

**SOUTHWEST DELAWARE COUNTY  
MUNICIPAL AUTHORITY  
FINANCIAL STATEMENTS**

*For the Years Ended December 31, 2010 and 2009*

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
YEARS ENDED DECEMBER 31, 2010 AND 2009

CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	2-5
Financial Statements	
Statements of Net Assets	6-7
Statements of Revenues, Expenses and Changes in Net Assets	8
Statements of Cash Flows	9
Notes to the Financial Statements	10-19

# 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, 2010 and 2009, 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.

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.

In our opinion, 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, 2010 and 2009, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 to 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standard Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



ZELENKOFKSKE AXELROD LLC

Jamison, Pennsylvania  
June 22, 2011

<i>Harrisburg</i>	<i>Lehigh Valley</i>	<i>Philadelphia</i>	<i>Pittsburgh</i>
830 Sir Thomas Court, Suite 100 Harrisburg, PA 17109 717.561.9200 Fax 717.561.9202	1101 West Hamilton Street Allentown, PA 18101-1043 610.871.5077 Fax 717.561.9202	2370 York Road, Suite A-5 Jamison, PA 18929 215.918.2277 Fax 215.918.2302	3800 McKnight E. Drive, Suite 3805 Pittsburgh, PA 15237 412.367.7102 Fax 412.367.7103

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
DECEMBER 31, 2010

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 2010 and comparison to fiscal year 2009. Please read this analysis in conjunction with 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 2010.

The Authority meets all terms of the trust agreement and other borrowings and the change in the amount owed (a reduction of \$206,964 total debt) is a direct result of scheduled payments and refinancing.

A summarized comparison of the Authority's statements of revenues, expenses and changes in net assets for the years 2010 and 2009 follows:

Operational expenses were 17% greater than budget estimates. Revenue was 4% greater than the budget estimate.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
DECEMBER 31, 2010

The following table compares fiscal year 2010 operations to fiscal year 2009 and reflects an improved financial condition. The Authority realized a reduction in operating expenses and operating income. The change in net income is a result of improved collection of the billed revenue and the decrease in operating expenses.

The decrease in operational expense is a result of improved operations and was achieved despite increases in employee benefit costs, contractual services and maintenance. 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**

	<u>2010</u>	<u>2009</u>
Operating Revenues	\$ 5,645,250	\$ 6,061,994
Operating Expenses	5,476,270	6,261,794
Operating Income (Deficit)	168,980	(199,800)
Net Profit/Loss	(367,946)	(694,459)
Increase (Decrease) in Net Assets	(367,946)	(694,459)
Net Assets beginning of year	2,989,364	3,683,823
Net Assets at end of the year	2,621,418	2,989,364

The assets of the Authority exceeded its liabilities by approximately \$2.6 million. Restricted Assets of \$593,551 were restricted by legal requirements and were not available to finance the day-to-day operations of the Authority. Unrestricted assets were \$3.7 million.

The largest asset increase was in Accounts Receivable. There was an implementation of a change to the billing frequency (from annually to quarterly) in early 2009 that created confusion in the customer base. In an effort to provide the customer base time to adjust to this change, there was a lack of collection efforts toward Accounts Receivable. This situation was further compounded by a downturn in the economy which ultimately resulted in a less than normal collection rate.

**Statements of Net Assets**

	<u>2010</u>	<u>2009</u>
Current and other Assets	\$ 2,692,785	\$ 2,235,166
Capital Assets	12,177,879	12,872,219
Total Assets	17,647,088	18,119,955
Noncurrent Liabilities	13,463,883	14,258,152
Current Liabilities	1,561,787	872,439
Total Liabilities	15,025,670	15,130,591
Net Assets:		
Invested in Capital	(1,704,495)	(1,181,722)
Restricted	593,551	263,035
Unrestricted	3,732,362	3,908,051
Total Net Assets	2,621,418	2,989,364

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
DECEMBER 31, 2010

## 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, 2010, net of accumulated depreciation, was as follows:

	<u>2010</u>	<u>2009</u>
Plant and System	\$ 11,944,227	\$ 12,545,085
Administration Building	75,070	75,070
Maintenance Equipment	83,577	108,713
Office Equipment	47,638	66,942
Construction in Progress	<u>27,367</u>	<u>76,409</u>
Capital Assets Net of Accumulated Depreciation	<u>\$ 12,177,879</u>	<u>\$ 12,872,219</u>

During the year ended December 31, 2010, the Authority expended \$10,078 on capital assets. Additional information on capital assets can be found in Note 4 to the financial statements.

