

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

*For the Year Ended December 31, 2008*

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
YEAR ENDED DECEMBER 31, 2008

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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, 2008, 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 to satisfy ourselves regarding the accounts receivable balance as of December 31, 2008, 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, 2008.

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, 2008, 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  
November 6, 2009

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SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
DECEMBER 31, 2008

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 2008 and comparison to fiscal year 2007. 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 \$940,301 total debt) is a direct result of scheduled payments and refinancing.

Fiscal Year	Bonds Payable	Notes Payable	Total Debt
2008	\$12,740,000	\$ 4,362,029	\$17,102,029
2007	\$13,235,000	\$ 4,807,330	\$18,042,330

A summarized comparison of the Authority's statements of revenues, expenses and changes in net assets for the years 2008, 2007 follows:

Operational expenses were 9% less than budget estimates. Revenue was 1% greater than the budget estimate.

The following table compares fiscal year 2008 operations to fiscal year 2007 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.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
DECEMBER 31, 2008

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**

	2008	2007
<b>REVENUES</b>		
Operating Revenues	\$ 5,464,212	\$ 5,632,300
Operating Expenses	4,786,411	4,588,787
Operating Income	677,801	773,513
Net Loss	(222,529)	(215,512)
Other Income	-	-
Increase (Decrease) in Net Assets	(222,529)	558,001
Net Assets Beginning of year	3,906,352	2,991,214
Prior Period Adjustments	-	357,137
Net Assets at end of the year	3,683,823	3,906,352

The assets of the Authority exceeded its liabilities by \$3.7 million. \$2.1 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 \$4.0 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**

	2008	2007
<b>Current and other Assets</b>	<b>\$ 2,920,048</b>	<b>\$ 8,189,726</b>
<b>Capital Assets</b>	<b>13,372,095</b>	<b>14,220,418</b>
<b>Total Assets</b>	<b>21,226,896</b>	<b>22,410,144</b>
<b>Long Term Debt Outstanding</b>	<b>16,067,820</b>	<b>17,053,826</b>
<b>Other Liabilities</b>	<b>1,475,253</b>	<b>1,449,966</b>
<b>Total Liabilities</b>	<b>17,543,073</b>	<b>18,503,792</b>
<b>Net Assets:</b>		
Invested in Capital	(2,414,402)	(2,460,411)
Restricted	2,125,044	2,963,490
Unrestricted	3,973,181	3,403,273
<b>Total Net Assets</b>	<b>3,683,823</b>	<b>3,906,352</b>

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
DECEMBER 31, 2008

## 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 year's activity.

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.

### Capital Acquisitions

The Authority's investment in capital assets includes the Sewer System and equipment. Capital acquisitions are recorded at cost. Acquisitions are funded by available reserves and debt.

Southwest Delaware County Municipal Authority's investment in capital assets as of December 31, 2008, net of accumulated depreciation, was as follows:

Plant and System	\$ 13,089,268
Administration Building	80,265
Maintenance Equipment	42,784
Office Equipment	83,369
Construction in Progress	<u>76,409</u>
Capital Assets Net of Depreciation	<u><u>\$ 13,372,095</u></u>

During the year ended December 31, 2008, the Authority expended \$18,824 on capital assets. Additional information on capital assets can be found in Note 4 to the financial statements.

### Debt Administration

As of December 31, 2008, the Authority had total long term debt outstanding of \$16,067,820. Of this amount, \$12,008,376 represents obligations incurred by the Authority under the Sewer Revenue Bonds Payable, Series of 1998, and constitutes a refinancing of a previous obligation.

During 2008 the Authority entered into a term loan with TD Bank with a principal amount of \$2,900,000 bearing interest at a variable rate. The proceeds were used to refund the term loan with New Garden.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
DECEMBER 31, 2008

The Authority's Outstanding Debt as of December 31, 2008 is as follows:

Notes Payable	\$ 4,362,029
Bonds Payable	12,740,000
	\$ 17,102,029

Additional information on the Authority's long-term debt can be found in Note 7 and 8 to the financial statements. The Authority's debt is essentially secured by the sewer receipts and revenues.

