

**SOUTHWEST DELAWARE COUNTY  
MUNICIPAL AUTHORITY  
(A COMPONENT UNIT OF ASTON TOWNSHIP)  
FINANCIAL STATEMENTS**

*For the Years Ended December 31, 2014 and 2013*

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
(A COMPONENT UNIT OF ASTON TOWNSHIP)  
YEARS ENDED DECEMBER 31, 2014 AND 2013

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# Zelenkofske Axelrod LLC

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Southwest Delaware County Municipal Authority  
(A Component Unit of Aston Township)

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Southwest Delaware County Municipal Authority (the "Authority"), a component unit of Aston Township, as of and for the years ended December 31, 2014 and 2013 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, 2014 and 2013, 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.

# Zelenkofske Axelrod LLC

## **Adoption of Governmental Accounting Standards Board (GASB) Statements**

As described in Note 1 to the financial statements, in 2014 Southwest Delaware County Municipal Authority adopted the provisions of Governmental Accounting Standards Board's Statement No. 67, "Financial Reporting for Pension Plans – An amendment of GASB Statement No. 25," Statement No. 69, "Government Combinations and Disposals of Government Operations," and, Statement No. 70 "Accounting and Financial Reporting for Non Exchange Financial Guarantees."

## **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.

*Zelenkofske Axelrod LLC*

ZELENKOFKSKE AXELROD LLC

Jamison, Pennsylvania  
May 18, 2015

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
(A COMPONENT UNIT OF ASTON TOWNSHIP)  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
DECEMBER 31, 2014

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 2014 and comparison to fiscal years 2013 and 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, constructing, and operating 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 collection system that consists of over 63 miles of collection system piping.

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 – These statements 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 – These statements 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 – The notes provide additional information to fully understand the data presented.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
 (A COMPONENT UNIT OF ASTON TOWNSHIP)  
 MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
 DECEMBER 31, 2014

**FINANCIAL AND ADMINISTRATIVE COMMENTS:**

The Authority uses a customer billing format that is based upon two components. The 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 accurately reflect the Authority's financial position at the end of fiscal year 2014.

The Authority meets all terms of the trust agreement and other borrowings and the change in the amount owed (a reduction of \$1,220,000 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 2014, 2013 and 2012 follows:

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

The following table compares fiscal year 2014 operations to fiscal year 2013 and reflects an improved financial condition. The Authority experienced a decrease 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 decrease in operational expense is a result of decreases in employee benefit costs and maintenance.

**Statements of Revenues, Expenses and Changes in Net Position**

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating Revenues	\$ 6,130,449	\$ 5,924,167	\$ 6,640,088
Operating Expenses	5,308,793	5,319,981	5,528,459
Operating Income	821,656	604,186	1,111,629
Increase (Decrease) in Net Assets	(125,967)	318,522	568,908
Net Position beginning of year	2,850,623	2,532,101	1,963,193
Net Position at end of the year	2,724,656	2,850,623	2,532,101

The assets of the Authority exceeded its liabilities by approximately \$2.7 million. Restricted Net Position of \$604,161 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 \$(1,188,024) and Unrestricted Net Position was \$3.3 million.

The largest change in Assets was a decrease of Capital Assets of approximately \$1,212,000. This decrease was comprised of \$632,000 in depreciation and \$572,000 in asset impairment. This impairment was due to the transfer of wastewater flows to Delcora for treatment on November 11, 2014 and reflects the net book value of assets taken out of service as part of the decommissioning process.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
(A COMPONENT UNIT OF ASTON TOWNSHIP)  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
DECEMBER 31, 2014

