

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

*For the Years Ended December 31, 2015 and 2014*

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
(A COMPONENT UNIT OF ASTON TOWNSHIP)  
YEARS ENDED DECEMBER 31, 2015 AND 2014

CONTENTS

	<u>Page</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-7
Financial Statements	
Statements of Net Position	8
Statements of Revenues, Expenses and Changes in Net Position	9
Statements of Cash Flows	10
Notes to the Financial Statements	11-21

# *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, 2015 and 2014 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, 2015 and 2014, 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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# *Zelenkofske Axelrod LLC*

Board of Directors  
Southwest Delaware County Municipal Authority  
(A Component Unit of Aston Township)  
Page 2

## **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. 68, "Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27," and Statement No. 71, "Pension Transition for Contributions made subsequent to the measurement date –an amendment of GASB Statement No. 68."

## **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.

This report has been reissued at May 16, 2016 to include an adjustment to Prepaid Expense and Treatment Expense.

  
ZELENKOFSCHE AXELROD LLC

Jamison, Pennsylvania  
April 27, 2016  
Except Note 12B which is dated May 16, 2016.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
(A COMPONENT UNIT OF ASTON TOWNSHIP)  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
DECEMBER 31, 2015

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 2015 and comparison to fiscal years 2014 and 2013. 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 a 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, 2015

**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 2015.

The Authority meets all terms of the trust agreement and other borrowings and the change in the amount owed (a reduction of \$1,063,012 total debt) is a direct result of scheduled payments and the refinancing of the 2009 bonds.

A summarized comparison of the Authority's statements of revenues, expenses and changes in net position for the years 2015, 2014 and 2013 follows:

Operational expenses were 12% less than budget estimates. Revenue met the forecasted budget estimate.

The following table compares fiscal year 2015 operations to fiscal year 2014 and reflects an improved financial condition. The Authority experienced a decrease in operating expenses and increased operating income for the year ended December 31, 2015 compared to December 31, 2014. The change in net income is a result of reduced operating expenses.

The decrease in operational expense 2015 over 2014 is a result of decreases in employee benefit costs and maintenance.

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

	<u>2015</u>		<u>2014</u>		<u>2013</u>
Operating Revenues	\$ 5,507,861	\$	6,130,449	\$	5,924,167
Operating Expenses	4,529,136		5,308,793		5,319,981
Operating Income	978,725		821,656		604,186
Increase (Decrease) in Net Assets	88,785		(125,967)		318,522
Net Assets Beginning of Year	2,724,656		2,850,623		2,532,101
Net Assets at end of Year	2,813,441		2,724,656		2,850,623

The assets of the Authority exceeded its liabilities by approximately \$2.8 million. Net Position Invested in Capital Assets, Net of Related Debt was \$(647,759) and Unrestricted Net Position was \$3.4 million.

The largest change in Assets was a decrease in restricted assets. The current year had no assets restricted. In 2014, \$604,161 was held by a trustee.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
(A COMPONENT UNIT OF ASTON TOWNSHIP)  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
DECEMBER 31, 2015

**Statements of Net Position**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Current and Other Assets	\$ 3,681,918	\$ 3,854,617	\$ 4,060,712
Restricted Assets	-	604,161	688,978
Capital Assets	8,622,241	9,144,988	10,356,962
Total Assets	12,304,159	13,603,766	15,106,652
Noncurrent Liabilities	8,208,828	9,290,263	10,306,350
Current Liabilities	1,281,890	1,588,847	1,949,679
Total Liabilities	9,490,718	10,879,110	12,256,029
Net Position:			
Invested in Capital	(647,759)	(1,188,024)	(1,132,299)
Restricted	-	604,161	688,978
Unrestricted	3,461,200	3,308,519	3,293,944
Total Net Position	2,813,441	2,724,656	2,850,623

**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, 2015, 2014 and 2013, net of accumulated depreciation, was as follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Plant and System	\$ 8,586,582	\$ 9,095,516	\$ 10,286,346
Administration Building	42,310	49,112	59,484
Maintenance Equipment	(6,650)	360	11,132
Capital Assets Net of Accumulated Depreciation	<u>\$ 8,622,242</u>	<u>\$ 9,144,988</u>	<u>\$ 10,356,962</u>

