

**SOUTHWEST DELAWARE COUNTY
MUNICIPAL AUTHORITY
FINANCIAL STATEMENTS**

For the Years Ended December 31, 2009 and 2008

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY
YEARS ENDED DECEMBER 31, 2009 AND 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 years ended December 31, 2009 and 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 explained 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 on the December 31, 2008 financial statements described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Southwest Delaware County Municipal Authority as of December 31, 2009 and 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.

The management's discussion and analysis on pages 2 to 5 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



ZELENKOFKSKE AXELROD LLC

Jamison, Pennsylvania
May 19, 2010

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SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2009

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 2009 and comparison to fiscal year 2008. 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 2009.

The Authority meets all terms of the trust agreement and other borrowings and the change in the amount owed (a reduction of \$1,139,444 total debt) is a direct result of scheduled payments and refinancing.

<u>Fiscal Year</u>	<u>Bonds Payable</u>	<u>Notes Payable</u>	<u>Total Debt</u>
2009	\$ 15,660,000	\$ -	\$ 15,660,000
2008	\$ 12,740,000	\$ 4,059,444	\$ 16,799,444

A summarized comparison of the Authority's statements of revenues, expenses and changes in net assets for the years 2009 and 2008 follows:

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

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2009

The following table compares fiscal year 2009 operations to fiscal year 2008 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.

Statements of Revenues, Expenses and Changes in Net Assets

	2009	2008
Operating Revenues	\$ 6,061,994	\$ 5,464,212
Operating Expenses	6,261,794	4,786,411
Operating Income (Deficit)	(199,800)	677,801
Net Profit/Loss	(694,459)	(222,529)
Increase (Decrease) in Net Assets	(694,459)	(222,529)
Net Assets beginning of year	3,683,823	3,906,352
Net Assets at end of the year	2,989,364	3,683,823

The assets of the Authority exceeded its liabilities by approximately \$3 million. Restricted Assets of \$263,035 were restricted by legal requirements and were not available to finance the day-to-day operations of the Authority. Unrestricted assets were \$3.9 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.

Statements of Net Assets

	2009	2008
Current and other Assets	\$ 2,235,166	\$ 2,920,048
Capital Assets	12,872,219	13,372,095
Total Assets	18,119,955	21,226,896
Noncurrent Liabilities	14,258,152	16,099,127
Current Liabilities	872,439	1,443,946
Total Liabilities	15,130,591	17,543,073
Net Assets:		
Invested in Capital	(1,181,722)	(2,414,402)
Restricted	263,035	2,125,044
Unrestricted	3,908,051	3,973,181
Total Net Assets	2,989,364	3,683,823

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2009

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, 2009, net of accumulated depreciation, was as follows:

	<u>2009</u>	<u>2008</u>
Plant and System	\$ 12,545,085	\$ 13,089,268
Administration Building	75,070	80,265
Maintenance Equipment	108,713	42,784
Office Equipment	66,942	83,369
Construction in Progress	<u>76,409</u>	<u>76,409</u>
Capital Assets Net of Accumulated Depreciation	<u>\$ 12,872,219</u>	<u>\$ 13,372,095</u>

During the year ended December 31, 2009, the Authority expended \$156,499 on capital assets. Additional information on capital assets can be found in Note 4 to the financial statements.

Debt Administration

As of December 31, 2009, the Authority had total long term debt outstanding of \$14,209,021. This amount represents obligations incurred by the Authority under the Sewer Revenue Bonds Payable, Series of 2009, and constitutes a refinancing of a previous obligation.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY
 MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
 DECEMBER 31, 2009

The Authority's Outstanding Debt as of December 31, 2009 is as follows:

	2009	2008
Notes Payable	\$ -	\$ 4,362,029
Bonds Payable	15,660,000	12,740,000
	\$ 15,660,000	\$ 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
STATEMENTS OF NET ASSETS
DECEMBER 31, 2009 AND 2008