**Statements of Net Position**

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current and other Assets	\$ 3,854,617	\$ 4,060,712	\$ 3,929,724
Restricted Assets	604,161	688,978	687,729
Capital Assets	9,144,988	10,356,962	10,964,746
Total Assets	13,603,766	15,106,652	15,667,081
Noncurrent Liabilities	9,290,263	10,306,350	11,396,565
Current Liabilities	1,588,847	1,949,679	1,738,415
Total Liabilities	10,879,110	12,256,029	13,134,980
Net Position:			
Invested in Capital	(1,188,024)	(1,132,299)	(1,573,781)
Restricted	604,161	688,978	687,729
Unrestricted	3,308,519	3,293,944	3,418,153
Total Net Position	2,724,656	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, 2014 and 2013, net of accumulated depreciation, was as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Plant and System	\$ 9,095,516	\$ 10,286,346	\$ 10,830,552
Administration Building	49,112	59,484	75,070
Maintenance Equipment	360	11,132	49,192
Office Equipment	-	-	9,932
Construction in Progress	-	-	-
Capital Assets Net of Accumulated Depreciation	<u>\$ 9,144,988</u>	<u>\$ 10,356,962</u>	<u>\$ 10,964,746</u>

Additional information on capital assets can be found in Note 4 to the financial statements.

**Debt Administration**

As of December 31, 2014, the Authority had total long term debt outstanding of \$10,870,000. This amount represents obligations incurred by the Authority under the Sewer Revenue Bonds Payable, Series of 2009, and constitutes a refinancing of previous obligations.

The Authority's Outstanding Debt as of December 31, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Bonds Payable	<u>\$ 10,870,000</u>	<u>\$ 12,090,000</u>	<u>\$ 13,265,000</u>
	<u>\$ 10,870,000</u>	<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.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
(A COMPONENT UNIT OF ASTON TOWNSHIP)  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
DECEMBER 31, 2014

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

In December 2009, the Southwest Delaware County Municipal Authority (SWDCMA) entered into an agreement of service with the Delaware County Regional Water Quality Control Authority (Delcora) to provide wastewater treatment service commencing no later than December 31, 2014. This agreement called for the construction of a force main and pumping station that would transfer the wastewater flows to Delcora. On November 11, 2014, the construction of the Chester Ridley Creek Pumping Station was completed and all SWDCMA wastewater flows were transferred to Delcora for treatment. By this agreement, the treatment cost for SWDCMA will include its proportionate share of the pumping station construction and ongoing maintenance costs. The percentage of flows will be calculated annually and adjusted accordingly.

As provided in the Global agreement dated February 25 2013, the 1968 Middletown Township Sewer Authority/SWDCMA Agreement ceased to exist upon the transfer of flows to Delcora on November 11, 2014; and, each party became responsible for the treatment cost of their respective flows as provided in their agreements with Delcora.

As provided in the Southern Delaware County Release and Addendum Agreement dated December 17, 2003, the SWDCMA exercised its option to implement a hybrid billing rate for Southern Delaware County Authority in place of the current EDU based billing rate effective January 1, 2015. This decision was made to further standardize all SWDCMA customers to water based billing.

In January 2014, a contract extension was signed with American Federation of State, County and Municipal Employees (AFSCME) to provide employment for operations personnel through the transition to Delcora. On October 29, 2014, the SWDCMA contracted the operation and maintenance of the Authority's collection system to Aqua Resources, Inc. and Authority staffing was reduced to administrative personnel only on November 15, 2014.

The Authority continues to be focused on reducing outstanding delinquencies by utilizing all available methods to improve its collection rate including quarterly delinquent/final notices, property liens and potable water service disconnection.

The 2015 Budget reflects a rate increase of three percent and provides for funds related to the Corrective Action Plan and Connection Management Plan, as required by the PA DEP. The 2015 budget also includes a line item for capital improvements to the collection system, which will be accomplished, in part, by awarded grant funds. The 2015 Budget reflects no revenue from Middletown Township Sewer Authority and Upper Providence Township Sewer Authority as their treatment cost is payable directly to Delcora effective with the termination of the 1968 MTSA Agreement on November 11, 2014.