### Debt Administration

As of December 31, 2010, the Authority had total long term debt outstanding of \$14,342,097. 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, 2010

The Authority's Outstanding Debt as of December 31, 2010 is as follows:

	<u>2010</u>	<u>2009</u>
Bonds Payable	\$ 15,320,000	\$ 15,660,000
	<u>\$ 15,320,000</u>	<u>\$ 15,660,000</u>

Additional information on the Authority's long-term debt can be found in Note 7 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 accounts, which comprise the vast majority of the customer base. The Authority is utilizing all available methods to improve its collection rate including quarterly delinquent/final notices, property liens and potable water service disconnection. 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 timely. 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 2010 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 Cecelia Nelson, 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, 2010 AND 2009

Assets	<u>2010</u>	<u>2009</u>
Current Assets		
Cash and cash equivalents - Unrestricted	\$ 383,234	\$ 610,616
Accounts receivable		
Sewer Rentals	1,968,903	1,171,490
Pretreatment	298,107	279,492
Assessments	36,000	43,000
Other	-	82,525
Other Services	69,399	51,258
Allowance for Doubtful Accounts	(153,927)	(102,618)
Prepaid insurance	91,069	99,403
Total Current Assets	<u>2,692,785</u>	<u>2,235,166</u>
Restricted Assets		
Assets limited as to use - held by Trustee	<u>593,551</u>	<u>263,035</u>
Capital Assets, at cost		
Construction in Progress	27,367	76,409
Property, plant and equipment	27,222,754	27,212,676
Accumulated depreciation	<u>(15,072,242)</u>	<u>(14,416,866)</u>
Total Capital Assets	<u>12,177,879</u>	<u>12,872,219</u>
Assessments - Noncurrent	223,067	232,039
Sewer Rentals - Noncurrent	2,405,128	3,069,798
Allowance for Doubtful Accounts	(905,005)	(1,047,382)
Deferred bond costs, net	<u>459,683</u>	<u>495,080</u>
Total Noncurrent Assets	<u>2,182,873</u>	<u>2,749,535</u>
Total Assets	<u>\$ 17,647,088</u>	<u>\$ 18,119,955</u>

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



SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
 STATEMENTS OF NET ASSETS (CONTINUED)  
 DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 272,094	\$ 262,317
Bonds payable - current portion	905,000	340,000
Accrued interest payable	208,785	99,696
Accrued expenses	64,527	24,869
Other liabilities	16,802	14,204
Deferred revenue	94,579	131,353
Total Current Liabilities	<u>1,561,787</u>	<u>872,439</u>
Noncurrent Liabilities		
Compensated Absences Payable	26,826	49,131
Bonds payable -long term portion, net of deferred loss on refunding of \$977,943 and \$1,110,979 in 2010 and 2009, respectively	<u>13,437,057</u>	<u>14,209,021</u>
Total Noncurrent Liabilities	<u>13,463,883</u>	<u>14,258,152</u>
Total Liabilities	<u>15,025,670</u>	<u>15,130,591</u>
Net Assets		
Invested in capital assets, net of related debt	(1,704,495)	(1,181,722)
Restricted	593,551	263,035
Unrestricted	<u>3,732,362</u>	<u>3,908,051</u>
Total Net Assets	<u>2,621,418</u>	<u>2,989,364</u>
Total Liabilities and Net Assets	<u>\$ 17,647,088</u>	<u>\$ 18,119,955</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, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Operating Revenues		
Sewer rentals	\$ 4,941,468	\$ 4,928,832
Other operating revenue	703,782	1,133,162
Total Operating Revenues	<u>5,645,250</u>	<u>6,061,994</u>
Operating Expenses		
Salaries	1,288,878	1,422,633
Benefits including payroll taxes	672,933	600,828
Contractual services	669,745	456,540
Depreciation and amortization	690,774	671,126
Utilities	535,824	587,411
Insurance expense	95,333	91,159
Maintenance and materials	1,394,773	1,228,670
Fines and Fees	108,284	59,368
Bad Debt Expense	-	1,105,771
Other expenses	19,726	38,288
Total Operating Expenses	<u>5,476,270</u>	<u>6,261,794</u>
Operating Income	<u>168,980</u>	<u>(199,800)</u>
Nonoperating Revenues (Expenses)		
Assessment and connections	140,820	125,137
Interest on assessments	16,152	16,961
Interest expense	(645,612)	(800,973)
Investment Income	2,669	7,013
Discontinued capital project	-	-
Miscellaneous Revenue / (Expense)	(50,955)	157,203
Total Nonoperating Expenses	<u>(536,926)</u>	<u>(494,659)</u>
Net Income/(Loss)	<u>(387,946)</u>	<u>(694,459)</u>
Net Assets, Beginning of the Year	<u>2,989,364</u>	<u>3,683,823</u>
Net Assets, End of Year	<u>\$ 2,621,418</u>	<u>\$ 2,989,364</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, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities		
Cash received from customers	\$ 4,266,268	\$ 5,022,306
Cash paid to suppliers	(2,935,141)	(3,653,887)
Cash paid to employees	(1,283,962)	(1,485,243)
Other revenues	651,807	573,239
Net cash provided by operating activities	<u>698,972</u>	<u>456,415</u>
Cash flows from Capital and related financing activities		
Purchases/Disposal of capital assets	(10,078)	(156,499)
Disposal of Construction in Progress	49,042	-
Bonds Payable Proceeds	-	15,660,000
Payments to Trustee for Current and Refunded Bonds Payable	-	(12,330,000)
Deferred Loss from Refunding	133,036	(924,355)
Payments for Current and Refunded Notes Payable	-	(4,362,029)
Principal Payments of Bonds Payable	(340,000)	-
Bond Issue Costs	35,397	(495,080)
Transfer of Unamortized Bond Issue Costs to Deferred Loss	-	1,128,908
Assessments and Connections	140,820	125,137
Interest paid on Water Revenue Bonds	(622,876)	(1,049,361)
Net cash used by capital and related financing activities	<u>(614,659)</u>	<u>(2,403,279)</u>
Cash flows from investing activities		
Investment income	2,669	7,013
Interest on assessments	16,152	16,961
(Increase)/Decrease in assets limited as to use - held by Trustee	(330,516)	1,862,009
Net cash provided by investing activities	<u>(311,695)</u>	<u>1,885,983</u>
Net decrease in cash and cash equivalents	<u>(227,382)</u>	<u>(60,881)</u>
Cash and cash equivalents at beginning of year	<u>610,616</u>	<u>671,497</u>
Cash and cash equivalents at end of year	<u>\$ 383,234</u>	<u>\$ 610,616</u>
Reconciliation of operating income to Net Cash provided by Operating Activities		
Income from Operations	\$ 168,980	\$ (199,800)
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	690,774	671,126
Add (deduct) changes in non-cash working capital:		
Increase in accounts receivable	(71,002)	(1,199,245)
Increase/(Decrease) in allowance for bad debt	(91,068)	1,105,771
Increase/(Decrease) in prepaid expenses	8,334	(43,127)
Increase in accounts payable	9,777	228,108
Increase/(Decrease) in accrued expenses	17,353	(48,953)
Decrease in other liabilities	2,598	83
Decrease in deferred revenue	(36,774)	(57,548)
Net cash provided by operating activities	<u>\$ 698,972</u>	<u>\$ 456,415</u>

