

Bethel Township Sewer Authority

December 31, 2013

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MervesAmon&Barsz LLC
Certified Public Accountants

Independent Auditor's Report

Board of Directors
Bethel Township Sewer Authority

We have audited the accompanying financial statements of Bethel Township Sewer Authority, a component unit of Bethel Township, as of and for the year ended December 31, 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 these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 principles 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.

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison on pages 3 through 11 and page 26 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 Standards 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Bethel Township Sewer Authority's basic financial statements. The graphic analysis section is presented for purposes of additional analysis and is not a required part of the financial statements. This analysis is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The graphic analysis section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express opinions or provide any assurance on it.

Mervin Amon & Barsz LLC

Media, Pennsylvania
June 27, 2014

BETHEL TOWNSHIP SEWER AUTHORITY
(A MUNICIPAL AUTHORITY ESTABLISHED BY THE TOWNSHIP OF BETHEL)
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013
(UNAUDITED)

This section presents management's discussion of the financial condition and operating performance of the Bethel Township, Delaware County Sewer Authority ("Authority") over the course of the fiscal year ended December 31, 2013. The Management's Discussion and Analysis (MD&A) should be read in conjunction with the Authority's basic financial statements beginning on page 12 of the Financial Section.

FINANCIAL AND ADMINISTRATIVE HIGHLIGHTS

- Total assets of the Authority of \$12,508,253 and total liabilities of \$1,960,439 represent a very favorable Asset to Liability Ratio of 6.38:1.
- In 2009-2010, the Authority undertook measures to prevent inflow and infiltration ("I&I") of storm water into the Authority's sanitary sewer system in the Flat Iron Point area. Substantial savings to treatment costs paid to New Castle will and have resulted from this effort. During this period, treatment costs to New Castle did evidence a reduction of \$15,105 or 5.1%; hence a 16% savings over the past three years.
- Since 2009, the Authority implemented an Inflow & Infiltration (I&I) Program to clean, televise, joint test and repair pipes or manholes as needed. The Pennsylvania Department of Environmental Protection has determined that a great deal of I&I being treated at sewage treatment plants is coming from private residential and commercial building sewer lines. The building sewer is the pipe that connects the house to the public sewage system lateral. In some areas, municipalities are surcharged for the additional treatment costs based on total flows measured. The Authority is charged for every gallon of sewage including I&I in the Flat Iron Point District. The Authority anticipates being charged for I&I in the future in its other Districts and is taking steps to reduce the amount of extraneous water entering its system. The inflow of rainwater and the infiltration of ground water (I&I) can cause serious capacity issues for the sewage collection system, pump stations and the sewage treatment plant. In addition to the inspection and maintenance programs being implemented to find and repair leaks in the public sewer lines, the Authority will be taking steps to encourage property owners to maintain their private building sewers.

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SUMMARY OF ORGANIZATION, RELATIONSHIP BETWEEN THE TOWNSHIP OF BETHEL AND THE AUTHORITY, AND TREATMENT RELATIONSHIPS

The Authority is a municipal corporation created by the Township of Bethel ("Township") in 1973 under the Pennsylvania Municipality Authorities Act of 1945, as amended, ("Act") for the purpose of financing, engineering and building the public sanitary sewer system that currently serves 3,400 Equivalent Dwelling Units ("EDU's"). The system includes approximately 37 miles of collection pipelines and 8 pumping stations.

The Authority system is for conveyance but not treatment of sanitary sewage. Portions of Authority wastewater are conveyed for ultimate treatment to two different entities: through the Southern Delaware County Authority ("SDCA") to the Delaware County Regional Water Quality Control Authority ("DELCORA") for treatment at its sewage treatment plant in Chester, Pennsylvania and through the New Castle County Department of Special Services ("New Castle") to the City of Wilmington's sewage treatment plant in Wilmington, Delaware. The Sewage Treatment Agreement between SDCA and this Authority runs through 2024, with a five year non-renewal notification clause and the Sewage Treatment Agreement between New Castle and the Authority is an evergreen agreement.

The Township Board of Supervisors appoints the five members of the Sewer Authority Board of Directors to staggered terms of five years. The Authority hires its own employees and professional advisors.

The Authority which owns the sewer systems is a conveyance Operating Authority as permitted under the Act. The Authority has taxing power under the Act, and relies on sewer rental rates and charges imposed under the Township sewer district establishment ordinances and set from time to time under Authority resolutions. Tapping fees, connection fees and other service charges may be assessed by the Authority for connection to its system, and also, for increases in allocated wastewater volumes needed by commercial and industrial users. The Authority's tapping fee is currently at a rate of \$6,100 per EDU.

In 2012, the Authority received financing from the Delaware Valley Regional Finance Authority (DVRFA) in the amount of \$2,125,000. The financing retired the Authority's 2003 bond issuance in the amount of \$1,223,345 and provided costs of issuance as well as additional funding for capital projects over the next five years. The DVRFA financing interest charges ranged from 1.72 to 1.98% through 2025.

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The 2012 Notes are limited obligations of the Authority payable solely from and secured by the receipts and revenues from the sewer system of the Authority and these obligations are guaranteed by the Township. As part of the 2012 Notes, the Authority covenants to assess rates and charges, together with other unrestricted funds available to the Authority, which shall be sufficient to provide the costs to operate and maintain the system and to pay 115% of the Authority's estimated debt service obligation.

OVERVIEW OF ANNUAL FINANCIAL REPORT

Management's discussion and analysis (MD&A) serves as an introduction to the basic financial statements and supplementary information. The MD&A represents management's analysis of the authority's financial condition and performance.

The financial statements report information about the Authority using full accrual accounting methods as utilized by similar business activities in the private sector.