### **Economic Factors and Next Year's Budgets and Rates**

Southwest Delaware County Municipal Authority is continuing its efforts to improve its financial position, by increasing its revenues and containing its expenses. The Authority is focusing on reducing outstanding delinquencies, especially with rental properties, which comprise an above average percentage of the customer base. The Authority is utilizing all legal methods to improve its collection rate. The Authority is confident that its focused collection effort will provide sufficient revenues to enable it to satisfy its financial obligations although it recognizes that the current economic climate may impact the ability of customers to pay their sewer bills. As for expenses, the Authority has taken steps to reduce all expenses and closely monitors disbursements for sewer operations. The 2009 budget is essentially the same as the 2008 budget, after adjusting for certain revenue neutral expenses. Finally, the Authority has issued \$15,660,000 Guaranteed Sewer Revenue bonds Series A and B of 2009 and in the process refunded the Sewer Revenue bonds of 1998, two outstanding PennVest Loans and the Series 2008 Note issued to TD Bank. The Authority recognizes that the current economic climate may adversely impact its customers but it believes that the programs it has enacted will enable it to sustain its financial goals and objectives.

### **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, 2008

Assets	
Current Assets	
Cash and cash equivalents - Unrestricted	\$ 671,497
Accounts receivable	
Sewer Rentals	1,823,495
Pretreatment	324,943
Assessments	22,896
Other	7,757
Other Services	64,493
Allowance for Doubtful Accounts	(51,309)
Prepaid insurance	56,276
Total Current Assets	<u>2,920,048</u>
Restricted Assets	
Assets limited as to use - held by Trustee	<u>2,125,044</u>
Capital Assets, at cost	
Construction in Progress	76,409
Property, plant and equipment	27,056,175
Accumulated depreciation	<u>(13,760,489)</u>
Total Capital Assets	<u>13,372,095</u>
Assessments - Noncurrent	301,065
Sewer Rentals - Noncurrent	1,379,736
Deferred bond costs, net	<u>1,128,908</u>
Total Noncurrent Assets	2,809,709
Total Assets	<u>\$ 21,226,896</u>

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



SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2008

Liabilities and Net Assets

Current Liabilities	
Accounts payable	\$ 34,209
Notes payable - current portion	302,585
Bonds payable - current portion	545,000
Accrued interest payable	267,484
Accrued expenses	91,646
Other liabilities	14,121
Deferred revenue	188,901
Total Current Liabilities	<u>1,443,946</u>
NonCurrent Liabilities	
Compensated Absences Payable	31,307
Notes payable	4,059,444
Bonds payable	12,008,376
Total Noncurrent Liabilities	<u>16,099,127</u>
Total Liabilities	<u>17,543,073</u>
Net Assets	
Invested in capital assets, net of related debt	(2,414,402)
Restricted	2,125,044
Unrestricted	3,973,181
Total Net Assets	<u>3,683,823</u>
Total Liabilities and Net Assets	<u>\$ 21,226,896</u>

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

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
DECEMBER 31, 2008

Operating Revenues	
Sewer rentals	\$ 5,039,181
Other operating revenue	425,031
Total Operating Revenues	<u>5,464,212</u>
Operating Expenses	
Salaries	1,260,643
Benefits including payroll taxes	617,969
Contractual services	338,709
Depreciation and amortization	771,657
Utilities	547,475
Insurance expense	99,461
Maintenance and materials	1,112,487
Other expenses	38,010
Total Operating Expenses	<u>4,786,411</u>
Operating Income	<u>677,801</u>
Nonoperating Revenues (Expenses)	
Assessment and connections	219,892
Interest on assessments	24,465
Interest expense	(1,021,434)
Investment Income	59,831
Discontinued capital project	(224,934)
Miscellaneous Revenue	41,850
Total Nonoperating Expenses	<u>(900,330)</u>
Net Loss	<u>(222,529)</u>
Net Assets, Beginning of the Year	<u>3,906,352</u>
Net Assets, End of Year	<u>\$ 3,683,823</u>

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

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
STATEMENT OF CASH FLOWS  
DECEMBER 31, 2008

