

**SOUTHWEST DELAWARE COUNTY
MUNICIPAL AUTHORITY
FINANCIAL STATEMENTS**

For the Years Ended December 31, 2013 and 2012

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY
YEARS ENDED DECEMBER 31, 2013 AND 2012

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Zelenkofske Axelrod LLC

INDEPENDENT AUDITORS' REPORT

Board of Directors
Southwest Delaware County Municipal Authority

Report on the Financial Statements

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, 2013 and 2012 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Southwest Delaware County Municipal Authority as of December 31, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

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Adoption of Governmental Accounting Standards Board (GASB) Statements

As described in Note 1 to the financial statements, in 2013 Southwest Delaware County Municipal Authority adopted the provisions of Governmental Accounting Standards Board's Statement No. 61 "The Financial Reporting Entity: Omnibus – an amendment of GASB Statement No. 14 and No. 34," Statement No. 65 "Items Previously Reported as Assets and Liabilities," and Statement No. 66 " Technical Corrections – 2012- an amendment of GASB Statement No. 10 and No. 62."

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 6 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 3, 2014

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2013

This section presents management's discussion of the financial condition and operating performance of the Southwest Delaware County Municipal Authority (the "Authority") over the course of fiscal year 2013 and comparison to fiscal year 2012. 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.

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:

Statements of net position – 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.

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

Statements 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.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2013

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 2013.

The Authority meets all terms of the trust agreement and other borrowings and the change in the amount owed (a reduction of \$1,175,000 total debt) is a direct result of scheduled payments.

A summarized comparison of the Authority's statements of revenues, expenses and changes in net position for the years 2013 and 2012 follows:

Operational expenses were 9% greater than budget estimates. Revenue met the forecasted budget estimate.

The following table compares fiscal year 2013 operations to fiscal year 2012 and reflects an improved financial condition. The Authority experienced an increase in operating expenses and increased operating income. The change in net income is a result of improved collection of the billed revenue and the increase in operating revenue.

The increase in operational expense is a result of increases in employee benefit costs, contractual services and maintenance.

Statements of Revenues, Expenses and Changes in Net Position

	<u>2013</u>	<u>2012</u>
Operating Revenues	\$ 5,924,167	\$ 6,640,088
Operating Expenses	5,319,981	5,528,459
Operating Income	604,186	1,111,629
Increase (Decrease) in Net Position	318,522	568,908
Net Position beginning of year, 2012 Restated	2,532,101	1,963,193
Net Position at end of the year	2,850,623	2,532,101

The assets of the Authority exceeded its liabilities by approximately \$2.9 million. Restricted Net Position of \$688,978 were restricted by legal requirements and were not available to finance the day-to-day operations of the Authority. Net Position Invested in Capital Assets, Net of Related Debt were \$(1,132,299) and Unrestricted Net Position was \$3.3 million.

The largest change in Assets was a decrease of Capital Assets of approximately \$607,000. Due to the decision to convey wastewater flows to Delcora for treatment after 2014, this decrease is reflective of the decisions made to repair and maintain existing plant equipment and systems; rather than incur higher replacement costs.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2013

Statements of Net Position

	<u>2013</u>	<u>2012</u>
Current and other Assets	\$ 3,804,901	\$ 3,929,724
Capital Assets	10,356,962	10,964,746
Total Assets	15,106,652	15,667,081
Noncurrent Liabilities	10,306,350	11,396,565
Current Liabilities	1,949,679	1,738,415
Total Liabilities	12,256,029	13,134,980
Net Position:		
Invested in Capital	(1,132,299)	(1,573,781)
Restricted	688,978	687,729
Unrestricted	3,293,944	3,418,153
Total Net Position	2,850,623	2,532,101

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, 2013 and 2012, net of accumulated depreciation, was as follows:

	<u>2013</u>	<u>2012</u>
Plant and System	\$ 10,286,346	\$ 10,830,552
Administration Building	59,484	75,070
Maintenance Equipment	12,422	49,192
Office Equipment	(1,290)	9,932
Construction in Progress	<u>-</u>	<u>-</u>
Capital Assets Net of Accumulated Depreciation	<u>\$ 10,356,962</u>	<u>\$ 10,964,746</u>

During the year ended December 31, 2013, the Authority expended \$67,534 on capital assets. Additional information on capital assets can be found in Note 4 to the financial statements.