The Authority believes that the changes in operations and 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  
(A COMPONENT UNIT OF ASTON TOWNSHIP)  
STATEMENTS OF NET POSITION  
DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Assets		
Current Assets		
Cash and Cash Equivalents - Unrestricted	\$ 1,492,697	\$ 1,060,920
Accounts Receivable Net of Allowance for Doubtful Accounts of \$821,138 and \$1,014,154 in 2014 and 2013, Respectively	2,125,852	2,939,617
Grants Receivable	155,440	-
Prepaid Insurance	<u>80,628</u>	<u>60,175</u>
Total Current Assets	<u>3,854,617</u>	<u>4,060,712</u>
Restricted Assets		
Assets Limited as to Use - Held by Trustee	<u>604,161</u>	<u>688,978</u>
Capital Assets, At Cost		
Property, Plant and Equipment	25,626,143	27,432,005
Accumulated Depreciation	<u>(16,481,155)</u>	<u>(17,075,043)</u>
Total Capital Assets	<u>9,144,988</u>	<u>10,356,962</u>
 Total Assets	 <u>\$ 13,603,766</u>	 <u>\$ 15,106,652</u>
Liabilities and Net Position		
Current Liabilities		
Accounts Payable and Accrued Expenses	\$ 391,699	\$ 392,318
Bonds Payable - Current Portion	1,060,000	1,220,000
Other Liabilities	137,148	127,525
Deferred Revenue	-	<u>209,836</u>
Total Current Liabilities	<u>1,588,847</u>	<u>1,949,679</u>
Noncurrent Liabilities		
Compensated Absences Payable	17,251	37,089
Bonds Payable - Long Term Portion, Net of Deferred Loss on Refunding of \$536,988 and \$600,739 in 2014 and 2013, Respectively	<u>9,273,012</u>	<u>10,269,261</u>
Total Noncurrent Liabilities	<u>9,290,263</u>	<u>10,306,350</u>
Total Liabilities	<u>10,879,110</u>	<u>12,256,029</u>
Net Position		
Net Investment in Capital Assets	(1,188,024)	(1,132,299)
Restricted	604,161	688,978
Unrestricted	<u>3,308,519</u>	<u>3,293,944</u>
Total Net Position	<u>2,724,656</u>	<u>2,850,623</u>
 Total Liabilities and Net Position	 <u>\$ 13,603,766</u>	 <u>\$ 15,106,652</u>

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
(A COMPONENT UNIT OF ASTON TOWNSHIP)  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEARS ENDING DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Operating Revenues		
Sewer Rentals	\$ 5,397,748	\$ 5,205,763
Other Operating Revenue	<u>732,701</u>	<u>718,404</u>
Total Operating Revenues	<u>6,130,449</u>	<u>5,924,167</u>
Operating Expenses		
Salaries	1,271,658	1,366,341
Benefits Including Payroll Taxes	621,133	618,647
Collection Expense	226,916	-
Contractual Services	518,486	719,042
Sewer Treatment	164,982	-
Depreciation and Amortization	631,947	675,318
Utilities	512,446	471,961
Insurance Expense	96,027	100,645
Maintenance and Materials	1,212,292	1,305,472
Fines and Fees	21,694	25,708
Other Expenses	<u>31,212</u>	<u>36,847</u>
Total Operating Expenses	<u>5,308,793</u>	<u>5,319,981</u>
Operating Income	<u>821,656</u>	<u>604,186</u>
Nonoperating Revenues (Expenses)		
Assessment and Connections	121,812	327,756
Interest on Assessments	13,390	13,369
Interest Expense	(460,710)	(565,345)
Investment Income	1,586	2,448
Loss on Impairment	(572,086)	-
Miscellaneous Expense	<u>(51,615)</u>	<u>(63,892)</u>
Total Nonoperating Expenses	<u>(947,623)</u>	<u>(285,664)</u>
Change in Net Position	<u>(125,967)</u>	<u>318,522</u>
Net Position, Beginning of Year	<u>2,850,623</u>	<u>2,532,101</u>
Net Position, End of Year	<u>\$ 2,724,656</u>	<u>\$ 2,850,623</u>