The financial statements include a *Statement of Net Position; Statement of Revenues, Expenses and Changes in Net Position; Statement of Cash Flows, Notes to Financial Statements and Supplementary Information.*

- **Statement of Net Position** – This statement provides information that will help the reader determine if the Authority is financially better or worse off as a result of the year's activity.
- **Statement of Revenues, Expenses and Changes in Net Position** – This statement presents the results of business activities during the fiscal year and the amounts by which the net position has changed. All current year revenues and expenses are taken into account regardless of when the cash is received or paid.
- **Statement of Cash Flow** – Reports changes in cash and cash equivalents resulting from operational, capital and financing, and investment activities.
- **Notes to Financial Statements** – The financial statement note disclosures provide the reader with additional information that is essential to a full understanding of the data presented in the financial statements. The notes also provide information about the Authority's accounting policies, significant account balances, obligations, commitments, contingencies and subsequent events, if any.

The financial statements were prepared by the Authority's staff from the detailed books and records of the Authority. The statements were audited during the independent external audit process by Merves, Amon and Barsz, LLC, Certified Public Accountants.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
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(UNAUDITED)

FINANCIAL ANALYSIS

Statement of Net Position:

The statement of financial condition for the Authority as of December 31, 2013 and 2012 is presented in the following table:

Bethel Township Sewer Authority
Statement of Net Position
December 31

	2013	2012		2013	2012
Current Assets	\$ 2,455,714	\$ 1,741,707			
Property Plant and Equipment	\$14,920,727	\$14,919,563	Current Liabilities	\$ 416,511	\$ 316,410
Accumulated Depreciation	\$ (4,988,149)	\$ (4,615,944)	Long-Term Liabilities	\$ 1,543,928	\$ 1,310,155
Net PP&E	\$ 9,932,578	\$10,303,619	Total Liabilities	\$ 1,960,928	\$ 1,626,565
Restricted Assets	\$ 86,450	\$ 55,473	Net Position	\$10,547,814	\$10,474,234
Other Assets	\$ 33,511	\$ -	Total Liabilities & Net Position		
Total Assets	\$12,508,253	\$12,100,799		\$12,508,253	\$12,100,799

Current assets consist primarily of cash, short-term investments and customer accounts receivable. Property, Plant and Equipment reflects the cost of the Authority's collection system and pump stations, capitalized repairs and infiltration and inflow expenses, and office furniture and equipment.

Current liabilities are comprised principally of accounts payable and accrued payroll, related payroll tax liabilities, principal amounts due on Notes payable for fiscal 2012 and 2013, accrued interest on bonds, and developer escrow deposit liabilities. Long term liabilities consist of the outstanding principal balance on the authority's Notes payable, net of the principal due during fiscal 2012 and 2013, respectively.

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Net position represents the equity of the Authority in total assets, and is measured by the difference between total assets and the claims of bondholders, vendors, and other creditors on those assets and totaled \$10,547,814 and \$10,474,234 as of December 31, 2013 and 2012 respectively, including \$86,450 for 2013 and \$55,473 for 2012 restricted for developer escrow deposit refunds and restricted cash and investments.

Statement of Revenues, Expenses and Changes in Net Position:

The following graph presents net loss from operations after depreciation for the fiscal years ended December 31, 2013 and 2012:

Bethel Township Sewer Authority
Statement of Revenue, Expenses & Changes in Net Position
December 31,

	2013	2012
Sewer Rentals	\$ 1,794,910	\$ 1,797,413
Penalties & Misc	68,505	44,452
Total Operating Revenues	\$ 1,863,415	\$ 1,841,865
Sewage treatment and conveyancing	1,102,755	1,117,165
Operations and maintenance	130,791	73,758
Professional fees	132,863	137,642
General and administrative	163,902	142,913
Total Operating Expenses	\$ (1,530,311)	\$ (1,471,478)
Depreciation	\$ (372,206)	\$ (370,714)
Interest Income	-	736
Amortization	-	(86,171)
Interest Expense	(21,518)	(44,662)
Non Operating Loss	\$ (21,518)	\$ (130,097)
Tap In Fee Income	134,200	181,800
Total Capital Contributions	\$ 134,200	\$ 181,800
Increase Net Assets	\$ 73,580	\$ 51,376

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Guaranteed Sewer Revenue Notes, Series of 2012:

In 2012 and 2013, the indebtedness of the Authority increased from \$1,270,000 to \$1,331,000 and from \$1,331,000 to \$1,591,000, respectively, as a result of a refinancing which is intended to save significant interest charges over the loan period as well as provided additional funding for needed capital projects.

Years Ended December 31	Rate	Principal	Interest	Total Debt Service
2014	1.72%/1.981%	154,000	29,233	182,233
2015	1.72%/1.981%	157,000	33,926	190,926
2016	1.72%/1.981%	160,000	30,993	190,933
2017	1.72%/1.981%	163,000	28,014	191,014
2018	1.72%/1.981%	166,000	24,971	190,971
2019	1.72%/1.981%	169,000	21,881	190,881
2020	1.72%/1.981%	172,000	18,726	190,726
2021	1.72%/1.981%	87,000	6,742	93,742
2022	1.72%/1.981%	88,000	5,235	93,235
2023	1.72%/1.981%	90,000	3,698	93,698
2024	1.72%/1.981%	92,000	2,127	94,127
2025	1.72%/1.981%	93,000	533	93,533
Total Debt Service		\$ 1,591,000	\$ 206,079	\$ 1,797,079

Property, Plant and Equipment

Following reflects the change in the Authority's capital assets during the period:

TABLE 3
CHANGES IN CAPITAL ASSETS
YEAR-TO-YEAR COMPARISON
December 31,

CAPITAL INVESTMENT	2013	2012	Increase
Land and Right of Way	\$129,741	\$129,741	-
Collection System	12,967,025	12,967,025	-
Treatment Plant Capacity	108,892	108,892	-
Phase I Construction Project	629,682	629,682	-
SDCA Capital Contribution	1,000,000	1,000,000	-
Metering Pit Equipment	47,530	47,530	-
Office Furniture and Equipment	37,857	36,692	1,165
TOTALS	\$14,920,727	\$14,919,562	\$ 1,165

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GENERAL TRENDS AND SIGNIFICANT EVENTS

The Authority projects an increase of over 125 EDU during the next five years. Most of the new units are expected to be isolated residential construction with at least one larger townhome development (Independence) and another set of condominium buildings (Belmont Phase III). With the slowdown in the overall economy the growth rate will certainly be slower than expected, but if, or when, these proposed units are constructed, they will generate over \$762,500 in tapping fees and approximately \$71,000 in annual rental receipts under the revised rate structure of the Authority.