Debt Administration

As of December 31, 2013, the Authority had total long term debt outstanding of \$12,090,000. 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, 2013

The Authority's Outstanding Debt as of December 31, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Bonds Payable	\$ 12,090,000	\$ 13,265,000
	<u>\$ 12,090,000</u>	<u>\$ 13,265,000</u>

Additional information on the Authority's long-term debt can be found in Note 5 to the financial statements. The Authority's debt is 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 has completed a standardization of billing rates for commercial customers. The Authority is focused 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 continues to monitor disbursements and take steps to reduce all expenses where possible.

The 2014 Budget includes a line item for the expenses related to the Corrective Action Plan and Connection Management Plan, as required by the PA DEP. The 2014 Budget also includes line items for capital improvements to the plant and collection system to allow for a safe and efficient operation throughout the year.

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: 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 POSITION
DECEMBER 31, 2013 AND 2012

	2013	2012
Assets		
Current Assets		
Cash and Cash Equivalents - Unrestricted	\$ 1,060,920	\$ 585,279
Accounts Receivable		
Sewer Rentals	3,127,283	3,189,825
Pretreatment	335,890	177,837
Assessments	25,000	33,000
Other Services	101,679	75,130
Allowance for Doubtful Accounts	(906,046)	(198,595)
Prepaid Insurance	60,175	67,248
Total Current Assets	3,804,901	3,929,724
Restricted Assets		
Assets Limited as to Use - Held by Trustee	688,978	687,729
Capital Assets, At Cost		
Property, Plant and Equipment	27,432,005	27,364,471
Accumulated Depreciation	(17,075,043)	(16,399,725)
Total Capital Assets	10,356,962	10,964,746
Assessments - Noncurrent	196,406	191,241
Sewer Rentals - Noncurrent	167,514	715,271
Allowance for Doubtful Accounts	(108,109)	(821,630)
Total Noncurrent Assets	255,811	84,882
Total Assets	\$ 15,106,652	\$ 15,667,081

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

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY
STATEMENTS OF NET POSITION (CONTINUED)
DECEMBER 31, 2013 AND 2012

	2013	2012
Liabilities and Net Position		
Current Liabilities		
Accounts Payable	\$ 135,897	\$ 185,955
Bonds Payable - Current Portion	1,220,000	1,175,000
Accrued Interest Payable	172,962	190,462
Accrued Expenses	83,459	69,142
Other Liabilities	127,525	87,147
Deferred Revenue	209,836	30,709
Total Current Liabilities	1,949,679	1,738,415
Noncurrent Liabilities		
Compensated Absences Payable	37,089	33,038
Bonds Payable - Long Term Portion, Net of Deferred Loss on Refunding of \$600,739 and \$726,473 in 2013 and 2012, Respectively	10,269,261	11,363,527
Total Noncurrent Liabilities	10,306,350	11,396,565
Total Liabilities	12,256,029	13,134,980
Net Position		
Invested in Capital Assets, Net of Related Debt, 2012 Restated	(1,132,299)	(1,573,781)
Restricted	688,978	687,729
Unrestricted	3,293,944	3,418,153
Total Net Position	2,850,623	2,532,101
Total Liabilities and Net Position	\$ 15,106,652	\$ 15,667,081

