caused many questions from the customer base and the implementation of different policies as the Authority was made aware of problems and concerns of its customers concerning the rate change. This resulted in a less than normal collection rate.

Statement of Net Assets

	<u>2007</u>	<u>2006</u>
Current and Other Assets	\$ 8,189,726	\$ 7,883,489
Capital Assets, Net	14,220,418	14,698,344
Total Assets	22,410,144	22,581,833
Long Term Debt Outstanding	17,053,826	17,824,213
Other Liabilities	1,449,966	1,766,406
Total Liabilities	18,503,792	19,590,619
Net Assets		
Invested in capital	(1,586,408)	(3,829,146)
Restricted	1,636,490	3,328,824
Unrestricted	3,856,270	3,491,536
Total Net Assets	3,906,352	2,991,214

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FISCAL YEAR JANUARY 1, 2007 TO DECEMBER 31, 2007

OVERVIEW OF ANNUAL FINANCIAL REPORT

Management's Discussion and Analysis is an introduction to the basic financial statements. The MD&A represents management's analysis of the Authority's financial condition and performance.

The financial statements include:

Statement of net assets – This statement will help the reader determine if the Authority's financial picture is better or worse as a result of this years activities.

Statement of revenues, expenses and changes in net assets – This statement presents the results of business activities during the fiscal year and the amounts representing a change in net assets.

Statement of cash flow – Reports changes in cash and cash equivalents resulting from operations, capital, financing and investment activities.

Notes to financial statements – These statements provide additional information to fully understand the data presented.

Supplementary information – This section includes other information that may help the reader further understand the financial condition of the Authority.

Requests for information

This financial report is designed to provide a general overview of the Authority's finances. Questions concerning the information provided or requests for additional information may be addressed to: George Crum, Authority Director, or Lynette Aster, Controller, Southwest Delaware County Municipal Authority, Post Office Box 2466, One Gamble Lane, Aston, PA 19014-0466.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY
STATEMENT OF NET ASSETS
DECEMBER 31, 2007

Current Assets	
Cash and cash equivalents - Unrestricted	\$ 774,068
Accounts receivable	
Sewer Rentals	1,500,572
Pretreatment	213,207
Assessments	19,078
Other	23,421
Other Services	57,079
Allowance for Doubtful Accounts	(51,309)
Prepaid insurance	<u>51,643</u>
Total Current Assets	<u>2,587,759</u>
Restricted Assets	
Assets limited as to use - held by Trustee	<u>2,963,490</u>
Capital Assets, at cost	
Property, plant and equipment	27,338,694
Accumulated depreciation	<u>(13,118,276)</u>
Total Capital Assets	<u>14,220,418</u>
Assessments - Noncurrent	349,780
Sewer Rentals - Noncurrent	1,135,399
Deferred bond costs, net	<u>1,153,298</u>
Total Noncurrent Assets	<u>2,638,477</u>
Total Assets	<u>\$ 22,410,144</u>

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

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY
STATEMENT OF NET ASSETS (CONTINUED)
DECEMBER 31, 2007

Liabilities and Net Assets

Current Liabilities	
Accounts payable	\$ 82,443
Notes payable - current portion	285,301
Bonds payable - current portion	495,000
Accrued interest payable	229,945
Accrued expenses	89,081
Other liabilities	13,253
Unearned revenue	<u>254,943</u>
Total Current Liabilities	<u>1,449,966</u>
NonCurrent Liabilities	
Notes payable	4,522,029
Bonds payable	<u>12,531,797</u>
Total Noncurrent Liabilities	<u>17,053,826</u>
Total Liabilities	<u>18,503,792</u>
Net Assets	
Invested in capital assets, net of related debt	(2,460,411)
Restricted	2,963,490
Unrestricted	<u>3,403,273</u>
Total Net Assets	<u>3,906,352</u>
Total Liabilities and Net Assets	<u>\$ 22,410,144</u>

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

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY
 STATEMENTS OF REVENUES, EXPENSES AND
 CHANGES IN NET ASSETS
 DECEMBER 31, 2007