Assets	<u>2009</u>	<u>2008</u>
Current Assets		
Cash and cash equivalents - Unrestricted	\$ 610,616	\$ 671,497
Accounts receivable		
Sewer Rentals	1,171,490	1,823,495
Pretreatment	279,492	324,943
Assessments	43,000	22,896
Other	82,525	7,757
Other Services	51,258	64,493
Allowance for Doubtful Accounts	(102,618)	(51,309)
Prepaid insurance	99,403	56,276
Total Current Assets	<u>2,235,166</u>	<u>2,920,048</u>
Restricted Assets		
Assets limited as to use - held by Trustee	<u>263,035</u>	<u>2,125,044</u>
Capital Assets, at cost		
Construction in Progress	76,409	76,409
Property, plant and equipment	27,212,676	27,056,175
Accumulated depreciation	(14,416,866)	(13,760,489)
Total Capital Assets	<u>12,872,219</u>	<u>13,372,095</u>
Assessments - Noncurrent	232,039	301,065
Sewer Rentals - Noncurrent	3,069,798	1,379,736
Allowance for Doubtful Accounts	(1,047,382)	
Deferred bond costs, net	<u>495,080</u>	<u>1,128,908</u>
Total Noncurrent Assets	<u>2,749,535</u>	<u>2,809,709</u>
Total Assets	<u>\$ 18,119,955</u>	<u>\$ 21,226,896</u>

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

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY
STATEMENTS OF NET ASSETS (CONTINUED)
DECEMBER 31, 2009 AND 2008

Liabilities and Net Assets	<u>2009</u>	<u>2008</u>
Current Liabilities		
Accounts payable	\$ 262,317	\$ 34,209
Notes payable - current portion	-	302,585
Bonds payable - current portion	340,000	545,000
Accrued interest payable	99,696	267,484
Accrued expenses	24,869	91,646
Other liabilities	14,204	14,121
Deferred revenue	131,353	188,901
Total Current Liabilities	<u>872,439</u>	<u>1,443,946</u>
Noncurrent Liabilities		
Compensated Absences Payable	49,131	31,307
Notes payable	-	4,059,444
Bonds payable - long term portion, net of deferred loss on refunding of \$1,110,979 and \$186,624 in 2009 and 2008, respectively	14,209,021	12,008,376
Total Noncurrent Liabilities	<u>14,258,152</u>	<u>16,099,127</u>
Total Liabilities	<u>15,130,591</u>	<u>17,543,073</u>
Net Assets		
Invested in capital assets, net of related debt	(1,181,722)	(2,414,402)
Restricted	263,035	2,125,044
Unrestricted	3,908,051	3,973,181
Total Net Assets	<u>2,989,364</u>	<u>3,683,823</u>
Total Liabilities and Net Assets	<u>\$ 18,119,955</u>	<u>\$ 21,226,896</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
 FOR THE YEARS ENDING DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Operating Revenues		
Sewer rentals	\$ 4,928,832	\$ 5,039,181
Other operating revenue	1,133,162	425,031
Total Operating Revenues	<u>6,061,994</u>	<u>5,464,212</u>
Operating Expenses		
Salaries	1,422,633	1,260,643
Benefits including payroll taxes	600,828	617,969
Contractual services	456,540	338,709
Depreciation and amortization	671,126	771,657
Utilities	587,411	547,475
Insurance expense	91,159	99,461
Maintenance and materials	1,228,670	1,112,487
Fines and Fees	59,368	-
Bad Debt Expense	1,105,771	-
Other expenses	38,288	38,010
Total Operating Expenses	<u>6,261,794</u>	<u>4,786,411</u>
Operating Income	<u>(199,800)</u>	<u>677,801</u>
Nonoperating Revenues (Expenses)		
Assessment and connections	125,137	219,892
Interest on assessments	16,961	24,465
Interest expense	(800,973)	(1,021,434)
Investment Income	7,013	59,831
Discontinued capital project	-	(224,934)
Miscellaneous Revenue	157,203	41,850
Total Nonoperating Expenses	<u>(494,659)</u>	<u>(900,330)</u>
Net Income/(Loss)	<u>(694,459)</u>	<u>(222,529)</u>
Net Assets, Beginning of the Year	<u>3,683,823</u>	<u>3,906,352</u>
Net Assets, End of Year	<u>\$ 2,989,364</u>	<u>\$ 3,683,823</u>