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

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 FOR THE YEARS ENDING DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Operating Revenues		
Sewer Rentals	\$ 5,205,763	\$ 5,931,506
Other Operating Revenue	718,404	708,582
Total Operating Revenues	<u>5,924,167</u>	<u>6,640,088</u>
Operating Expenses		
Salaries	1,366,341	1,249,690
Benefits Including Payroll Taxes	618,647	626,383
Contractual Services	719,042	679,616
Depreciation and Amortization	675,318	672,175
Utilities	471,961	553,667
Insurance Expense	100,645	88,813
Maintenance and Materials	1,305,472	1,569,105
Fines and Fees	25,708	49,092
Other Expenses	36,847	39,918
Total Operating Expenses	<u>5,319,981</u>	<u>5,528,459</u>
Operating Income	<u>604,186</u>	<u>1,111,629</u>
Nonoperating Revenues (Expenses)		
Assessment and Connections	327,756	105,175
Interest on Assessments	13,369	13,990
Interest Expense	(565,345)	(597,939)
Investment Income	2,448	1,403
Miscellaneous Expense	(63,892)	(65,350)
Total Nonoperating Expenses	<u>(285,664)</u>	<u>(542,721)</u>
Change in Net Position	<u>318,522</u>	<u>568,908</u>
Net Position, Beginning of Year, 2012 Restated	<u>2,532,101</u>	<u>1,963,193</u>
Net Position, End of Year	<u>\$ 2,850,623</u>	<u>\$ 2,532,101</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, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Cash Flows from Operating Activities		
Cash Received from Customers	\$ 5,628,225	\$ 6,518,244
Cash Paid to Suppliers	(3,147,835)	(3,775,061)
Cash Paid to Employees	(1,367,828)	(1,255,403)
Other Cash Receipts	<u>784,292</u>	<u>319,924</u>
Net Cash Provided by Operating Activities	<u>1,896,854</u>	<u>1,807,704</u>
Cash Flows from Capital and Related Financing Activities		
Purchases/Disposal of Capital Assets	(67,534)	(64,851)
Deferred Loss from Refunding	125,734	125,736
Principal Payments of Bonds Payable	(1,175,000)	(1,150,000)
Assessments and Connections	327,756	105,175
Interest Paid on Water Revenue Bonds	<u>(646,737)</u>	<u>(674,072)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(1,435,781)</u>	<u>(1,658,012)</u>
Cash Fows from Investing Activities		
Investment Income	2,448	1,403
Interest on Assessments	13,369	13,990
(Increase)/Decrease in Assets Limited as to Use - Held by Trustee	<u>(1,249)</u>	<u>364</u>
Net Cash Provided by Investing Activities	<u>14,568</u>	<u>15,757</u>
Net Increase in Cash and Cash Equivalents	<u>475,641</u>	<u>165,449</u>
Cash and Cash Equivalents at Beginning of Year	<u>585,279</u>	<u>419,830</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,060,920</u>	<u>\$ 585,279</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Income from Operations	\$ 604,186	\$ 1,111,629
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation and Amortization	675,318	672,175
Add (Deduct) Changes in Non-Cash Working Capital:		
(Increase)/Decrease in Accounts Receivable	416,391	(106,380)
Decrease in Allowance for Bad Debt	6,071	34,116
Increase in Prepaid Expenses	7,073	1,871
Increase/(Decrease) in Accounts Payable	(50,058)	43,623
Increase in Accrued Expenses	18,368	2,750
Increase in Other Liabilities	40,378	69,081
Increase/(Decrease) in Deferred Revenue	<u>179,127</u>	<u>(21,161)</u>
Net Cash Provided by Operating Activities	<u>\$ 1,896,854</u>	<u>\$ 1,807,704</u>

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

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

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.

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, 2013 AND 2012

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 position (i.e., total assets net of total liabilities) are segregated into: "net investment in capital assets; "restricted"; 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 position available, it is the Authority's policy to apply those expenses to restricted net position to the extent that such are available and then to unrestricted net position.

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, 2013 AND 2012

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. Deferred Revenue

Income from Connection Fees is deferred and not recognized until settlement has been completed on the new homes. As of December 31, 2013 and 2012, deferred revenues were \$209,836 and \$30,709, respectively.

H. Compensated Absences

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

As of December 31, 2013 and 2012, the liabilities for unpaid compensated absences were \$37,089 and \$33,038, respectively.

I. Related Party Transactions

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

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013 AND 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Use of Estimates

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

K. Financial Instruments

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

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

The Authority adopted the provisions of The Governmental Accounting Standards Board's Statement No. 61, "The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34." The adoption of this statement had no effect on previously reported amounts.

The Authority adopted the provisions of The Governmental Accounting Standards Board's Statement No. 65, "Items Previously Reported as Assets and Liabilities." The adoption of this GASB resulted in the restatement of net position.

The Authority adopted the provisions of The Governmental Accounting Standards Board's Statement No. 66, "Technical Corrections – 2012 – an amendment of GASB Statement No. 10 and No. 62." The adoption of this statement had no effect on previously reported amounts.

M. Pending Governmental Accounting Standards Board (GASB) Statements

The Governmental Accounting Standards Board has issued GASB's Statement No. 67, "Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25". This statement is required to be adopted by the Authority for the year ending December 31, 2014. The Authority has not determined the effect of GASB's Statement No. 67 on the financial statements.

The Governmental Accounting Standards Board has issued GASB's Statement No. 68, "Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27". This statement is required to be adopted by the Authority for the year ending December 31, 2015. The Authority has not determined the effect of GASB's Statement No. 68 on the financial statements.

The Governmental Accounting Standards Board has issued GASB's Statement No. 69, "Government Combinations and Disposals of Government Operations". This statement is required to be adopted by the Authority for the year ending December 31, 2014. The Authority has not determined the effect of GASB's Statement No. 69 on the financial statements.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2013 AND 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Pending Governmental Accounting Standards Board (GASB) Statements

The Governmental Accounting Standards Board has issued GASB's Statement No. 70 "Accounting and Financial Reporting for Non Exchange Financial Guarantees." This statement is required to be adopted by the Authority for the year ending December 31, 2014. The Authority has not determined the effect of GASB's Statement No. 70 on the financial statements.