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

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009

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, 2010 AND 2009

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. 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 quarterly basis for the quarterly calendar period immediately preceding the date of the bill.

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.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2010 AND 2009

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, 2010 and 2009 were \$35,398 and \$14,749, respectively.

H. Deferred Revenue

Income from Connection Fees is deferred and not recognized until settlement has been completed on the new homes. As of December 31, 2010 and 2009, deferred revenues were \$94,579 and \$131,353, 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, 2010 and 2009, the liabilities for compensated absences were \$26,826 and \$49,131, respectively.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2010 AND 2009

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. 51 "Accounting and Financial Reporting for Intangible Assets." This adoption of this statement had no effect on previously reported amounts.

The Authority adopted the provisions of GASB's Statement No. 53 "Accounting and Financial Reporting for Derivative Instruments." This adoption of this statement had no effect on previously reported amounts.

The Authority adopted the provisions of GASB's Statement No. 58 "Accounting and Financial Reporting for Chapter 9 Bankruptcies." 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. 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.

The Governmental Accounting Standards Board has issued GASB's Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans." This statement is required to be adopted by the Authority for the year ending December 31, 2012. The Authority has not determined the effect of GASB's Statement No. 57 on the financial statements.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2010 AND 2009

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. 59, "Financial Instruments Omnibus." 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. 59 on the financial statements.

The Governmental Accounting Standards Board has issued GASB's Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements." This statement is required to be adopted by the Authority for the year ending December 31, 2012. The Authority has not determined the effect of GASB's Statement No. 60 on the financial statements.

The Governmental Accounting Standards Board has issued GASB's Statement No. 61, "The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34." This statement is required to be adopted by the Authority for the year ending December 31, 2013. The Authority has not determined the effect of GASB's Statement No. 61 on the financial statements.

The Governmental Accounting Standards Board has issued GASB's Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre – November 30, 1989 FASB and AICPA Pronouncements." This statement is required to be adopted by the Authority for the year ending December 31, 2012. The Authority has not determined the effect of GASB's Statement No. 62 on the financial statements.