Operating Revenues	
Sewer rentals	\$ 4,983,917
Other operating revenue	<u>378,383</u>
Total Operating Revenues	<u>5,362,300</u>
Operating Expenses	
Salaries	1,208,192
Benefits including payroll taxes	621,861
Contractual services	317,731
Depreciation and Amortization	732,089
Utilities	431,559
Insurance expense	70,826
Maintenance and materials	1,108,022
Other expenses	98,349
Bad Debt Expense	<u>158</u>
Total Operating Expenses	<u>4,588,787</u>
Operating Income	<u>773,513</u>
Nonoperating Revenues (Expenses)	
Assessment and connections	358,781
Interest on assessments	23,815
Interest expense	(841,079)
Investment income	159,271
Capital Contribution	<u>83,700</u>
Total Nonoperating Expenses	<u>(215,512)</u>
Net Income	<u>558,001</u>
Net Assets, Beginning of Year, as previously reported	2,991,214
Prior Period adjustment	<u>357,137</u>
Net Assets, Beginning of the year, restated	<u>3,348,351</u>
Net Assets, End of Year	<u>\$ 3,906,352</u>

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

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY
STATEMENT OF CASH FLOWS
DECEMBER 31, 2007

Cash flows from operating activities	
Cash received from customers	\$ 4,646,948
Cash paid to suppliers	(2,768,459)
Cash paid to employees	(1,208,192)
Other revenues	<u>492,235</u>
Net cash provided by operating activities	<u>1,162,532</u>
Cash flows from Capital and related financing activities	
Purchases of capital assets	(189,329)
Principal payments of notes payable	(278,277)
Principal payments of bonds payable	(425,000)
Discount on Bond	9,914
Assessments and connections	358,781
Interest paid on Water Revenue Bonds	<u>(850,993)</u>
Net cash used by Capital and financing activities	<u>(1,374,904)</u>
Cash flows from investing activities sale of investment	
Sale of Investment	39,729
Capital Contribution	83,700
Investment income	159,271
Interest on assessments	23,815
Decrease in assets limited as to use - held by Trustee	<u>365,334</u>
Net cash provided by investing activities	<u>671,849</u>
Net increase in cash and cash equivalents	<u>459,477</u>
Cash and cash equivalents at beginning of year	<u>314,591</u>
Cash and cash equivalents at end of year	<u>774,068</u>
Reconciliation of operating income to Net Cash provided by Operating Activities	
Income from Operations	773,513
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation and Amortization	742,003
Prior period adjustment	357,137
Add (deduct) changes in non-cash working capital:	
Increase in accounts receivable	(336,969)
Decrease in prepaid expenses	30,226
Increase in accounts payable	22,700
Decrease in accrued expenses	(228,620)
Decrease in other liabilities	(23,107)
Decrease in deferred revenue	<u>(174,351)</u>
Net cash provided by operating activities	<u>\$ 1,162,532</u>

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

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 1 Nature of Entity and Summary of Significant Accounting Policies

The Southwest Delaware County Municipal Authority (the "Authority") is a body corporate and politic, organized and existing under the laws of the Commonwealth of Pennsylvania. It was incorporated on December 16, 1957 under the Municipal Authorities Act of 1945, being the Act of May 2, 1945, P.L. 382 as amended, pursuant to an ordinance duly enacted by the Board of Commissioners of the Township of Aston, to improve, maintain, operate, own, lease either in the capacity of lessee or lesser, sewer, sewer systems or parts thereof and sewage treatment works for treating and disposing of industrial waste in and for the Township of Aston and for such territory as it may be authorized to serve.

The financial statements of the Authority have been prepared in conformity with generally accepted accounting principals as applied to governmental units. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by the Authority are described as follows:

A. Reporting Entity

The Authority has adopted the provisions of Section 2100 of the Codification of Governmental Accounting and Financial Reporting Standards for the criteria used to evaluate the organizations, activities and functions that should be included in the Authority's financial statements. The basic criteria are the exercise of oversight responsibility over such organizations, activities, and functions.

The Authority has not identified any entities which should be subject to evaluation for inclusion in the Authority's reporting entity.