Cash flows from operating activities	
Cash received from customers	\$ 3,336,522
Cash paid to suppliers	(1,798,782)
Cash paid to employees	(1,240,895)
Other revenues	466,881
Net cash provided by operating activities	<u>763,726</u>
Cash flows from Capital and related financing activities	
Purchases/Disposal of capital assets	(18,824)
Disposal of Construction in Progress	224,934
Notes Payable Proceeds	2,900,000
Payments of Notes Payable	(3,060,000)
Principal payments of notes payable	(285,301)
Principal payments of bonds payable	(495,000)
Discount on Bond	11,664
Assessments and Connections	219,892
Interest paid on Water Revenue Bonds	<u>(1,286,404)</u>
Net cash used by capital and related financing activities	<u>(1,789,039)</u>
Cash flows from investing activities	
Investment income	59,831
Interest on assessments	24,465
Decrease in assets limited as to use - held by Trustee	<u>838,446</u>
Net cash provided by investing activities	<u>922,742</u>
Net decrease in cash and cash equivalents	<u>(102,571)</u>
Cash and cash equivalents at beginning of year	<u>774,068</u>
Cash and cash equivalents at end of year	<u>\$ 671,497</u>
Reconciliation of operating income to Net Cash provided by Operating Activities	
Income from Operations	\$ 677,801
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation and amortization	771,657
Add (deduct) changes in non-cash working capital:	
Increase in accounts receivable	(625,849)
Increase in prepaid expenses	(4,633)
Decrease in accounts payable	(48,234)
Decrease in accrued expenses	58,158
Decrease in other liabilities	868
Decrease in deferred revenue	(66,042)
Net cash provided by operating activities	<u>\$ 763,726</u>

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

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2008

NOTE 1: 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  
DECEMBER 31, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. 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,

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's ongoing operations. The principal operating revenues of the Authority are charges to customers for sales and services. Operating expenses not meeting this definition are reported as nonoperating revenues and expenses.

When an expense is incurred for purposes for which there are both restricted and unrestricted net assets available, it is the Authority's policy to apply those expenses to restricted net assets to the extent that such are available and then to unrestricted net assets.

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.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 2008 was \$129,444.

H. Deferred Revenue

Income from Connection Fees is deferred and recognized until settlement has been completed on the new homes. As of December 31, 2009, deferred revenue was \$188,901.

I. 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, 2008, the liability for compensated absences was \$31,307.

J. 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.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. 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.

L. 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.

M. Adoption of Governmental Accounting Standards Board (GASB) Statements

The Authority adopted the provisions of GASB's Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other." This adoption of this statement had no effect on previously reported amounts.

The Authority adopted the provisions of GASB's Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations." This adoption of this statement had no effect on previously reported amounts.

The Authority adopted the provisions of GASB's Statement No. 50, "Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27." This adoption of this statement had no effect on previously reported amounts.

The Authority adopted the provisions of GASB's Statement No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments." This adoption of this statement has no effect on previously reported amounts.

The Authority adopted the provisions of GASB's Statement No. 56, "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards." This adoption of this statement has no effect on previously reported amounts.

Pending Governmental Accounting Standards Board (GASB) Statements

The Governmental Accounting Standards Board has issued GASB's Statement No. 51 "Accounting and Financial Reporting for Intangible Assets." This Statement is required to be adopted by the Authority for the year ending December 31, 2010. The Authority has not determined the effect of GASB's Statement No. 51 on the financial statements.

The Governmental Accounting Standards Board has issued GASB's Statement No. 52 "Land and Other Real Estate Investments by Endowments." This Statement is required to be adopted by the Authority for the year ending December 31, 2009. The Authority has not determined the effect of GASB's Statement No. 52 on the financial statements.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Adoption of Governmental Accounting Standards Board (GASB) Statements (Continued)

The Governmental Accounting Standards Board has issued GASB's Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments." This statement is required to be adopted by the Authority for the year ending December 31, 2010. The Authority has not determined the effect of GASB's Statement No. 53 on the financial statements.

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and investments as of December 31, 2008 are classified in the accompanying financial statements as follows:

	2008
Cash and Cash Equivalents	\$ 671,497
Assets held by trustee	2,125,044
Total cash and investments	\$ 2,796,541

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.



SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2008

## NOTE 4: CAPITAL ASSETS

For the year ended December 31, 2008, depreciation expense amounted to \$642,213. Capital Asset activity for the year ended December 31, 2008, was as follows:

	Beginning Balance	Increases (Decreases)	Ending Balance
Non-Depreciable Assets:			
Construction in Progress	\$ 301,343	\$ (224,934)	\$ 76,409
Depreciable Assets:			
Plant and System	25,509,388	5,106	25,514,494
Administration Building	207,819	-	207,819
Maintenance Equipment	1,071,643	9,718	1,081,361
Office Equipment	248,501	4,000	252,501
	<u>27,037,351</u>	<u>18,824</u>	<u>27,056,175</u>
Less: Accumulated Depreciation			
Plant and System	11,825,221	600,005	12,425,226
Administration Building	122,358	5,196	127,554
Maintenance Equipment	1,016,291	22,286	1,038,577
Office Equipment	154,406	14,726	169,132
	<u>13,118,276</u>	<u>642,213</u>	<u>13,760,489</u>
	<u>\$ 14,220,418</u>	<u>\$ (848,323)</u>	<u>\$ 13,372,095</u>