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and investments as of December 31, 2010 and 2009 are classified in the accompanying financial statements as follows:

	2010	2009
Cash and Cash Equivalents	\$ 383,234	\$ 610,616
Assets held by trustee	593,551	263,035
Total cash and investments	<u>\$ 976,785</u>	<u>\$ 873,651</u>

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, 2010, of the Authority's \$1,109,362 bank balance, \$500,000 was covered by FDIC and \$609,362 was exposed to custodial risk as they were collateralized with securities held by the pledging financial institution and uninsured.



SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2010 AND 2009

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.

NOTE 4: CAPITAL ASSETS

For the years ended December 31, 2010 and 2009, depreciation expense amounted to \$655,376 and \$656,377 respectively. Capital Asset activity for the years ended December 31, 2010 and 2009 were as follows:

	Beginning Balance	2010 Increases (Decreases)	Ending Balance
Non-Depreciable Assets:			
Construction in Progress	\$ 76,409	\$ (49,042)	\$ 27,367
Depreciable Assets:			
Plant and System	25,576,582	10,078	25,586,660
Administration Building	207,819	-	207,819
Maintenance Equipment	1,171,970	-	1,171,970
Office Equipment	256,305	-	256,305
	<u>27,212,676</u>	<u>10,078</u>	<u>27,222,754</u>
Less: Accumulated Depreciation			
Plant and System	13,031,497	610,936	13,642,433
Administration Building	132,749	-	132,749
Maintenance Equipment	1,063,257	25,136	1,088,393
Office Equipment	189,363	19,304	208,667
	<u>14,416,866</u>	<u>655,376</u>	<u>15,072,242</u>
	<u>\$ 12,872,219</u>	<u>\$ (694,340)</u>	<u>\$ 12,177,879</u>

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2010 AND 2009

## NOTE 4: CAPITAL ASSETS (CONTINUED)

	<u>Beginning Balance</u>	<u>2009 Increases (Decreases)</u>	<u>Ending Balance</u>
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>

## 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, 2010 and 2009 the amounts charged to expense were \$35,398 and \$14,749 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.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2010 AND 2009

## NOTE 7: BONDS PAYABLE

	2010				
	1/1/2010 Balance	Additions	Reductions	12/31/2010 Balance	Due Within One Year
Bonds Payable	15,660,000	-	(340,000)	15,320,000	905,000
	<u>\$ 15,660,000</u>	<u>\$ -</u>	<u>\$ (340,000)</u>	<u>\$ 15,320,000</u>	<u>\$ 905,000</u>
	2009				
	1/1/2009 Balance	Additions	Reductions	12/31/2009 Balance	Due Within One Year
Bonds Payable	12,740,000	15,660,000	(12,740,000)	15,660,000	340,000
	<u>\$ 12,740,000</u>	<u>\$ 15,660,000</u>	<u>\$ (12,740,000)</u>	<u>\$ 15,660,000</u>	<u>\$ 340,000</u>

Bonds Payable as of December 31, 2010 is as follows:

Series	Maturity Dates	Interest Rates	Principal Balance
Sewer Revenue Bonds Series A	2010 to 2024	2.00 % to 3.850%	\$ 13,690,000
Sewer Revenue Bonds Series B	2010 to 2024	2.00 % to 3.850%	1,630,000
			15,320,000
Less Deferred Loss on Refunding			(977,943)
			14,342,057
Less Current Portion			(905,000)
			\$ 13,437,057

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.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2010 AND 2009

NOTE 7: BONDS PAYABLE (CONTINUED)

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 1<sup>st</sup> and August 1<sup>st</sup>. 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.

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>
2011	\$ 905,000	\$ 501,085
2012	1,150,000	482,985
2013	1,175,000	457,110
2014	1,220,000	415,110
2015	1,060,000	371,548
2016-2020	5,535,000	1,348,488
2021-2024	4,275,000	408,063
	<u>\$ 15,320,000</u>	<u>\$ 3,984,389</u>

NOTE 8: 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, 2010 and 2009 were \$50,714 and \$57,964, respectively.

NOTE 9: 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, 2010 and 2009 were \$3,488 and \$2,936, respectively.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2010 AND 2009

NOTE 9: COMMITMENTS AND CONTINGENCIES (CONTINUED)

The following is a schedule of future minimum lease payments required under the operating leases, as of December 31, 2010:

<u>Year Ending December 31,</u>		
2011	\$	2,864
2012		2,864
2013		<u>2,268</u>
	<u>\$</u>	<u>7,996</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 10: SUBSEQUENT EVENTS

The Authority has evaluated all subsequent events through the report issue date of June 22, 2011. No events have taken place that effect the financial statements or require disclosure.