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Authority's financial statements are prepared on the full accrual basis of accounting in accordance with accounting principals generally accepted in the United States of America. Under this basis of accounting, revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flows. The Authority applies Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, and the Accounting Principal Board (APB) of the Committee of Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

All activities of the Authority are accounted for within a proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business 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 primary through user charges; or 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.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2007

NOTE 1: Nature of Entity and Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

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 a flow of economic resources measurement focus. The transactions of the Authority are

accounted for on a flow of economic resources measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net assets (i.e., total assets net of total liabilities) are segregated into: "invested in capital assets, net of related debt"; "restricted for debt service"; and "unrestricted" components,

Operating revenues are those revenues that are generated directly from primary activities. For the Authority, these revenues are rental charges for services and sewer amendments. Operating expenses are necessary costs incurred to provide the services that are the primary activity of the Authority.

C. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Authority considers all unrestricted securities with an original maturity of three months or less to be cash equivalents.

D. Sewer Rentals Receivable

The Authority provides continuous services to its customers. Except for residents of Upper Chichester Township, Middletown Township and Upper Providence Township, billings are provided to customers on a yearly basis for the yearly calendar period immediately preceding the date of the bill. Discounts are applied to payments made within thirty (30) days of the invoice date.

The Authority bills the sewer authorities of Upper Chichester Township, Middletown Township and Upper Providence Township on a semi-annual basis on the first day of January and July of each year for the semi-annual calendar period immediately preceding the date of the bill.

The Authority recognizes uncollectible accounts at the time they are deemed to be uncollectible. The Authority is performing collection efforts and is in the process of filing liens on properties with delinquent amounts. These efforts should result in the collection of substantially all accounts receivable.

E. Assets Limited as to Use – Held by Trustee

Assets limited as to use are restricted assets which consist principally of cash and cash equivalents of funds established pursuant to the terms of the Trust Indenture for specific purposes and uses under the Trust Indenture, including debt service, maintenance, capital expenditures and trust administrative expenses.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2007

NOTE 1: NATURE OF THE ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
 (Continued)

F. Capital Assets

Capital Assets are stated at cost. Expenditures for maintenance, repairs and betterments that increase the service capacity or prolong the service life beyond that originally contemplated are capitalized. Upon retirement or disposal, the cost of the asset is removed from the respective accounts and any gain or loss recognized is included in the statement of revenues and expenses. Capital Assets are capitalized with a \$5,000 threshold. Property, plant and equipment are being depreciated using the straight-line method over the useful lives of the assets.

<u>Asset</u>	<u>Years</u>
Plant, Expansion, Infrastructure and Pump Stations	20-40
Buildings	40
Equipment	3-15

G. Bond Issuance Costs

Bond issuance costs are amortized over the life of the bond issue, on the straight line method. Amortization expense for the year ended December 31, 2007 was \$205,135.

H. Compensated Absences

Employees of the Authority are entitled to paid vacation, paid sick days and personal days off, depending on the length of service and other factors. Although not all employees are part of the union contract, the Authority provides for compensated absences for all employees according to the union contract.

As of December 31, 2007, the liability for compensated absences was \$22,315.

I. Related Party Transactions

The Aston Township Board of Commissioners appoints the Authority board members. Legal and professional fees associated with their action against the Southern Delaware County Authority flow diversion litigation are being split equally between Aston Township and the Authority.

J. 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 estimates.

K. Financial Instruments

The estimated fair value of the Authority's financial instruments, which include accounts receivable, accounts payable, and notes payable, approximate their carrying values based on their short-term maturities and prevailing market interest rates.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2007

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and investments as of December 31, 2007 are classified in the accompanying financial statements as follows:

	2007
Cash and Cash Equivalents	\$ 774,068
Assets held by trustee	2,963,490
Total cash and investments	\$ 3,737,558

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority's policy is to place deposits only in Federal Deposit Insurance Corporation (the "FDIC") insured institutions. Deposits in excess of the FDIC limit are collateralized pursuant to Commonwealth of Pennsylvania Public Law 72 of 1971, which allows depositories to satisfy collateralization requirements by pooling eligible investments to cover total public funds on deposit in excess of federal insurance.