Bethel Township is required by state law to have a Sewage Facilities Plan. Historically, the plan has been prepared and implemented by the Authority. Approximately 96% of all households and businesses in the township are serviced by the Authority's system. On-lot disposal systems are being utilized by the remaining properties in various sections of the Township.

FINANCIAL CONDITION OF THE AUTHORITY

The Authority's overall financial condition was very strong at fiscal year-end. There are adequate liquid assets to meet next year's goals and objectives for routine operation and scheduled major capital improvements projects. The overall economy of the Delaware Valley region has been strained. Housing starts had declined but are expected to continue to increase gradually in 2014, particularly if mortgage interest rates remain low. Nonetheless, sewer rental payments have continued to be received on time from the vast majority of residents and businesses in the Township.

Interest earnings are disappointingly low at this time but there are sufficient reserves to cover any unexpected shortfall in revenue over the next three years and to provide emergency funding if necessary.

Major capital projects planned for the future will be costly, but these costs have been projected in a long-term capital budget plan and will be paid from tapping fee revenue and Authority capital funds. The recent sewer rental rate increase and the potential for tapping fee increases will help to meet the challenges facing the Authority. It is very important to note that gradual rate increases will be necessary in the future. The Authority, as of January 1, 2014, increased its sewer rents to \$568 per year (\$142 per quarter) for residential users (with the same increased amounts per EDU charged to commercial users). Tapping fees were increased in 2012 to \$6,100 per EDU. A tapping fee, the cost assessed by the Authority to connect to its sanitary sewer system, became effective May 1, 2012. The tapping fee was computed pursuant to the formula provided under Pennsylvania law. Revenue generated by the tapping fee will provide additional capital funds for future preventative maintenance and repairs to the Authority's sanitary sewer system.

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The Authority's annual budget is largely driven by treatment costs. As of 2013, these costs as a percentage of operating revenue were: Treatment: 59%; Operation and Maintenance: 7%; and, Administrative: 15.92%. Operating costs as a percentage of revenue increased from 2012 to 2013 by approximately 3%. Treatment costs as a percentage of operating revenue did decrease slightly during the period.

From 1998 through 2013, treatment plus operation and maintenance costs have increased from 50% to 80% of the Authority's operating expenses (without regard to depreciation). If the sewer rents were to track the increase in the consumer price index, sewer rents would have increased from \$360 to \$556 during the period 1994 through 2013. During this period, the number of residences and businesses using the system has approximately doubled. The sewer rent rate is based upon one equivalent dwelling unit per household. The idea of usage based billed has been considered, however the costs to implement out way the benefits.

A five year revenue and expense projection included in a Rate Study commissioned in 2009 pointed to a need for an increase in sewer rents rates to allow for anticipated substantial increases in treatment costs, as well as continued reserves for operating maintenance costs and to satisfy requirements of the trustee under the trust indenture for the bond issue. With careful planning, some maintenance costs could be avoided and administrative costs could be minimized at a level tracking the growth of the size of the system, but since treatment costs account for some 75% of the budget, increased expenses would result primarily from increases in treatment costs. Indeed, treatment costs for Authority conveyed sewage assessed by New Castle rose by 117% since 2004, and similar future increases are predicted. Also, treatment costs for sewage conveyed to SDCA increased by 13% effective for year 2012 as reflected in the financial statements

Please read the remainder of this report in its entirety for more details regarding the current and historic financial condition and operating results of the Authority.

The Authority has enjoyed an excellent working relationship with the Township, our residents, commercial customers, other utilities as well as state and federal agencies. This professional and friendly affiliation has resulted in the creation of a valuable public utility service which benefits the natural environment in the entire community in which we live and work. The sanitary sewer system can be considered the backbone of any community. With a system in good operating condition and relatively low expenses, the Bethel Township Sewer Authority system remains a valuable asset to the residents of Bethel Township.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
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We have prepared the MD&A in a manner we hope you find useful. Keep in mind, this entire report is a financial overview designed to give our customers and creditors a general understanding of how the Authority conducts business and accounts for the money it receives. Should you have questions regarding these statements, please contact our office by phone at (610) 358-5893 or e-mail us at btsa@comcast.net or by writing 1082 Bethel Road, Garnet Valley, PA 19060.

Organization

Board Members

Donna J. Vance
Donna L. Vickers
Steve Maugeri
Bill Litton
Dan Van Wyk

Officers

Donna J. Vance, Chairperson
Donna Vickers, Vice-Chairperson
Patricia Petrosky, Secretary/Treasurer

Consulting Engineer

Walter A. Fazler, P.E.
Bradford Engineering Associates, Inc.
Aston, Pennsylvania

Solicitor

Laurence L. Smith, Esquire
Simon and Smith, P.C.
Media, Pennsylvania

Bethel Township Sewer Authority
Statement of Net Position
December 31, 2013

Assets

Current Assets

Cash and cash equivalents - unrestricted	\$ 1,751,594
Sewer rents receivable, net	633,688
Recoverable disbursements, net	55,826
Tap in fees, receivable	7,000
Prepaid expenses	7,606
Total Current Assets	2,455,714

Noncurrent Assets

Restricted cash - Developers' escrow	86,450
Recoverable disbursements - long term	33,511
Property, plant and equipment, net	9,932,578
Total Noncurrent Assets	10,052,539

Total Assets

12,508,253

Liabilities

Current Liabilities

Accounts payable and accrued expenses	258,619
Accrued payroll and payroll tax withholdings	3,892
Notes payable	154,000
Total Current Liabilities	416,511