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

**Debt Administration**

As of December 31, 2015, the Authority had total long term debt outstanding of \$9,270,000. In 2015, the Authority exercised its option to refund the Guaranteed Sewer Revenue Bonds, Series A and B of 2009. This refunding of the remaining bond balance of \$9,810,000 which reflects the reduction of the 2015 required principal payment of \$1,060,000, was satisfied with the issuance of the DNB First, N.A. Sewer Revenue Note.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
(A COMPONENT UNIT OF ASTON TOWNSHIP)  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
DECEMBER 31, 2015

The Authority's Outstanding Debt as of December 31, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Bonds Payable	\$ -	\$ 10,870,000	\$ 12,090,000
	<u>\$ -</u>	<u>\$ 10,870,000</u>	<u>\$ 12,090,000</u>
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Notes Payable	\$ 9,270,000	\$ -	\$ -
	<u>\$ 9,270,000</u>	<u>\$ -</u>	<u>\$ -</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**

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 use 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.



SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
(A COMPONENT UNIT OF ASTON TOWNSHIP)  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
DECEMBER 31, 2015

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, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Assets		
Current Assets		
Cash and Cash Equivalents - Unrestricted	\$ 1,666,198	\$ 1,492,697
Accounts Receivable Net of Allowance for Doubtful Accounts of \$780,430 and \$821,138 in 2015 and 2014, Respectively	1,880,356	2,125,852
Grants Receivable	-	155,440
Prepaid Expense	135,364	80,628
Total Current Assets	<u>3,681,918</u>	<u>3,854,617</u>
Restricted Assets		
Assets Limited as to Use - Held by Trustee	<u>-</u>	<u>604,161</u>
Capital Assets, At Cost		
Property, Plant and Equipment	25,626,143	25,626,143
Accumulated Depreciation	<u>(17,003,902)</u>	<u>(16,481,155)</u>
Total Capital Assets	<u>8,622,241</u>	<u>9,144,988</u>
 Total Assets	 <u>\$ 12,304,159</u>	 <u>\$ 13,603,766</u>
Liabilities and Net Position		
Current Liabilities		
Accounts Payable and Accrued Expenses	\$ 201,890	\$ 391,699
Bonds Payable - Current Portion	-	1,060,000
Notes Payable - Current Portion	1,080,000	-
Other Liabilities	<u>-</u>	<u>137,148</u>
Total Current Liabilities	<u>1,281,890</u>	<u>1,588,847</u>
Noncurrent Liabilities		
Compensated Absences Payable	18,828	17,251
Notes Payable - Long Term Portion	8,190,000	-
Bonds Payable	<u>-</u>	<u>9,273,012</u>
Total Noncurrent Liabilities	<u>8,208,828</u>	<u>9,290,263</u>
Total Liabilities	<u>9,490,718</u>	<u>10,879,110</u>
Net Position		
Net Investment in Capital Assets	(647,759)	(1,188,024)
Restricted	-	604,161
Unrestricted	<u>3,461,200</u>	<u>3,308,519</u>
Total Net Position	<u>2,813,441</u>	<u>2,724,656</u>
 Total Liabilities and Net Position	 <u>\$ 12,304,159</u>	 <u>\$ 13,603,766</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, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Operating Revenues		
Sewer Rentals	\$ 5,290,010	\$ 5,397,748
Other Operating Revenue	<u>217,851</u>	<u>732,701</u>
Total Operating Revenues	<u>5,507,861</u>	<u>6,130,449</u>
Operating Expenses		
Sewer Treatment	2,455,135	164,982
Collection System Expense	482,325	226,916
Professional Services Collection System	183,283	-
Salaries	266,266	1,271,658
Benefits Including Payroll Taxes	131,420	621,133
Professional Services - Administration	163,956	518,486
Utilities	124,147	512,446
Insurance Expense	77,006	96,027
Maintenance and Materials	53,513	1,212,292
Service Fees	41,274	21,694
Other Expenses	28,063	31,212
Depreciation and Amortization	<u>522,748</u>	<u>631,947</u>
Total Operating Expenses	<u>4,529,136</u>	<u>5,308,793</u>
Operating Income	<u>978,725</u>	<u>821,656</u>
Nonoperating Revenues (Expenses)		
Assessment and Connections	7,674	121,812
Interest on Assessments	13,317	13,390
Interest Expense	(901,497)	(460,710)
Investment Income	2,339	1,586
Loss on Impairment	-	(572,086)
Miscellaneous Expense	<u>(11,773)</u>	<u>(51,615)</u>
Total Nonoperating Expenses	<u>(889,940)</u>	<u>(947,623)</u>
Change in Net Position	<u>88,785</u>	<u>(125,967)</u>
Net Position, Beginning of Year	<u>2,724,656</u>	<u>2,850,623</u>
Net Position, End of Year	<u>\$ 2,813,441</u>	<u>\$ 2,724,656</u>