NOTE 3: ACCOUNTS RECEIVABLE – ASSESSMENT FEES

The Authority installed sanitary sewer mains and related appurtenances in the Northwest section of Aston Township for the benefit of the owners or property in that area of the Township. The owners were required by an ordinance of Aston Township to connect to the sewer system and pay for the assessment of the sewer construction over a period of thirty years.

To ensure payment, management is filing liens against property owners refusing to connect.

NOTE 4: CAPITAL ASSETS

Capital Asset activity for the year ended December 31, 2007, was as follows:

	Beginning Balance	Increases (Decreases)	Ending Balance
Non-Depreciable Assets:			
Construction in Progress	\$ 301,343	\$ -	\$ 301,343
Depreciable Assets:			
Plant and System	25,457,360	52,028	25,509,388
Administration Building	207,819	-	207,819
Maintenance Equipment	1,025,498	46,145	1,071,643
Office Equipment	157,345	91,156	248,501
	26,848,022	189,329	27,037,351
Less: Accumulated Depreciation			
Plant and System	11,218,853	606,368	11,825,221
Administration Building	117,163	5,195	122,358
Maintenance Equipment	969,531	46,760	1,016,291
Office Equipment	145,474	8,932	154,406
	12,451,021	667,255	13,118,276
	\$ 14,698,344	\$ (477,926)	\$ 14,220,418

For the year ended December 31, 2007, depreciation expense amounted to \$667,255.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2007

NOTE 5: DEFERRED BOND COSTS

As required by GASB Statement No. 23 for proprietary funds, the Authority is required to defer the difference between the net carrying amount of the defeased debt and the reacquisition price of the new debt. The deferred amount is being amortized as an element of interest expense on a straight-line basis over the life of the refunding debt. For the year ended December 31, 2008 the amount charged to interest was \$64,833.

NOTE 6: ACCRUED LIABILITY

The Authority is involved in certain claims and legal actions, which arise during the ordinary course of business. A claim has been made against the Authority by the Pennsylvania Department of Environmental Protection ("PADEP") for unresolved violations, which occurred between 1997 and 2002.

In early 2005 a "Consent Assessment of Civil Penalty" was received from PADEP, specifying a final civil penalty of \$173,896 for these violations.

Repayment terms of the civil penalty are as follows:

- \$86,946 - Due within thirty days of signing Consent Assessment of Civil Penalty, and
- \$10,868 - Eight quarterly installments beginning March 31, 2007
And ending December 31, 2007

A payment was made in June 2005 for the down payment and the first two quarterly installments in the amount of \$108,684. The balance was paid off in December, 2007.

NOTE 7: NOTES PAYABLE

Notes payable consists of the following:

	<u>December 31, 2007</u>	
	<u>Current</u>	<u>Long-Term</u>
1) New Garden Authority	\$ 90,000	\$ 3,060,000
2) PennVest Loan #73051	160,021	1,027,395
3) PennVest Loan #71091	<u>35,280</u>	<u>434,634</u>
	<u>\$ 285,301</u>	<u>\$ 4,522,029</u>

1. New Garden Authority

\$3,500,000 (original principal amount) term loan with the New Garden Authority dated August 15, 2003, bearing interest at a variable rate in accordance with the loan agreement, not to exceed the rate of twelve percent (12%) per annum. There are 22 remaining annual installations included in the following schedule of long-term notes payable maturities, with the final payment due November 1, 2029. The proceeds of the loan are financing the capital improvements and facilities.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2007

NOTE 7: NOTES PAYABLE (CONTINUED)

2. PennVest Loan #73051

\$2,548,750 (original principal amount) term loan with the Pennsylvania Infrastructure Investment Authority ("PennVest") dated August 26, 1994, bearing interest at 3.699 percent. There are 80 remaining monthly installments of \$16,771, which included principal and interest, with the final payment due August 1, 2014. The proceeds of the loan partially financed the construction of the sewer system in Northwest Aston Township.

3. PennVest Loan #71091

\$721,543 (original principal amount) term loan with PennVest dated July 15, 1999, bearing interest at 2.789 percent for the first sixty months and 3.526 percent thereafter. There are 133 remaining monthly installments of \$4,274 which include principal and interest, with the final payment due January 1, 2019. The proceeds of the loan financed additional plant expansion.

For the year ended December 31, 2007, interest expense amounted to \$186,144.