The Governmental Accounting Standards Board has issued GASB's Statement No. 71 "Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68." This statement is required to be adopted by the Authority for the year ending December 31, 2015. The Authority has not determined the effect of GASB's Statement No. 71 on the financial statements.

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and investments as of December 31, 2013 and 2012 are classified in the accompanying financial statements as follows:

	2013	2012
Cash and Cash Equivalents	\$ 1,060,920	\$ 585,279
Assets held by trustee	688,978	687,729
Total cash and investments	\$ 1,749,898	\$ 1,273,008

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, 2013, of the Authority's \$1,767,538 bank balance, \$500,934 was covered by FDIC and \$1,266,604 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, 2013 AND 2012

NOTE 5: BONDS PAYABLE

	<u>1/1/2013</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/2013</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
Bonds Payable	\$ 13,265,000	\$ -	\$ (1,175,000)	\$ 12,090,000	\$ 1,220,000
	<u>\$ 13,265,000</u>	<u>\$ -</u>	<u>\$ (1,175,000)</u>	<u>\$ 12,090,000</u>	<u>\$ 1,220,000</u>
	<u>1/1/2012</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/2012</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
Bonds Payable	\$ 14,415,000	\$ -	\$ (1,150,000)	\$ 13,265,000	\$ 1,175,000
	<u>\$ 14,415,000</u>	<u>\$ -</u>	<u>\$ (1,150,000)</u>	<u>\$ 13,265,000</u>	<u>\$ 1,175,000</u>

Bonds Payable as of December 31, 2013 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%	\$ 10,940,000
Sewer Revenue Bonds Series B	2010 to 2024	2.00 % to 3.850%	<u>1,150,000</u>
			12,090,000
Less Deferred Loss on Refunding			<u>(600,739)</u>
			11,489,261
Less Current Portion			<u>(1,220,000)</u>
			<u>\$ 10,269,261</u>

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, 2013 AND 2012

NOTE 6: 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>
2014	\$ 1,220,000	\$ 415,110
2015	1,060,000	371,548
2016	1,085,000	339,748
2017	1,115,000	309,998
2018	1,150,000	271,873
2019-2023	5,330,000	791,429
2024	<u>1,130,000</u>	<u>43,505</u>
	<u>\$ 12,090,000</u>	<u>\$ 2,543,211</u>

NOTE 7: 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, 2013 and 2012 were \$55,659 and \$65,475, respectively.

NOTE 8: 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, 2013 and 2012 were \$ 5,856 and \$ 5,998, respectively.

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".

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2013 AND 2012

NOTE 8: COMMITMENTS AND CONTINGENCIES (CONTINUED)

On December 21, 2009, the Authority entered into an agreement of service with DELCORA for sewage treatment. This agreement provides for DELCORA to design and construct a pump station and force main on the Authority's property, which will convey wastewater from the Authority to DELCORA for treatment. The anticipated date of transition to DELCORA for treatment service is December, 2014 and the decommissioning of the existing Authority treatment facility will be coordinated with this transition.

NOTE 9: RESTATEMENT OF FUND BALANCE/ NET POSITION/ CHANGE IN ACCOUNTING PRINCIPLE

The following restatement of the Authority's net position was necessary to properly reflect the adoption of GASB Statement 65, "Items Previously Reported as Assets and Liabilities".

Net Position, Beginning of Year as Previously Stated	\$ 2,387,479
Expense of Bond Issue Costs Due to the adoption of GASB 65	<u>(424,286)</u>
Net Position, Beginning of Year Restated	<u>\$ 1,963,193</u>

NOTE 10: GLOBAL AGREEMENT

In February 2013, the Southwest Delaware County Municipal Authority's Board of Directors entered into a Global Agreement between Middletown Township Sewer Authority, Southwest Delaware County Municipal Authority and Aston Township. The approval of this Global Agreement moves the plan forward to convey the waste water flows, currently being treated at the plant, to Delcora for treatment. Starting in 2013 and continuing through 2014, construction of the new pumping station will be taking place on the grounds of SWDCMA. It is expected that by the end of 2014, the new pumping station will be operational and wastewater flows will be transferred to Delcora for treatment.

NOTE 11: SUBSEQUENT EVENTS

The Authority has evaluated all subsequent events through the report issue date of June 3, 2014. No events have taken place that effect the financial statements or require disclosure.