

**CHALFONT-NEW BRITAIN TOWNSHIP  
JOINT SEWAGE AUTHORITY  
BUCKS COUNTY, PENNSYLVANIA**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION**

**MAY 31, 2012**



## TABLE OF CONTENTS

Independent Auditors' Report	3-4
Management's Discussion and Analysis	5-12
Basic Financial Statements:	
Statement of Net Assets	13-14
Statement of Revenues, Expenses, and Changes in Net Assets	15
Statement of Revenues and Expenses Compared to Budget (Cash Basis)	16-18
Statement of Cash Flows	19
Notes to Financial Statements	20-32
Required Supplemental Information:	
Schedule of Funding Progress – OPEB Plan	34
 SUPPLEMENTAL INFORMATION	
Schedule A: Operating Expenses	36
Schedule B: General and Administrative Expenses	37



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### Independent Auditors' Report

Board of Directors  
Chalfont-New Britain Township  
Joint Sewage Authority

We have audited the accompanying financial statements of Chalfont-New Britain Township Joint Sewage Authority, Bucks County, Pennsylvania, as of and for the year then ended May 31, 2012, as listed in the table of contents. These financial statements are the responsibility of Chalfont-New Britain Township Joint Sewage Authority, Bucks County, Pennsylvania, management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Authority's 2011 financial statements and, in our report dated September 13, 2011; we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluation of the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Chalfont-New Britain Township Joint Sewage Authority, Bucks County, Pennsylvania, as of May 31, 2012, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and historical trend information on pages 5 through 12 and 34 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Chalfont-New Britain Township Joint Sewage Authority's financial statements as a whole. The accompanying financial information listed as schedules A and B and the budgetary comparison schedules in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Bee, Bergvall & Co.*

Bee, Bergvall and Company, P.C.  
Certified Public Accountants

September 25, 2012

# CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

## Management's Discussion and Analysis

May 31, 2012

This Management Discussion and Analysis (MD&A) is a brief overview of the financial condition of the Chalfont-New Britain Township Joint Sewage Authority (The Authority) as of May 31, 2012. We have attempted to provide this information in a format easily read and understood by the general public.

The annual Financial Report is comprised of two components: the MD&A and the Financial Statements, including the Auditor's Report and notes. The Authority's audited Financial Statements for Fiscal Year ended May 31, 2012 (FY 2012) are attached.

The Financial Statements are prepared in conformity with the U.S. Generally Accepted Accounting Principals (GAAP) with the exception of the Statement of Revenues and Expenses Compared to Budget, which is prepared on a cash basis as opposed to an accrual basis. The Authority operates on a cash basis throughout the year converting to an accrual basis for the purpose of the annual financial audit and subsequent reporting, except as noted above.

In this MD&A, Revenues and Expenses for FY 2012, compared to those for fiscal year ended May 31, 2011 (FY 2011), are reported on the accrual basis, as in the Financial Statements. Revenues and Expenses for FY 2012 compared to budget for FY 2012 are reported on the cash basis, as in the Financial Statements.

The following are general accounting terms used throughout this document.

Accrual Basis: A method of accounting that recognizes revenue when earned, rather than when collected and expenses when incurred, rather than when paid.

Assets: Items of value owned by the Authority.

Capital Assets: Items owned by the Authority that are considered a major purchase and play an important role in the operations of the wastewater treatment facilities. They are reported at the cost of the capitalized item less accumulated depreciation.

Cash Basis: A method of accounting by which revenues and expenditures are recorded when they are received and paid.

Current Assets: Items owned by the Authority that can reasonably be expected to be converted into cash or used in operations within a year.

Depreciation: An allowance made for wear and tear on an asset over its estimated useful life.

Liabilities: Debts or obligations owed by the Authority payable in money, goods, or services.

# CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

## Management's Discussion and Analysis

May 31, 2012

Retained Earnings: Accumulated undistributed earnings of an entity retained for future needs.

Restricted Assets: Cash or items owned by the Authority whose use is restricted for a specific purpose.

This MD&A is a part of, and to be used in conjunction with, the Chalfont-New Britain Township Joint Sewage Authority Financial Statements as of May 31, 2012. Questions concerning any information contained in this report or requests for additional information should be addressed to the Executive Director, Chalfont-New Britain Township Joint Sewage Authority, 1645 Upper State Road, Doylestown, Pennsylvania 18901-2624.

### **STATEMENT OF NET ASSETS** (pages 13 and 14 of the Financial Statements)

The Statement of Net Assets provides information on all of the Authority's assets and liabilities, with the difference between the two being reported as net assets. Changes in net assets throughout the years are an indicator of the health of the Authority's financial position.