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

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities		
Cash received from customers	\$ 5,022,306	\$ 3,336,522
Cash paid to suppliers	(3,653,887)	(1,798,782)
Cash paid to employees	(1,485,243)	(1,240,895)
Other revenues	573,239	466,881
Net cash provided by operating activities	<u>456,415</u>	<u>763,726</u>
Cash flows from Capital and related financing activities		
Purchases/Disposal of capital assets	(156,499)	(18,824)
Disposal of Construction in Progress	-	224,934
Notes Payable Proceeds	-	2,900,000
Bonds Payable Proceeds	15,660,000	-
Payments of Notes Payable	-	(3,060,000)
Payments to Trustee for Current and Refunded Bonds Payable	(12,330,000)	-
Deferred Loss from Refunding	(924,355)	-
Payments for Current and Refunded Notes Payable	(4,362,029)	(285,301)
Principal Payments of Bonds Payable	-	(495,000)
Bond Issue Costs	(495,080)	11,664
Transfer of Unamortized Bond Issue Costs to Deferred Loss	1,128,908	-
Assessments and Connections	125,137	219,892
Interest paid on Water Revenue Bonds	(1,049,361)	(1,286,404)
Net cash used by capital and related financing activities	<u>(2,403,279)</u>	<u>(1,789,039)</u>
Cash flows from investing activities		
Investment income	7,013	59,831
Interest on assessments	16,961	24,465
Decrease in assets limited as to use - held by Trustee	1,862,009	838,446
Net cash provided by investing activities	<u>1,885,983</u>	<u>922,742</u>
Net decrease in cash and cash equivalents	<u>(60,881)</u>	<u>(102,571)</u>
Cash and cash equivalents at beginning of year	<u>671,497</u>	<u>774,068</u>
Cash and cash equivalents at end of year	<u>\$ 610,616</u>	<u>\$ 671,497</u>
Reconciliation of operating income to Net Cash provided by Operating Activities		
Income from Operations	\$ (199,800)	\$ 677,801
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	671,126	771,657
Add (deduct) changes in non-cash working capital:		
Increase in accounts receivable	(1,199,245)	(625,849)
Increase in allowance for bad debt	1,105,771	-
Increase in prepaid expenses	(43,127)	(4,633)
Increase/ (Decrease) in accounts payable	228,108	(48,234)
Increase/(Decrease) in accrued expenses	(48,953)	58,158
Decrease in other liabilities	83	868
Decrease in deferred revenue	(57,548)	(66,042)
Net cash provided by operating activities	<u>\$ 456,415</u>	<u>\$ 763,726</u>

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 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 (CONTINUED)
DECEMBER 31, 2009 AND 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 (CONTINUED)
 DECEMBER 31, 2009 AND 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 expenses for the years ended December 31, 2009 and 2008 were \$14,749 and \$129,444, respectively.

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 and 2008, deferred revenues were \$131,353 and \$188,901, respectively.

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, 2009 and 2008, the liabilities for compensated absences were \$49,131 and \$31,307, respectively.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2009 AND 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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. 52, "Land and Other Real Estate Investment by Endowments." This adoption of this statement had no effect on previously reported amounts.

The Authority adopted the provisions of GASB's Statement No. 57, "OPEB Measurement by Agent Employers and Agent Multiple-Employer Plans." This adoption of this statement had no effect on previously reported amounts.

N. 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. 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.

The Governmental Accounting Standards Board has issued GASB's Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement is required to be adopted by the Authority for the year ending December 31, 2011. The Authority has not determined the effect of GASB's Statement No. 54 on the financial statements.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2009 AND 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Pending Governmental Accounting Standards Board (GASB) Statements (Continued)

The Governmental Accounting Standards Board has issued GASB's Statement No. 58 "Accounting and Financial Reporting for Chapter 9 Bankruptcies." 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. 58 on the financial statements.

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and investments as of December 31, 2009 and 2008 are classified in the accompanying financial statements as follows:

	2009	2008
Cash and Cash Equivalents	\$ 610,616	\$ 671,497
Assets held by trustee	263,035	2,125,044
Total cash and investments	\$ 873,651	\$ 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. As of December 31, 2009, of the Authority's \$700,400 bank balance, \$250,000 was covered by FDIC and \$450,400 was exposed to custodial risk as they were collateralized with securities held by the pledging financial institution and uninsured.

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 has filed liens against property owners refusing to connect.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2009 AND 2008

NOTE 4: CAPITAL ASSETS

For the years ended December 31, 2009 and 2008, depreciation expense amounted to \$656,377 and \$642,213 respectively. Capital Asset activity for the years ended December 31, 2009 and 2008 were as follows:

	Beginning Balance	<u>2009</u> Increases (Decreases)	Ending Balance
Non-Depreciable Assets:			
Construction in Progress	\$ 76,409	\$ -	\$ 76,409
Depreciable Assets:			
Plant and System	25,514,494	62,088	25,576,582
Administration Building	207,819	-	207,819
Maintenance Equipment	1,081,361	90,609	1,171,970
Office Equipment	252,501	3,804	256,305
	<u>27,056,175</u>	<u>156,501</u>	<u>27,212,676</u>
Less: Accumulated Depreciation			
Plant and System	12,425,226	606,271	13,031,497
Administration Building	127,554	5,195	132,749
Maintenance Equipment	1,038,577	24,680	1,063,257
Office Equipment	169,132	20,231	189,363
	<u>13,760,489</u>	<u>656,377</u>	<u>14,416,866</u>
	<u>\$ 13,372,095</u>	<u>\$ (499,876)</u>	<u>\$ 12,872,219</u>
	Beginning Balance	<u>2008</u> 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>

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2009 AND 2008

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 years ended December 31, 2009 and 2008 the amounts charged to expense were \$14,749 and \$129,444 respectively.