## 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 expense was \$129,444.

## 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 2005 and 2008.

In early 2009 a "Consent Order and Agreement" was executed from PADEP, specifying a final civil penalty of \$38,000 along with certain corrective actions in the operation and maintenance of the plant for these violations. The fine, included in expenses in these financial statements was paid in March 2009

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## NOTE 7: NOTES PAYABLE

Notes payable consists of the following:

	<u>December 31, 2008</u>	
	<u>Current</u>	<u>Long-Term</u>
1) TD Bank	\$ 100,000	\$ 2,800,000
2) PennVest Loan #73051	36,544	861,354
3) PennVest Loan #71091	166,041	398,090
	<u>\$ 302,585</u>	<u>\$ 4,059,444</u>

1. TD Bank

\$2,900,000 (original principal amount) term loan with TD Bank dated December 29, 2008, bearing interest at a variable rate in accordance with the loan agreement. There are 20 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.

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 68 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 121 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, 2008, interest expense amounted to \$320,940.

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

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 302,585	\$ 159,420
2010	305,142	168,389
2011	317,981	156,275
2012	331,112	143,644
2013-2017	1,095,780	567,872
2018-2022	734,429	424,876
2023-2027	865,000	236,500
2028-2029	410,000	31,000
	<u>\$ 4,362,029</u>	<u>\$ 1,887,976</u>

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## 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 1<sup>st</sup> and August 1<sup>st</sup>. 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>
2009	\$ 545,000	\$ 631,295
2010	570,000	606,225
2011	595,000	579,435
2012	625,000	550,875
2013-2017	3,610,000	2,257,750
2018-2022	4,610,000	1,260,250
2023-2024	2,185,000	165,250
	<u>\$ 12,740,000</u>	<u>\$ 6,051,080</u>

## NOTE 9: CHANGES IN LONG-TERM LIABILITIES

	<u>1/1/2008</u>			<u>12/31/2008</u>	<u>Due Within</u>
	Balance	Additions	Reductions	Balance	One Year
Notes Payable	\$ 4,522,029	\$ 2,900,000	\$ (3,362,585)	\$ 4,059,444	\$ 302,585
Bonds Payable	12,740,000	-	(545,000)	12,195,000	545,000
	<u>\$ 17,262,029</u>	<u>\$ 2,900,000</u>	<u>\$ (3,907,585)</u>	<u>\$ 16,254,444</u>	<u>\$ 847,585</u>

Bonds payable on the Statement of Net Assets is net of unamortized bond discount of \$186,624.

## 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, 2008 were \$58,689.

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NOTE 11: COMMITMENTS AND CONTINGENCIES

The Authority leases equipment under operating lease agreements which require monthly payments ranging from \$24 to \$239 and expire at various times through December 2009. Rent expense under all operating leases for the year ended December 31, 2008 was \$2,802.

The following is a schedule of future minimum lease payments required under the operating leases, as of December 31, 2008:

<u>For the years ending December 31</u>	
2009	\$ 2,936
2010	2,864
2011	2,864
2012	2,864
2013	<u>2,268</u>
	<u>\$ 13,796</u>

During 2002 and 2003 the Authority was found to be out of 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.

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".

NOTE 12: SUBSEQUENT EVENTS

On October 20, 2009, the Authority issued \$15,660,000 Guaranteed Sewer Revenue Bonds (GSRB) Series A and B of 2009. The purpose of the issues are to currently refund the Authority's GSRB Series of 1998, currently refund two outstanding PennVest loans, currently refund the Series of 2008 Note issued to TD Bank, as well as provide the funds for the costs of issuance.

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NOTE 12: SUBSEQUENT EVENTS (CONTINUED)

Under the terms of a Trust Indenture, the Authority pledges and assigns all of the receipts and revenues from the Sewer System as security for its obligation to make payments under the Indenture.

In connection with the issuance of the 2009 Bonds, the Township of Aston (the Township) agreed to provide to the Trustee a Guaranty Agreement, the terms of which provided for, among other things, an unconditional guaranty by the Township of the payment of principal, interest, and insufficiencies of the debt service reserve fund related to the Bonds.

The Authority has evaluated all subsequent events through the report issue date of November 6, 2009. No events have taken place that effect the financial statements or require disclosure.