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
(A COMPONENT UNIT OF ASTON TOWNSHIP)  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activities		
Cash Received from Customers	\$ 6,060,922	\$ 5,628,225
Cash Paid to Suppliers	(3,601,232)	(3,147,835)
Cash Paid to Employees	(1,251,820)	(1,367,828)
Other Cash Receipts	<u>681,086</u>	<u>784,292</u>
Net Cash Provided by Operating Activities	<u>1,888,956</u>	<u>1,896,854</u>
Cash Flows from Capital and Related Financing Activities		
Purchases/Disposal of Capital Assets	580,027	(67,534)
Loss of Impairment	(572,086)	-
Deferred Loss from Refunding	63,751	125,734
Principal Payments of Bonds Payable	(1,220,000)	(1,175,000)
Assessments and Connections	121,812	327,756
Interest Paid on Water Revenue Bonds	<u>(530,476)</u>	<u>(646,737)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(1,556,972)</u>	<u>(1,435,781)</u>
Cash Flows from Investing Activities		
Investment Income	1,586	2,448
Interest on Assessments	13,390	13,369
(Increase)/Decrease in Assets Limited as to Use - Held by Trustee	<u>84,817</u>	<u>(1,249)</u>
Net Cash Provided by Investing Activities	<u>99,793</u>	<u>14,568</u>
Net Increase in Cash and Cash Equivalents	<u>431,777</u>	<u>475,641</u>
Cash and Cash Equivalents at Beginning of Year	<u>1,060,920</u>	<u>585,279</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,492,697</u>	<u>\$ 1,060,920</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Income from Operations	\$ 821,656	\$ 604,186
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation and Amortization	631,947	675,318
Add (Deduct) Changes in Non-Cash Working Capital:		
Decrease in Accounts Receivable	620,749	416,391
Decrease in Allowance for Bad Debt	193,016	6,071
Increase in Grants Receivable	(155,440)	-
Increase/(Decrease) in Prepaid Expenses	(20,453)	7,073
Increase/(Decrease) in Accounts Payable	61,971	(50,058)
Increase/(Decrease) in Accrued Expenses	(64,277)	18,368
Increase in Other Liabilities	9,623	40,378
Increase/(Decrease) in Deferred Revenue	<u>(209,836)</u>	<u>179,127</u>
Net Cash Provided by Operating Activities	<u>\$ 1,888,956</u>	<u>\$ 1,896,854</u>

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

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
(A COMPONENT UNIT OF ASTON TOWNSHIP)  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013

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 criteria used in determining the scope of the reporting entity for financial reporting purposes are consistent with the guidance contained in Governmental Accounting Standards Board (GASB) Statement No. 39, "*Determining Whether Certain Organizations are Component Units*," are as follows:

- Selection of the Governing Authority

The Board of Directors of the Authority is appointed to five-year terms by the Township supervisors. While there is continuing communication with the Township, there is little linkage to the elected Township officials after appointment.

- Designation of Management

The management and employees of the Authority responsible for the operations of the Authority are appointed by and are held accountable to the Authority's Board of Directors.

- Ability to Significantly Influence Operations

The Authority reviews and approves all budgetary actions, signs contracts as the contracting agency, hires and controls key management personnel, and exercises control over facilities, property, and policies relating to the services provided by the Authority. The Township assumes no responsibility for the Authority's day-to-day operations.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
(A COMPONENT UNIT OF ASTON TOWNSHIP)  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2014 AND 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Reporting Entity (Continued)

• Accountability for Fiscal Matters

Budgetary authority and control over collection and disbursement of funds, fiscal management, and funding deficits rest with the Authority. The Township of Aston guarantees the debt of the Authority.

Based on these criteria, the Authority is a Component Unit of Township of Aston. The Authority's relationship with the Township is so significant that its exclusion would render the Township's financial statements misleading, even though financial accountability to the Township is absent.

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.

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.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
 (A COMPONENT UNIT OF ASTON TOWNSHIP)  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2014 AND 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. As of December 31, 2014 and 2013 the allowance for doubtful accounts was \$821,138 and \$1,014,154, respectively.