**Total Assets** of the Authority, as of May 31, 2012, were over \$39 million, a decrease from FY 2011. Of the Total Assets, over \$5 million or about 13% were in Current Assets. Total Assets and Current Assets decreased from FY 2011 due to a large payment on principal of the Series 2008 Construction Loan, and utilization of funds to pay for construction projects. The Current Assets are general funds held in "Time Open" investments at Univest Bank and in Term and CD programs at Pennsylvania Local Government Investment Trust (PLGIT). Approximately \$58 thousand, less than 1%, were Current Restricted Assets. Current Restricted Assets are escrow accounts held by the Authority on behalf of developers. Capital Assets accounted for approximately \$34 million, (about 80% of Total Assets), and remained about the same as FY 2011.

Total Assets of the Authority (compared to previous year) for FY 2012 are summarized as follows:

	<u>2012</u>	% of <u>Total</u>	<u>2011</u>	% of <u>Total</u>	% of Increase <u>(Decrease)</u>
<u>Total Assets</u>					
Current Assets	\$ 5,300,181	13.4%	\$ 8,576,904	20.2%	-38.2%
Current Restricted Assets	58,413	0.1%	58,947	0.1%	-0.9%
Capital Assets	<u>34,182,157</u>	<u>86.4%</u>	<u>33,798,478</u>	<u>79.7%</u>	1.1%
Total Assets	<u>\$ 39,540,751</u>	100.0%	<u>\$ 42,434,329</u>	100.0%	-6.8%

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Management's Discussion and Analysis

May 31, 2012

**STATEMENT OF NET ASSETS** (cont.)

***Total Liabilities*** of the Authority as of May 31, 2012, were approximately \$3.5 million. The significant decrease from FY 2011 is primarily due to the large payment on principal made on the Series 2008 Construction Loan which reduced Long Term Liabilities. Outstanding principal on the loan as of May 31, 2012 is approximately \$2.7 million. In addition, a second Construction Loan (Series 2011) was engaged in FY 2012, with an outstanding principal on that loan as of May 31, 2012 of approximately \$520 thousand. Of the Total Liabilities, about \$382 thousand (10.9%) were current, payable from Current Assets, which is consistent with the previous year. Approximately \$58 thousand (<2%) were Payable from Restricted Assets, which are escrow accounts held by the Authority to ensure the proper construction of sewer systems in new residential and commercial developments. Approximately \$3.1 million (88%) were Long Term Liabilities, primarily due to the aforementioned Construction Loans. Additional Long Term Liabilities are employee-related Compensated Absences of approximately \$79 thousand.

Total Liabilities of the Authority (compared to previous year) for FY 2012 are summarized as follows:

	<u>2012</u>	<u>% of</u>		<u>% of</u>	<u>% of Increase</u>
<u>Total Liabilities</u>		<u>Total</u>	<u>2011</u>	<u>Total</u>	<u>(Decrease)</u>
Current Liabilities					
Payable from Current Assets	\$ 382,131	10.9%	\$ 501,103	8.6%	-23.7%
Payable from Restricted Assets	58,413	1.7%	58,947	1.0%	-0.9%
Long Term Liabilities	<u>3,079,095</u>	<u>87.5%</u>	<u>5,245,189</u>	<u>90.4%</u>	-41.3%
Total Liabilities	<u>\$ 3,519,639</u>	100.0%	<u>\$ 5,805,239</u>	100.0%	-39.4%

***Total Net Assets*** of the Authority, as of May 31, 2012, were approximately \$36 million with almost \$31 million (86%) as Invested in Capital Assets (net of related debt), and approximately \$5 million (14%) in Unrestricted Assets. Total Net Assets were consistent with FY 2011.

Total Net Assets of the Authority (compared to previous year) for FY 2012 are summarized as follows:

	<u>2012</u>	<u>% of</u>		<u>% of</u>	<u>% of Increase</u>
<u>Total Net Assets</u>		<u>Total</u>	<u>2011</u>	<u>Total</u>	<u>(Decrease)</u>
Invested in Capital Assets,					
Net of Related Debt	\$ 30,995,040	86.0%	\$ 28,624,042	78.1%	8.3%
Unrestricted	<u>5,026,072</u>	<u>14.0%</u>	<u>8,005,048</u>	<u>21.9%</u>	-37.2%
Total Net Assets	<u>\$ 36,021,112</u>	100.0%	<u>\$ 36,629,090</u>	100.0%	-1.7%



CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Management's Discussion and Analysis

May 31, 2012

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS** (page 15)

The Statement of Revenues, Expenses and Changes in Net Assets summarizes the net assets of the Authority as of May 31, 2012 and provides a comparison to FY 2011.