Noncurrent Liabilities

Funds held in escrow	86,450
Notes payable	1,437,000
Other noncurrent liabilities	20,478
Total Noncurrent Liabilities	1,543,928

Total Liabilities

1,960,439

Net Position

Net Position

Net investment in capital assets	8,341,578
Restricted	86,450
Unrestricted	2,119,786
Total Net Position	\$ 10,547,814

Bethel Township Sewer Authority
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ending December 31, 2013

<u>Operating Revenues</u>	
Sewer rentals	\$ 1,794,910
Miscellaneous fees	68,505
Total Operating Revenues	1,863,415
 <u>Operating Expenses</u>	
Sewage treatment and conveyancing:	
Southern Delaware County Authority	824,827
New Castle County, Delaware	277,928
Operations and maintenance	130,791
Professional fees	132,863
General and administrative	163,902
Depreciation	372,206
Total Operating Expenses	1,902,517
<u>Operating Loss</u>	(39,102)
 <u>Non-Operating Expenses</u>	
Interest expense	(21,518)
Total Non-Operating Expenses	(21,518)
<u>Loss Before Capital Contributions</u>	(60,620)
<u>Capital Contributions</u>	134,200
<u>Change in Net Position</u>	73,580
<u>Net Position - Beginning</u>	10,474,234
<u>Net Position - Ending</u>	\$ 10,547,814

See accompanying notes to financial statements.

Bethel Township Sewer Authority
Statement of Cash Flows
For the Year Ending December 31, 2013

<u>Cash Flows From Operating Activities</u>	
Receipts from customers	\$ 1,758,874
Payments to suppliers	(1,400,283)
Payments to employees	(94,024)
Other operating cash receipts	68,505
Net Cash Provided by Operating Activities	<u>333,072</u>
<u>Cash Flows From Capital and Related Financing Activities</u>	
Capital contributions received	134,200
Interest expense	(21,897)
Principle payments of notes payable	260,000
Purchases and construction of capital assets	(1,165)
Cash Flows Provided by Capital and Related Financing Activities	<u>371,138</u>
<u>Cash Flows From Investing Activities</u>	
Change in restricted cash	<u>31,613</u>
Cash Flows Provided by Investing Activities	<u>31,613</u>
<u>Increase in Cash and Cash Equivalents</u>	735,823
<u>Cash and Cash Equivalents - Beginning</u>	<u>1,102,221</u>
<u>Cash and Cash Equivalents - Ending</u>	<u>\$ 1,838,044</u>

See accompanying notes to financial statements.

Reconciliation of operating loss to net cash provided by operating activities	
Operating loss	\$ (39,102)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	372,206
(Increase) decrease in assets	
Sewer rents receivable	(60,122)
Recoverable disbursements	21,086
Accounts receivable - other	3,000
Prepaid expenses	(6,954)
Increase in liabilities	
Accounts payable	20,692
Accrued payroll and withholdings	1,788
Other noncurrent liabilities	20,478
	<hr/>
Net cash provided by operating activities	<u>\$ 333,072</u>

Bethel Township Sewer Authority
Notes to Financial Statements
December 31, 2013

Note 1 Summary of Significant Accounting Policies

Organization and Description of Operation

The Bethel Township Sewer Authority (the "Authority") is a body, politic and corporate, created pursuant to an ordinance of the Board of Supervisors of Bethel Township, Delaware County, Pennsylvania (the "Township"), under the Pennsylvania Municipality Authorities Act 53 Pa. C.S 5601 et seq. (the "Act"). The certificate of incorporation of the Authority was issued by the Secretary of the Commonwealth of Pennsylvania on October 1, 1973. A charter amendment was filed with the Secretary of the Commonwealth of Pennsylvania on May 25, 1995 to extend the term of existence of the Authority to March 15, 2045.

The governing body of the Authority is a Board consisting of five members appointed by the Township Board of Supervisors. The Board is authorized to exercise any and all powers conferred by the aforementioned Act necessary for the acquisition, construction, improvement, extension, maintenance and operation of the system facilities. Staggered terms for Board Members result in the term of one member expiring annually.

Reporting Entity

For purposes of defining the scope of the financial reporting entity, the Bethel Township Sewer Authority is considered a component unit of the Township of Bethel. Such determination is consistent with the Township's exercise of "oversight responsibility" as set forth in Statement No. 14 of the Governmental Accounting Standards Board, *The Financial Reporting Entity*. Specific criteria evaluated in determining the extent of oversight responsibility include financial interdependency, selection of governing body, designation of management, ability to significantly influence operations and accountability for fiscal matters.

The financial statements of the Bethel Township Sewer Authority represent a discrete presentation of a segment of the primary government's (i.e. Bethel Township) financial statements. Based on the aforementioned criteria, the Bethel Township Sewer Authority is considered a component unit of Bethel Township.

Basis of Presentation and Accounting

The Authority utilizes the accrual basis of accounting and reflects its operations within a single 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 primarily through user charges; or (b) 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.

Bethel Township Sewer Authority
Notes to Financial Statements
December 31, 2013

Note 1 Summary of Significant Accounting Policies (Continued)

Basis of Presentation and Accounting (Continued)

GASB Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements*, incorporates into GASB's authoritative literature certain accounting and financial reporting guidance included in Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedure, which do not conflict with or contradict GASB pronouncements.

Measurement Focus

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. Proprietary or enterprise funds are accounted for on an economic resources measurement focus using the accrual basis of accounting. Revenues are recorded when they are earned, including unbilled sewer services which are accrued. Expenses are recorded at the time liabilities are incurred.

Sewer revenues and related charges are recorded as operating income and related treatment expense along with maintenance and administrative charges are recorded as operating expenses. Debt service payments and investment income are treated as non-operating income and included under capital and related financing and investment activities in the Statement of Cash Flows.

Cash and Cash Equivalents

The Authority considers money market funds, Treasury bills and all highly liquid investments with an original maturity date of ninety days or less to be cash equivalents unless they are included as a component of an investment account. Cash equivalents are stated at cost, which approximates market.