Following are maturities and interest of notes payable through to maturity:

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 285,301	\$ 177,569
2009	297,585	166,521
2010	310,142	155,345
2011	322,980	143,707
2012-2016	1,313,458	547,647
2017-2021	807,861	367,033
2022-2026	865,000	216,701
2027-2029	<u>605,000</u>	<u>46,711</u>
	<u>\$ 4,807,327</u>	<u>\$ 1,821,234</u>

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2007

NOTE 8: BONDS PAYABLE

The Authority issued Guaranteed Sewer Revenue Bonds, Series of 1998 (the "1998 Bonds"), dated July 15, 1998, in the amount of \$14,960,000. The 1998 Bond proceeds financed the advance refunding of the outstanding Series of 1992 and 1994 Bonds.

The original debt of \$13,490,000 is therefore no longer a liability and as such has been removed. The proceeds of the 1998 Bond issue along with other funds were used to purchase U.S. Government securities. These securities are in an irrevocable trust to fully service the refunded portion of the Series of 1992 and 1994 Bonds.

The 1998 Bonds bear interest rates from 4.3% to 5.0% and are due from August 1, 2006 to August 1, 2024. Interest is payable semi-annually on February 1st and August 1st. All interest and principal payments have been paid when due.

Following are maturities and interest of the 1998 Bond debt through to maturity:

<u>August 1,</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 495,000	\$ 653,818
2009	545,000	531,895
2010	570,000	606,225
2011	595,000	579,435
2012-2016	3,440,000	2,429,125
2017-2021	4,390,000	1,479,750
2022-2024	<u>3,200,000</u>	<u>325,250</u>
	<u>\$ 13,235,000</u>	<u>\$ 6,605,498</u>

NOTE 9: CHANGES IN LONG-TERM LIABILITIES

	<u>01/01/2007</u>		<u>12/31/2007</u>	<u>Due Within</u>
	<u>Balance</u>	<u>Reductions</u>	<u>Balance</u>	<u>One Year</u>
Notes Payable	\$ 4,800,306	\$ 278,277	\$ 4,522,029	\$ 285,301
Bonds Payable	<u>13,165,000</u>	<u>425,000</u>	<u>12,740,000</u>	<u>495,000</u>
	<u>\$ 17,965,306</u>	<u>\$ 703,277</u>	<u>\$ 17,262,029</u>	<u>\$ 780,301</u>

There was no new financing during the fiscal year. Bonds payable on the Statement of Net Assets is net of unamortized bond discount of \$208,203.

NOTE 10: RETIREMENT PLAN

The Authority's retirement plan is a defined contribution plan, which provides benefits at retirement for all full-time employees who work twenty hours or more per week, are at least twenty-one years of age and have performed one year of service. The Authority contributes an amount equal to five percent of the annual gross salary of the covered employees. Employees can also contribute an amount not to exceed ten percent of their salary. Contributions made by the Authority and employees for year ending December 31, 2007 were \$48,527.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2007

NOTE 11: CONTINGENT LIABILITIES

During 2002 and 2003 the Authority was found not in compliance with the United States Environmental Protection Agency (the "EPA") regulations for discharge into Chester Creek. On September 30, 2003, the EPA submitted a "finding of violation and order for compliance" to the Authority and has not imposed a fine, but has reserved the right to do so. The Authority's management has corrected the issues and the Authority is now in compliance.

In March 2007, the Pennsylvania Department of Environmental Protection ("PA DEP") requested a Corrective Action Plan (CAP) with respect to surcharges at the Kingsmill site located on Route 452 Aston, Pennsylvania. The Authority complied with the request and submitted the CAP to the PA DEP. This process will take approximately 6 to 12 more months to complete. The outcome of the claim cannot be determined at this time.

NOTE 13: RESTATEMENT OF NET ASSETS

During the current year, we discovered that certain adjustments from prior fiscal years were never reversed. To correct this error, a prior period adjustment in the amount of \$357,137 was required to increase beginning net assets.

NOTE 14: SUBSEQUENT EVENTS

The Authority is currently participating in EPA hearings dealing with Authority discharge into the Chester Creek Watershed. The EPA is currently in the "information gathering stage".