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

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
(A COMPONENT UNIT OF ASTON TOWNSHIP)  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2014 AND 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2014 and 2013, deferred revenues were \$0 and \$209,836, 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, 2014 and 2013, the liabilities for unpaid compensated absences were \$17,251 and \$37,089 respectively.

I. 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.

J. 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.

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

The Authority adopted the provisions of GASB's Statement No. 67, "Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25." The adoption of this statement had no effect on previously reported amounts.

The Authority adopted the provisions of GASB's Statement No. 69, "Government Combinations and Disposals of Government Operations." The adoption of this statement had no effect on previously reported amounts.

The Authority adopted the provisions of GASB's Statement No. 70, "Accounting and Financial Reporting for Non Exchange Financial Guarantees." The adoption of this statement had no effect on previously reported amounts.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
(A COMPONENT UNIT OF ASTON TOWNSHIP)  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2014 AND 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Pending Governmental Accounting Standards Board (GASB) Statements

The Government Accounting Standards Board has issued GASB's Statement No. 68, "Accounting and Financial Reporting for Pensions – an amendment of GASB Statement 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 Government 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.

The Government Accounting Standards Board has issued GASB's Statement No. 72, "Fair Value Measurement and Application." This statement is required to be adopted by the Authority for the year ending December 31, 2016. The Authority has not determined the effect of GASB's Statement No. 72 on the financial statements.

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and investments as of December 31, 2014 and 2013 are classified in the accompanying financial statements as follows:

	2014	2013
Cash and Cash Equivalents	\$ 1,492,697	\$ 1,060,920
Assets held by trustee	<u>604,161</u>	<u>688,978</u>
Total Cash and Cash Equivalents	<u>\$ 2,096,858</u>	<u>\$ 1,749,898</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, 2014, of the Authority's \$2,116,737 bank balance, \$500,934 was covered by FDIC and \$1,615,806 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.



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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2014 AND 2013

NOTE 4: CAPITAL ASSETS

For the years ended December 31, 2014 and 2013, depreciation expense amounted to \$631,947 and \$675,318 respectively. Capital Asset activity for the years ended December 31, 2014 and 2013 were as follows:

	2014			Ending Balance
	Beginning Balance	Increases	(Decreases)	
Depreciable Assets:				
Plant and System	\$ 25,775,883	\$ -	\$ (1,805,862)	\$ 23,970,021
Administration Building	207,819	-	-	207,819
Maintenance Equipment	1,191,998	-	-	1,191,998
Office Equipment	256,305	-	-	256,305
	<u>27,432,005</u>	<u>-</u>	<u>(1,805,862)</u>	<u>25,626,143</u>
Less: Accumulated Depreciation				
Plant and System	15,489,537	610,803	(1,225,835)	14,874,505
Administration Building	148,335	10,372	-	158,707
Maintenance Equipment	1,180,866	10,772	-	1,191,638
Office Equipment	256,305	-	-	256,305
	<u>17,075,043</u>	<u>631,947</u>	<u>(1,225,835)</u>	<u>16,481,155</u>
	<u>\$ 10,356,962</u>	<u>\$ (631,947)</u>	<u>\$ (580,027)</u>	<u>\$ 9,144,988</u>

	2013			Ending Balance
	Beginning Balance	Increases	(Decreases)	
Depreciable Assets:				
Plant and System	\$ 25,708,349	\$ 67,534	\$ -	\$ 25,775,883
Administration Building	207,819	-	-	207,819
Maintenance Equipment	1,191,998	-	-	1,191,998
Office Equipment	256,305	-	-	256,305
	<u>27,364,471</u>	<u>67,534</u>	<u>-</u>	<u>27,432,005</u>
Less: Accumulated Depreciation				
Plant and System	14,877,797	611,740	-	15,489,537
Administration Building	132,749	15,586	-	148,335
Maintenance Equipment	1,142,806	38,060	-	1,180,866
Office Equipment	246,373	9,932	-	256,305
	<u>16,399,725</u>	<u>675,318</u>	<u>-</u>	<u>17,075,043</u>
	<u>\$ 10,964,746</u>	<u>\$ (607,784)</u>	<u>\$ -</u>	<u>\$ 10,356,962</u>