Sewer Rents Receivable

The Authority provides continuous services to its customers. Customers are billed quarterly on the first day of January, April, July and October of each year, for the quarterly 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's policy is to file a lien against those delinquent accounts over \$200 resulting in collection of substantially all sewer rental accounts receivable. An allowance account has been established representing those items delinquent over ninety days below \$200. Currently those delinquencies represent approximately 2% of all sewer rent receivables and an allowance account has been established accordingly in the amount of \$4,550.

Bethel Township Sewer Authority
Notes to Financial Statements
December 31, 2013

Note 1 Summary of Significant Accounting Policies (Continued)

Restricted Assets

Restricted assets consist principally of cash and investments of funds established pursuant to the terms of the Trust Indenture for specific purposes and uses. For financial reporting purposes, net position - restricted have been reserved in an amount corresponding to the required amounts in the restricted asset accounts, less any liabilities currently payable from such assets. Restricted assets also include developers' escrow deposits pledged to the payment of costs incurred by the Authority on behalf of developers as more fully described in Note 2.

Property, Plant and Equipment

Capital assets purchased with an original cost of \$1,000 or more are reported at historical cost. Contributed assets are reported at fair market value on the date of dedication to the Authority. Depreciation is provided over the assets' useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	30 years
Equipment	3-5 years
Machinery	10 years
Infrastructure	40 years

Expenditures for maintenance, repairs, and minor replacements are expensed as incurred. Replacements and betterments which increase the service capacity or prolong the service life beyond that originally contemplated are capitalized. Upon retirement or disposal, the cost of the asset and the related allowance for depreciation are removed from the respective accounts, and any gain or loss is included in the statement of revenues, expenses and changes in net position.

Compensated Absences

Full-time Authority employees are compensated for unused vacation days. The Authority did not have any liability for unused vacation at December 31, 2013.

Operating Revenues and Expenses

Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations which consist of sewer rentals and assessments intended to cover the cost of connecting new customers to the system. Operating expenses include the cost of sewage treatment services, facility maintenance, professional and administrative expenses, and depreciation on capital assets. All other revenues and expenses not meeting the aforementioned criteria are reported as non-operating revenues and expenses.

Bethel Township Sewer Authority
Notes to Financial Statements
December 31, 2013

Note 1 Summary of Significant Accounting Policies (Continued)

Net Position

Net position represents the difference between the Authority's assets and liabilities. Net investment in capital assets component of net position represents capital assets reduced by accumulated depreciation and by any outstanding debt related to the acquisition, construction or improvement of those assets.

The restricted component of net position is comprised of certain funds restricted under the Trust Indenture for payment of debt service on bonds as well as developers' escrow accounts. The unrestricted component of net position consists of net position that does not meet the definition of restricted or net investment in capital assets.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from those estimates.

Note 2 Recoverable Disbursements/Developers' Escrow

The Authority enters into contractual arrangements with developers which provide for reimbursement by the developers of certain legal and engineering fees incurred by the Authority in connection with the construction of certain sewer-related facilities. The receivable for the year ended December 31, 2013 amounted to \$90,476. Management has established an allowance for uncollected reimbursements at two percent based on estimated collections, representing \$1,139 in 2013.

Developers' escrow deposits held by the Authority and related liabilities totaled \$86,450 at December 31, 2013.

Note 3 Cash

The carrying amount of the Authority's cash at December 31, 2013 totaled \$1,838,044 of which \$250,000 was covered by Federal Depository Insurance. State law requires that all governmental deposits in financial institutions in excess of federal insurance limits be fully collateralized by obligations of the United States, the Commonwealth of Pennsylvania or any political subdivision of the Commonwealth of Pennsylvania. Pursuant to Pennsylvania Act 72 of 1971, as amended, the banking institutions are permitted to satisfy collateralization requirements by pooling securities pledged as collateral for public funds on deposit.

Bethel Township Sewer Authority
Notes to Financial Statements
December 31, 2013

Assets Limited as to Use – Held by Trustee

The Authority's investments are authorized by state law and formerly by the Trust Indenture. The Authority is permitted to invest in obligations of the U.S. Government or any of its agencies or instrumentalities, obligations of the Commonwealth of Pennsylvania, its agencies or instrumentalities, obligations of any political subdivision of the Commonwealth of Pennsylvania, and shares of investment companies registered under the Investment Company Act of 1940.

The Authority does not have a formal investment policy, other than that addressed by the Municipal Authorities Act that addresses interest rate and credit risk.

Credit Risk

The Pennsylvania Municipality Authorities Act of 1945 provides for investment of governmental funds into certain authorized types including U.S. Treasury bills, other short-term U.S. and Pennsylvania government obligations and insured or collateralized time deposits and certificates of deposit. Statutes do not prescribe regulations related to demand deposits; however, they do permit pooling of governmental funds for investment. The Authority has no investment policy that would further limit its choices. The deposit and investment practices of the Authority adhere to state statutes, trust indenture requirements and prudent business practice.

The Authority entered into a debt agreement on November 15, 2012, as described in Note 5, below. A downgrade in the Moody's Investors Service and Standard and Poor's can precipitate collateralization requirements under the Delaware Valley Regional Finance Authority's Loan Agreement. The failure to post collateral when it is required constitutes an event of default under the Delaware Valley Regional Finance Authority's Loan Agreement and may result in termination. See termination risk below.

Custodial Credit Risk

Amounts invested in money market mutual funds are not subject to custodial credit risk categorizations since they are not evidenced by securities that exist in physical or book entry form.