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
(A COMPONENT UNIT OF ASTON TOWNSHIP)  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities		
Cash Received from Customers	\$ 5,535,506	\$ 6,060,922
Cash Paid to Suppliers	(4,043,363)	(3,601,232)
Cash Paid to Employees	(267,844)	(1,251,820)
Other Cash Receipts	<u>143,181</u>	<u>681,086</u>
Net Cash Provided by Operating Activities	<u>1,367,480</u>	<u>1,888,956</u>
Cash Flows from Capital and Related Financing Activities		
Purchases/Disposal of Capital Assets	-	580,027
Loss on Impairment	-	(572,086)
Deferred Loss from Refunding	-	63,751
Principal Payments of Note Payable	(540,000)	-
Principal Payments of Bonds Payable	-	(1,220,000)
Note Proceeds	9,810,000	-
Assessments and Connections	7,674	121,812
Bond Repayment	(10,333,012)	-
Interest Paid on Notes Payable	(796,632)	-
Interest Paid on Water Revenue Bonds	<u>-</u>	<u>(530,476)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(1,851,970)</u>	<u>(1,556,972)</u>
Cash Flows from Investing Activities		
Investment Income	2,339	1,586
Interest on Assessments	13,317	13,390
(Increase)/Decrease in Assets Limited as to Use - Held by Trustee	<u>604,161</u>	<u>84,817</u>
Net Cash Provided by Investing Activities	<u>619,817</u>	<u>99,793</u>
Net Increase in Cash and Cash Equivalents	<u>135,327</u>	<u>431,777</u>
Cash and Cash Equivalents at Beginning of Year	<u>1,492,697</u>	<u>1,060,920</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,628,024</u>	<u>\$ 1,492,697</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Income from Operations	\$ 978,725	\$ 821,656
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation and Amortization	522,747	631,947
Add (Deduct) Changes in Non-Cash Working Capital:		
Decrease in Accounts Receivable	204,788	620,749
Decrease in Allowance for Bad Debt	40,708	193,016
Increase in Grants Receivable	155,440	(155,440)
Increase/(Decrease) in Prepaid Expenses	(54,736)	(20,453)
Increase/(Decrease) in Accounts Payable	(287,396)	61,971
Increase/(Decrease) in Accrued Expenses	(642)	(64,277)
Increase/(Decrease) in Accrued Interest Payable	(154,811)	-
Increase in Other Liabilities	(37,343)	9,623
Increase/(Decrease) In Deferred Revenue	<u>-</u>	<u>(209,836)</u>
Net Cash Provided by Operating Activities	<u>\$ 1,367,480</u>	<u>\$ 1,888,956</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, 2015 AND 2014

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, 2015 AND 2014

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. With the refunding of the bonds, the Township of Aston no longer 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, 2015 AND 2014

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 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 authority for Upper Chichester 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 bills the sewer authority of 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 for conveyance fees only.

The Authority recognizes uncollectible accounts at the time they are deemed to be uncollectible. The Authority is performing collection efforts and continues to file liens on properties with delinquent amounts. As of December 31, 2015 and 2014 the allowance for doubtful accounts was \$780,430 and \$821,138, 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 and equipment are being depreciated using the straight-line method over the useful lives of the assets.

<u>Asset</u>	<u>Years</u>
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, 2015 AND 2014

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, 2015 and 2014, 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, per the employee handbook.

As of December 31, 2015 and 2014, the liabilities for unpaid compensated absences were \$18,828 and \$17,251 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. 68, "Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27." The adoption of this statement had no effect on previously reported amounts.