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.

NOTE 7: NOTES PAYABLE

Notes payable consists of the following:

	<u>December 31, 2009</u>	
	<u>Current</u>	<u>Long-Term</u>
TD Bank	\$ -	\$ -
PennVest Loan #73051	-	-
PennVest Loan #71091	-	-
	\$ -	\$ -
	\$ -	\$ -

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

On October 22, 2009, The Authority refinanced outstanding Notes Payable with the 2009 Bond Issuance.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2009 AND 2008

NOTE 7: NOTES PAYABLE (CONTINUED)

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 installments 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 years ended December 31, 2009 and 2008, interest expense amounted to \$150,246 and \$320,940, respectively.

NOTE 8: BONDS PAYABLE

	2009				
	1/1/2009			12/31/2009	Due Within
	Balance	Additions	Reductions	Balance	One Year
Bonds Payable	12,740,000	15,660,000	(12,740,000)	15,660,000	340,000
	\$ 12,740,000	\$ 15,660,000	\$ (12,740,000)	\$ 15,660,000	\$ 340,000
	2008				
	1/1/2008			12/31/2008	Due Within
	Balance	Additions	Reductions	Balance	One Year
Bonds Payable	13,285,000	-	(545,000)	12,740,000	545,000
	\$ 13,285,000	\$ -	\$ (545,000)	\$ 12,740,000	\$ 545,000

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2009 AND 2008

NOTE 8: BONDS PAYABLE (CONTINUED)

Bonds Payable as of December 31, 2009 is as follows:

<u>Series</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>Principal Balance</u>
Sewer Revenue Bonds Series A	2010 to 2024	2.00 % to 3.850%	\$ 13,875,000
Sewer Revenue Bonds Series B	2010 to 2024	2.00 % to 3.850%	<u>1,785,000</u>
			15,660,000
Less Deferred Loss on Refunding			<u>(1,110,979)</u>
			14,549,021
Less Current Portion			<u>(340,000)</u>
			<u>\$ 14,209,021</u>

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.

The Authority issued Guaranteed Sewer Revenue Bonds, Series A and B of 2009 (the 2009 Bonds"), dated October 22, 2009, in the amount of \$15,660,000. The purpose of the issues were to refund the Authority's Guaranteed Sewer Revenue Bond Series 1998, refund two outstanding Pennvest loans, refund the Series of 2008 Note issued to TD Bank, as well as provide the funds for the cost of issuance.

The 2009 Bonds bear interest rates from 2.00% to 3.850% and are due from August 1, 2010 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.

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.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2009 AND 2008

NOTE 8: BONDS PAYABLE (CONTINUED)

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.

Following are maturities and interest of the 2009 Bond debt through to maturity:

<u>Year ended December 31,</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 340,000	\$ 403,486
2011	905,000	501,085
2012	1,150,000	482,985
2013	1,175,000	457,110
2014	1,220,000	415,110
2015-2019	5,540,000	1,525,528
2020-2024	5,330,000	602,570
	<u>\$ 15,660,000</u>	<u>\$ 4,387,874</u>

NOTE 9: 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, 2009 and 2008 were \$57,964 and \$58,689, respectively.

NOTE 10: 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 2013. Rent expense under all operating leases for the years ended December 31, 2009 and 2008 were \$2,936 and \$2,802, respectively.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2009 AND 2008

NOTE 10: COMMITMENTS AND CONTINGENCIES (CONTINUED)

The following is a schedule of future minimum lease payments required under the operating leases, as of December 31, 2009:

<u>Year Ending</u> <u>December 31,</u>		
2010	\$	2,864
2011		2,864
2012		2,864
2013		<u>2,268</u>
	<u>\$</u>	<u>10,860</u>

During 2002 and 2003 the Authority was determined 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 11: SUBSEQUENT EVENTS

The Authority has evaluated all subsequent events through the report issue date of May 19, 2010. No events have taken place that effect the financial statements or require disclosure.