Bethel Township Sewer Authority
Notes to Financial Statements
December 31, 2013

Note 4 Property, Plant and Equipment

The capital assets activity for the year ended December 31, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Additions and Transfers</u>	<u>Retirements and Transfers</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 129,741	\$ -	\$ -	\$ 129,741
Capital assets being depreciated:				
Metering pit	47,530	-	-	47,530
Office equipment	36,692	1,165	-	37,857
Phase I extension	629,682	-	-	629,682
Sewer system	12,967,025	-	-	12,967,025
Treatment plant capacity	108,892	-	-	108,892
Capital contribution for improvements	<u>1,000,000</u>	<u>-</u>	<u>-</u>	<u>1,000,000</u>
Total capital assets being depreciated	<u>14,789,821</u>	<u>1,165</u>	<u>-</u>	<u>14,790,986</u>
Total capital assets	<u>\$ 14,919,562</u>	<u>\$ 1,165</u>	<u>\$ -</u>	<u>\$ 14,920,727</u>
Accumulated depreciation:				
Metering pit	\$ 31,324	\$ 1,044	\$ -	\$ 32,368
Office equipment	20,428	3,522	-	23,950
Phase I extension	208,938	15,742	-	224,680
Sewer system	3,979,414	324,176	-	4,303,590
Treatment plant capacity	38,339	2,722	-	41,061
Capital contribution for improvements	<u>337,500</u>	<u>25,000</u>	<u>-</u>	<u>362,500</u>
Total capital assets	<u>\$ 4,615,943</u>	<u>\$ 372,206</u>	<u>\$ -</u>	<u>\$ 4,988,149</u>
Net	<u>\$ 10,303,619</u>	<u>(\$ 371,041)</u>	<u>\$ -</u>	<u>\$ 9,932,578</u>

Note 5 Notes Payable

On November 15, 2012, the Authority authorized the issuance of Guaranteed Revenue Notes, 2012 Series (the "2012 Notes") totaling \$2,125,000 and entered into an agreement (the "Loan Agreement") with the Delaware Valley Regional Finance Authority (the, "Lender"). The 2012 Notes are funded through the Lender's Loan Program, (the "Loan Program") where the Lender, from time to time, will enter into master interest rate swap agreements in order to hedge exposure to future changes in long-term interest rates and provide borrowers with an enhanced ability to manage their interest rate risks.

The 2012 Notes are guaranteed by the Bethel Township, Delaware County Sewer Authority and were issued to provide funds for certain capital projects consisting of a) improvements to the wastewater system, b) redemption of the 2003 Bonds, and c) costs of issuance of the 2012 Notes. The notes were issued in the following series:

Bethel Township Sewer Authority
Notes to Financial Statements
December 31, 2013

Note 5 Notes Payable (Continued)

Guaranteed Revenue Notes, 2012 A-1 Series in the amount of \$645,000 were issued with principal payable annually on April 25 beginning April 25, 2013 and ending on April 25, 2020.

Guaranteed Revenue Notes, 2012 A-2 Series in the amount of \$450,000 were issued with principal payable annually on April 25 beginning April 25, 2021 and ending April 25, 2025.

Guaranteed Revenue Notes, 2012 B-1 Series in the amount of \$236,000 were issued with principal payable annually on October 25 beginning October 25, 2014 and ending October 25, 2016.

Guaranteed Revenue Notes, 2012 B-2 Series in the amount of \$336,000 were issued with principal payable annually on October 25 beginning October 25, 2017 and ending October 25, 2020.

Guaranteed Revenue Notes, 2012 B-3 Series in the amount of \$458,000 were issued with principal payable annually on October 25 beginning October 25, 2021 and ending October 25, 2025.

As of December 31, 2013, the Authority has closed on and received the funds related to both A series notes as well as Series B-1 and B-2 totaling \$1,667,000 and has made repayments on Series A-1 in the amount of \$76,000 resulting in an outstanding balance as of December 31, 2013 of \$1,591,000. The Authority is expected to close on the B-3 series on October 25, 2014.

Interest related to these borrowings was originally based on a variable rate, based upon the weekly Securities Industry and Financial Markets Association Municipal Swap Index (the, "SIFMA Index") up to a maximum rate of 15%.

In 2012, the Authority executed an interest rate swap management policy and, Pursuant to Section 4.01 of the Loan Agreement, requested the Lender to covert the interest rate to fixed rates of 1.72% and 1.981% for Series A and B, respectively by executing master swap agreements to which the Authority is not a direct party.

Bethel Township Sewer Authority
Notes to Financial Statements
December 31, 2013

Note 5 Notes Payable (Continued)

Pursuant to Section 5 of Article V of the Authority's Loan Agreement, the Authority covenants to assess rates and charges on the wastewater system, which, together with other unrestricted funds available to the Authority, shall be sufficient to provide for the costs to operate and maintain the wastewater system and to pay 115% of the Authority's estimated debt service obligations, including the Guaranteed Revenue Notes listed above. Additionally, the Authority covenants to include termination charges, described below, related to the loan agreement in its budget for the year in which they are payable, appropriate such amounts from its general revenues, and duly and punctually pay termination charges in the manner set forth in the loan agreement, when applicable. For the years ended December 31, 2013, the Authority was in compliance with these rate covenant calculation.

Termination Risk

Under the terms of the Loan Agreement, the Authority may request that the lender terminate the swap agreements, described above, by giving at least thirty days written notice. A termination could also be triggered in the event of (i) a payment default by the Authority, (ii) a payment default by the Lender, (iii) the occurrence of events that may precipitate a payment default by the Authority or Lender, or (iv) the downgrading of the long term, unsecured, senior debt ratings of the Lender. See "Credit Risk" above.

Upon termination, the Authority is obligated to pay termination fees incurred by the Lender, including, but not limited to, net settlement of the swap transactions if a net obligation was due at the time of termination. As of December 31, 2013, the swap transactions underlying the Authority's borrowings were in a net asset position in the amount of approximately \$68,000; therefore, if terminated, no fees would be incurred. The Authority has no plans to request the Lender to terminate these swap agreements.

Additionally, in the event of a termination of the master swap agreements included in the Lender's Loan Program, the Authority would be obligated to pay any termination charge equal to its allocable share of a termination payment required to be made by the Lender.