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2014 AND 2013

NOTE 5: BONDS PAYABLE

	<u>1/1/2014</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/2014</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
Bonds Payable	\$ 12,090,000	\$ -	\$ (1,220,000)	\$ 10,870,000	\$ 1,060,000
	<u>\$ 12,090,000</u>	<u>\$ -</u>	<u>\$ (1,220,000)</u>	<u>\$ 10,870,000</u>	<u>\$ 1,060,000</u>
	<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>

Bonds Payable as of December 31, 2014 is as follows:

<u>Series</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>Principal Balance</u>
Sewer Revenue Bonds Series A	2015 to 2024	2.00 % to 3.850%	\$ 9,895,000
Sewer Revenue Bonds Series B	2015 to 2024	2.00 % to 3.850%	975,000
			<u>10,870,000</u>
Less Deferred Loss on Refunding			<u>(536,988)</u>
			10,333,012
Less Current Portion			<u>(1,060,000)</u>
			<u>\$ 9,273,012</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 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.

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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>
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	1,130,000	232,363
2020-2024	<u>5,330,000</u>	<u>602,571</u>
	<u>\$ 10,870,000</u>	<u>\$ 2,128,101</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, 2014 and 2013 were \$47,181 and \$55,659, 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 2014. Rent expense under all operating leases for the years ended December 31, 2014 and 2013 were \$ 5,856 and \$ 5,856, respectively.

NOTE 9: GLOBAL AGREEMENT

In February 2013, the Authority's Board of Directors entered into a Global Agreement between Middletown Township Sewer Authority (MTSA), the Authority, and Aston Township. This agreement provided the terms and conditions for both the Authority and MTSA and their respective flows that will be transferred to Delaware County Regional Water Quality Control Authority (Delcora) for treatment. This agreement summarizes the timelines for the construction of the new MTSA interceptor, the decommissioning process of the Baldwin Run Pollution Control Facility, and the applicable charges for the collection, conveyance and treatment of sanitary sewage.

On November 20, 2013, the Authority advised the Bond Trustee of having entered into both the Delcora Service Agreement and the Global Agreement.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2014 AND 2013

NOTE 9: GLOBAL AGREEMENT (CONTINUED)

On November 11, 2014, this Global Agreement provided the termination of the 1968 MTSA/SWDCMA Agreement upon Delcora's Chester Ridley Creek Pump Station becoming operational.

NOTE 10 DELCORA SERVICE AGREEMENT

In December 2009, the Authority entered into an agreement with Delcora to provide wastewater treatment service at a date to commence no later than December 31, 2014.

On November 11, 2014, the last wastewater flows were transferred to the newly constructed Chester Ridley Creek Pump Station, located on the grounds of the Authority, and transferred to Delcora for treatment. Upon this pumping station becoming operational, the 1968 MTSA/SWDCMA Agreement ceased to be in effect. From this point forward, flows from MTSA and Upper Providence Township Sewer Authority would be billed by Delcora to MTSA.

This Service Agreement provides for the terms and conditions by which the pumping station construction costs and wastewater treatment costs will be determined and allocated to both the Authority and MTSA. There are no additional covenants or minimum flows required by this agreement as costs are apportioned based on metered flows.

As a result of this service agreement and the transition of flows to Delcora, the Authority recognized a total of \$572,086 of asset impairment for the year ended December 31, 2014.

NOTE 11: RECLASSIFICATION

Certain December 31, 2013 amounts have been reclassified to conform with December 31, 2014 presentation.

NOTE 12: SUBSEQUENT EVENTS

- A) The Authority has evaluated all subsequent events through the report issue date of May 18, 2015.
- B) In April 2015, the Authority approved entering into a term loan at an annual rate of 3%. The proceeds will be used to refund the outstanding balance of the 2009 Guaranteed Sewer Revenue Bonds, Series A and B.