The Authority adopted the provisions of GASB's Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68." The adoption of this statement had no effect on previously reported amounts.

L. Pending Governmental Accounting Standards Board (GASB) 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.



SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
(A COMPONENT UNIT OF ASTON TOWNSHIP)  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2015 AND 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Government Accounting Standards Board has issued GASB's Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68." This statement is required to be adopted by the Authority for the year ending December 31, 2017. The Authority has not determined the effect of GASB's Statement No. 73 on the financial statements.

The Government Accounting Standards Board has issued GASB's Statement No. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans." This statement is required to be adopted by the Authority for the year ending December 31, 2017. The Authority has not determined the effect of GASB's Statement No. 74 on the financial statements.

The Government Accounting Standards Board has issued GASB's Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." This statement is required to be adopted by the Authority for the year ending December 31, 2018. The Authority has not determined the effect of GASB's Statement No. 75 on the financial statements.

The Government Accounting Standards Board has issued GASB's Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments." 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. 76 on the financial statements.

The Government Accounting Standards Board has issued GASB's Statement No. 77, "Tax Abatement Disclosures." 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. 76 on the financial statements.

The Government Accounting Standards Board has issued GASB's Statement No. 78, "Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans." 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. 76 on the financial statements.

The Government Accounting Standards Board has issued GASB's Statement No. 79, "Certain External Investment Pools and Pool Participants." 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. 79 on the financial statements.

The Government Accounting Standards Board has issued GASB's Statement No. 80, "Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14." This statement is required to be adopted by the Authority for the year ending December 31, 2017. The Authority has not determined the effect of GASB's Statement No. 80 on the financial statements.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
 (A COMPONENT UNIT OF ASTON TOWNSHIP)  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2015 AND 2014

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and investments as of December 31, 2015 and 2014 are classified in the accompanying financial statements as follows:

	<u>2015</u>	<u>2014</u>
Cash and Cash Equivalents	\$ 1,666,198	\$ 1,492,697
Assets held by trustee	<u>-</u>	<u>604,161</u>
Total Cash and Cash Equivalents	<u>\$ 1,666,198</u>	<u>\$ 2,096,858</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, 2015, of the Authority's \$1,658,617 bank balance, \$250,734 was covered by FDIC and \$1,407,885 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 until their assessment is paid in full.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
(A COMPONENT UNIT OF ASTON TOWNSHIP)  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2015 AND 2014

NOTE 4: CAPITAL ASSETS

For the years ended December 31, 2015 and 2014, depreciation expense amounted to \$522,747 and \$631,947 respectively. Capital Asset activity for the years ended December 31, 2015 and 2014 were as follows:

2015				
	Beginning Balance	Increases	(Decreases)	Ending Balance
Depreciable Assets:				
Plant and System	\$ 23,970,021	\$ -	\$ -	\$ 23,970,021
Administration Building	207,819	-	-	207,819
Maintenance Equipment	1,191,998	-	-	1,191,998
Office Equipment	256,305	-	-	256,305
	<u>25,626,143</u>	<u>-</u>	<u>-</u>	<u>25,626,143</u>
Less: Accumulated Depreciation				
Plant and System	14,874,505	508,934	-	15,383,439
Administration Building	158,707	6,802	-	165,509
Maintenance Equipment	1,191,638	7,011	-	1,198,649
Office Equipment	256,305	-	-	256,305
	<u>16,481,155</u>	<u>522,747</u>	<u>-</u>	<u>17,003,902</u>
	<u>\$ 9,144,988</u>	<u>\$ (522,747)</u>	<u>\$ -</u>	<u>\$ 8,622,241</u>
2014				
	Beginning Balance	Increases	(Decreases)	Ending Balance
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	1,179,576	10,772	-	1,191,638
Office Equipment	257,595	-	-	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>

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
(A COMPONENT UNIT OF ASTON TOWNSHIP)  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2015 AND 2014

NOTE 5: LONG TERM DEBT

Long-term notes payable as of December 31, 2015 are as follows:

	<u>1/1/2015 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/2015 Balance</u>	<u>Due Within One Year</u>
Notes Payable	\$ -	\$ 9,810,000	\$ (540,000)	\$ 9,270,000	\$ 1,080,000
	<u>\$ -</u>	<u>\$ 9,810,000</u>	<u>\$ (540,000)</u>	<u>\$ 9,270,000</u>	<u>\$ 1,080,000</u>

  

	<u>1/1/2014 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/2014 Balance</u>	<u>Due Within One Year</u>
Notes Payable	\$ -	\$ -	\$ -	\$ -	\$ -
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Long-term bonds payable as of December 31, 2015 were as follows:

	<u>1/1/2015 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/2015 Balance</u>	<u>Due Within One Year</u>
Bonds Payable	\$ 10,870,000	\$ -	\$ (10,870,000)	\$ -	\$ -
	<u>\$ 10,870,000</u>	<u>\$ -</u>	<u>\$ (10,870,000)</u>	<u>\$ -</u>	<u>\$ -</u>

  

	<u>1/1/2014 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/2014 Balance</u>	<u>Due Within 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>

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.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
(A COMPONENT UNIT OF ASTON TOWNSHIP)  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2015 AND 2014

NOTE 5: LONG TERM DEBT (Continued)

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

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

In 2015, the Southwest Delaware County Municipal Authority exercised its option to refund the Guaranteed Sewer Revenue Bonds, Series A and B of 2009 ("the 2009 Bonds"). This refunding of the remaining bond balance of \$9,810,000 was satisfied with issuance of the DNB First, N.A. Sewer Revenue Note, Series of 2015 ("the Note") at interest rate of 3% for the life of note.

The Note was closed on June 30, 2015 and provides for a tax free annual interest rate of three percent with a nine year maturity; thereby not extending the life of the original bond debt. The Note is collateralized by the sewer revenues collected by the Authority only, which relieves the Township of Aston from its guaranty of the 2009 Bonds. The savings of over \$380,000 in reduced interest will be realized over the nine year life of the loan.

The 2009 Bonds were defeased on August 3, 2015, as provided by the call option in the Trust Indenture.

As a result of this transaction, the financial statements include adjustments for the unamortized bond amounts remaining in the amount of \$485,862.

Following are maturities and interest of the 2015 Note debt through to maturity:

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 1,080,000	\$ 270,390
2017	1,080,000	236,775
2018	1,080,000	203,925
2019	1,080,000	171,075
2020-2024	<u>4,950,000</u>	<u>138,630</u>
	<u>\$ 9,270,000</u>	<u>\$ 1,020,795</u>

NOTE 6: RETIREMENT PLAN

The Authority's retirement plan is a defined contribution plan, which provides benefits at retirement for all full-time employees who work thirty-five 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, 2015 and 2014 were \$13,629 and \$47,181, respectively.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
(A COMPONENT UNIT OF ASTON TOWNSHIP)  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2015 AND 2014

NOTE 7: COMMITMENTS AND CONTINGENCIES

The Authority leases a fork lift and a copier/printer under operating lease agreements which require monthly payments of \$488.00 and \$169.55, respectively. In July 2015, the fork lift lease was terminated with the return of the equipment. Rent expense under all operating leases for the years ended December 31, 2015 and 2014 were \$4,094 and \$5,856, respectively.

NOTE 8: 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.

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 9: 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.

SOUTHWEST DELAWARE COUNTY MUNICIPAL AUTHORITY  
(A COMPONENT UNIT OF ASTON TOWNSHIP)  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2015 AND 2014

NOTE 10: LITIGATION

In the normal course of business there are various claims and suits pending against the Authority. In the opinion of counsel, the amount of such losses that might result from these claims and suits, if any, would not materially affect the financial condition of the Authority.

NOTE 12: SUBSEQUENT EVENTS

- A) The Authority has evaluated all subsequent events through the report issue date of April 27, 2016.
- B) This report has been reissued at May 16, 2016. According to the terms of the Agreement of Service with Delcora, a reconciliation of the estimated service charges for treatment service was received on May 10, 2016, as prepared by Delcora, following their annual audit. This reconciliation resulted in a decrease of Prepaid Expense and an increase of Treatment Expense in the amount of \$260,235. No other additional procedures have been performed in relation to the financial statements that had been previously issued on April 27, 2016.