In all instances of termination, except the termination of a swap transaction used to provide a fixed rate for a loan due to a payment default by the borrower, the Lender would seek to replace the terminated transactions of the Lender swap agreement under a master interest rate swap agreement with a different counterparty on similar terms and conditions. The market value of the terminated transactions of the Lender swap agreement should largely offset any premium paid or received to execute the new transactions; therefore, management considers this risk to be minimal.

Bethel Township Sewer Authority
Notes to Financial Statements
December 31, 2013

Note 5 Notes Payable (Continued)

The aggregate annual principal and interest payment requirements for each of the following years ending December 31 are as follows:

	<u>Principal</u>	<u>Interest</u>
2014	\$ 154,000	\$ 238,650
2015	157,000	215,550
2016	160,000	192,000
2017	163,000	168,000
2018	166,000	143,550
2019-2027	<u>791,000</u>	<u>416,850</u>
Total	<u>\$ 1,591,000</u>	<u>\$ 1,374,600</u>

Notes payable activity for the year ended December 31, 2013 is as follows:

	<u>12/31/2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/2013</u>	<u>Due within one year</u>
Guaranteed Revenue Notes Series 2012 A	\$1,095,000	\$ -	\$ 76,000	\$ 1,019,000	\$ 77,000
Guaranteed Revenue Notes Series 2012 B	<u>236,000</u>	<u>336,000</u>	<u>-</u>	<u>572,000</u>	<u>77,000</u>
Total	<u>\$1,331,000</u>	<u>\$ 336,000</u>	<u>\$ 76,000</u>	<u>\$1,591,000</u>	<u>\$154,000</u>

Note 6 Sewer Rentals

Sewer rates and charges are imposed on the users of the system. Effective January 1, 2012, sewer rental rates for residential customers are imposed at the annual rate of \$528 per EDU. Commercial customers are billed at a quarterly rate of \$145 plus additional charges for usage over 15,000 gallons. Sources of sewer rent billings and equivalent dwelling units (EDUs) are as follows:

	<u>Annual Charge per EDU</u>	<u>EDUs as of 12/31/13</u>	<u>Sewer Rents 2013</u>
Flat Iron Point Sewer District	\$ 528	1,045.45	\$ 551,997
Southern Delaware County Sewer District	528	<u>2,162.00</u>	<u>1,141,536</u>
Total residential		3,207.45	1,693,533
Commercial		<u>175.39</u>	<u>101,377</u>
Total		<u>3,382.48</u>	<u>\$ 1,794,910</u>

Bethel Township Sewer Authority
Notes to Financial Statements
December 31, 2013

Note 6 Sewer Rentals (Continued)

Effective January 1, 2014, the Authority passed a Resolution to increase sewer rental rates for its residential customers to annual rate of \$568 per EDU. Commercial customers are billed at a quarterly rate of \$154.50 plus additional charges for usage over 15,000 gallons.

Note 7 Capital Contributions

Tap-in fees represent amounts paid for the right and/or privilege of tapping into the Authority's sewer system and were established pursuant to Authority Resolution 99-1 at the rate of \$3,500 per EDU for all sewer districts located in the Township. Effective May 1, 2012, the rate increased to \$6,100 per EDU pursuant to Authority Resolution 2012-02. Tap-in fees, net of reimbursements to developers, totaled \$134,200 in 2013 and are included in capital contributions in the accompanying statements of Revenues, Expenses and Changes in Net Position.

Note 8 Sewage Treatment Contracts

Southern Delaware County Authority

An "evergreen" Sewage Disposal Agreement ("Agreement") dated July 13, 1999, between the Authority and the Southern Delaware County Authority ("SDCA") permits the Authority to convey effluent from its Southern Delaware County Sewer District to the SDCA's sewer system to a maximum of 2,800 EDUs. The Agreement calls for an initial twenty-five (25) year term which may be extended for successive additional five (5) year periods. Either party may terminate the Agreement upon five (5) years written notice. Under the Agreement, the Authority is required to pay SDCA for the transportation and disposal of sewage at 125% of the rate charged by SDCA to its residential customers (currently \$325 annually per EDU). Conveyance charge expense totaled \$824,827 in 2013.

New Castle County, Delaware

The Authority transmits sewage from the Flat Iron Point Sewer District to New Castle County, Delaware for treatment and disposal pursuant to the terms of a June 9, 1987 Agreement based on effluent flows. In October 1993, pursuant to the terms of the aforementioned Agreement and in consideration for payment of \$225,000, the Authority acquired an additional 112,500 gallons per day of capacity, expanding its total daily capacity in the New Castle County sewer system from 200,000 gallons to 312,500 gallons. Sewage treatment expense pursuant to this Agreement totaled \$277,928 in 2013.

Bethel Township Sewer Authority
Notes to Financial Statements
December 31, 2013

Note 9 Commitments and Contingencies

Lease

The Authority entered into a long term lease agreement for office rental space with the Township. The lease began October 1, 2010 and it ends on September 30, 2020. The amount paid in 2013 was \$7,824. The annual lease payments are as follows:

2014	\$ 7,824
2015	7,824
2016	7,824
2017	7,824
2018	7,824
2019-2020	<u>13,692</u>
Total	<u>\$ 52,812</u>

Litigation

The Authority is involved in certain claims and legal actions, which arise in the ordinary course of business. In the opinion of management and legal counsel, there are no such matters pending that are expected to be material in relation to the Authority's financial condition or results of operations.

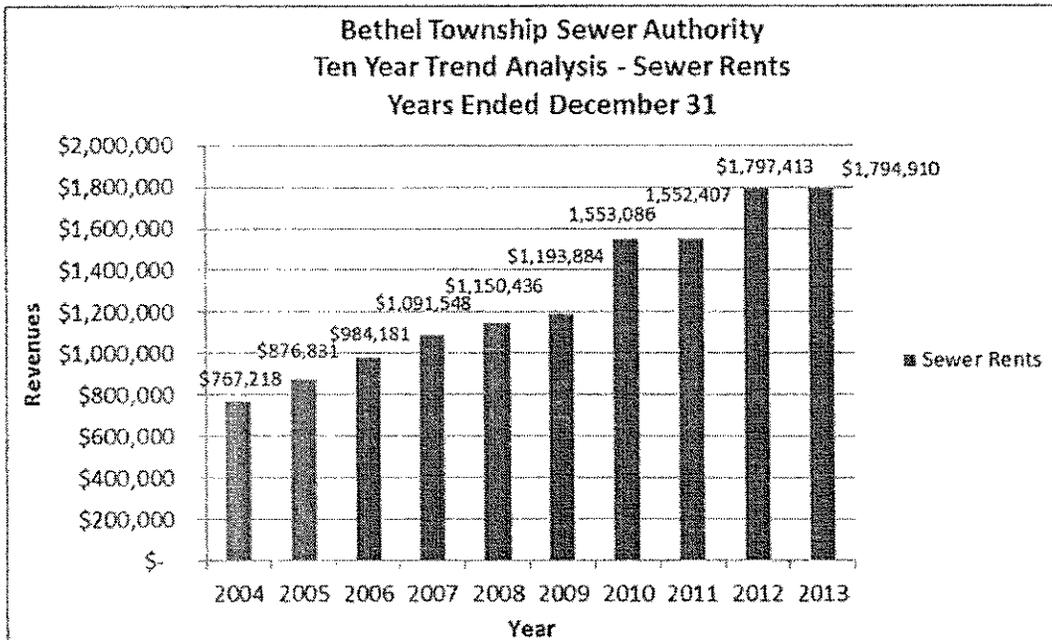
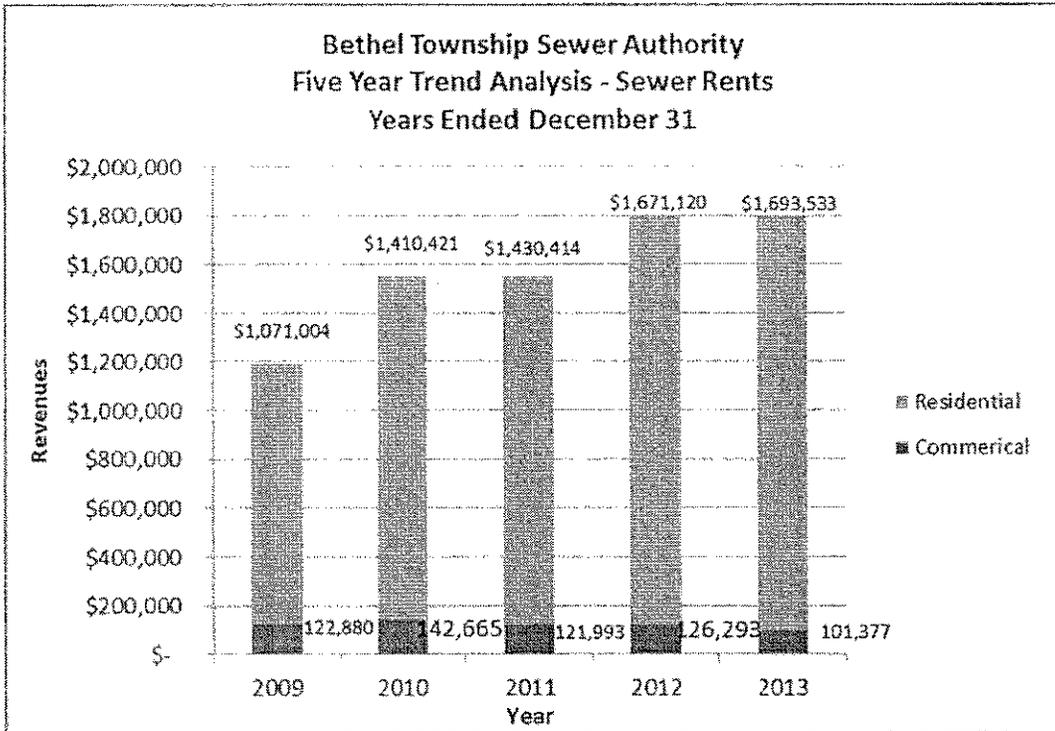
Note 10 Subsequent Events

The Authority's management has evaluated subsequent events through June 27, 2014, the date on which the financial statements were available to be issued.

Bethel Township Sewer Authority
Required Supplementary Information
Budget to Actual - Unaudited
For the Year Ending December 31, 2013

	<u>Budget</u>	<u>Actual</u>
<u>Operating Revenues</u>		
Sewer rentals		
Sewer Rentals - Residential	\$ 1,677,456	\$ 1,693,533
Sewer Rentals - Commercial	127,000	101,377
Miscellaneous fees	35,138	68,505
Total Operating Revenues	<u>1,839,594</u>	<u>1,863,415</u>
<u>Operating Expenses</u>		
Sewage treatment and conveyancing:		
Southern Delaware County Authority	854,036	824,827
New Castle County, Delaware	364,379	277,928
Operations and maintenance	201,350	130,791
Professional fees		
Accounting Fees	38,000	46,137
Engineering	60,000	43,599
Legal Fees	50,000	43,127
General and administrative	50,577	58,035
Payroll Expense	99,751	105,867
Depreciation	85,975	372,206
Total Operating Expenses	<u>1,804,068</u>	<u>1,902,517</u>
<u>Operating Income (Loss)</u>	<u>35,526</u>	<u>(39,102)</u>
<u>Non-Operating Expenses</u>		
Interest expense	<u>(23,748)</u>	<u>(21,518)</u>
Total Non-Operating Expenses	<u>(23,748)</u>	<u>(21,518)</u>
<u>Income (Loss) Before Capital Contributions</u>	11,778	(60,620)
<u>Capital Contributions</u>	<u>-</u>	<u>134,200</u>
<u>Change in Net Position</u>	<u>\$ 11,778</u>	<u>\$ 73,580</u>

Bethel Township Sewer Authority
Supplementary Information – Graphic Analysis
December 31, 2013



Bethel Township Sewer Authority
Supplementary Information – Graphic Analysis
December 31, 2013