***Operating Revenues*** for FY 2012, reported on the accrual basis, were almost \$3.3 million, an 8% decrease over FY 2011. About \$2.1 million (64%) of the Operating Revenues came from Authority Sewer Rentals, which decreased slightly from FY 2011. Operating Payments from the Bucks County Water and Sewer Authority (BCWSA) accounted for almost \$1.2 million (35%) of the Total Revenues. BCWSA Operating Payments are based on a fixed percentage of the treatment plant operating costs, and matched the budgeted amount (minus annual retroactive reconciliation payment) for FY 2012. Miscellaneous income accounted for approximately \$18 thousand (<1%).

Operating Revenues (compared to previous year) for FY 2012 are summarized as follows:

	2012	% of Total	2011	% of Total	% of Increase (Decrease)
Operating Revenues					
Sewer Rentals	\$ 2,095,582	64.1%	\$ 2,168,148	60.7%	-3.3%
Operating Payment	1,156,081	35.4%	1,382,467	38.7%	-16.4%
Miscellaneous	17,593	0.5%	21,661	0.6%	-18.8%
Total Operating Revenues	<u>\$ 3,269,256</u>	100.0%	<u>\$ 3,572,276</u>	100.0%	-8.5%

***Non-Operating Income*** for FY 2012, reported on the accrual basis, totaled approximately \$134 thousand. Interest Income, which continued to decline due to falling interest rates of the Authority's invested funds, accounted for 22% of the Non-Operating Income. Tap-in-Fees were about \$104 thousand, an increase over what was received in FY 2011.

Non-Operating Income (compared to previous year) for FY 2012 are summarized as follows:

	2012	% of Total	2011	% of Total	% of Increase (Decrease)
Non-Operating Income					
Interest Income	\$ 29,807	22.3%	\$ 101,516	38.4%	-70.6%
Grant Income	-	0.0%	147,869	56.0%	100.0%
Tap-in-Fees	103,896	77.7%	14,748	5.6%	604.5%
Total Non-Operating Income	<u>\$ 133,703</u>	100.0%	<u>\$ 264,133</u>	100.0%	-49.4%

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Management's Discussion and Analysis

May 31, 2012

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS** (cont.)

**Non-Operating Expenses** for FY 2012, reported on the accrual basis, totaled approximately \$253 thousand, of which 74% was interest payments on the Construction Loans. The Loss on Fixed Assets was due to retirement of fixed assets that were not fully depreciated and accounted for 26%.

Non-Operating Expenses (compared to previous year) for FY 2012 are summarized as follows:

	<u>2012</u>	% of <u>Total</u>	<u>2011</u>	% of <u>Total</u>	% of Increase <u>(Decrease)</u>
<b><u>Non-Operating Expenses</u></b>					
Litigation Expense	\$ -	0.0%	\$ 42,667	14.6%	-100.0%
Interest Expense	187,872	74.3%	249,511	85.4%	-24.7%
Loss on Replacement of Fixed Assets	<u>64,827</u>	<u>25.7%</u>	<u>-</u>	<u>0.0%</u>	-100.0%
Total Non-Operating Expenses	<u>\$ 252,699</u>	100.0%	<u>\$ 292,178</u>	100.0%	-13.5%

**Operating Expenses** for FY 2012, reported on the accrual basis, totaled approximately \$3.8 million, a slight increase from FY 2011. Facility Operating Expenses of approximately \$1.9 million, a 4% decrease from FY 2011, accounted for 50% of the Total Operating Expenses, and are listed in detail in Schedule A of the Financial Statements. General and Administrative Expenses, detailed in Schedule B, accounted for approximately \$896 thousand (24%). Depreciation Expense accounted for \$970 thousand (26%) of the total Operating Expenses. Facility Operating, General & Administrative Expenses increased about 3% from FY 2011. Compensated Absences, as a Long Term Liability, increased in FY 2012 by approximately \$8 thousand, and is reflected as an Operating Expense.

Operating Expenses (compared to previous year) for FY 2012 are summarized as follows:

	<u>2012</u>	% of <u>Total</u>	<u>2011</u>	% of <u>Total</u>	% of Increase <u>(Decrease)</u>
<b><u>Operating Expenses</u></b>					
Facility Operating Expenses	\$ 1,887,407	50.2%	\$ 1,808,069	50.3%	4.4%
General & Administrative Expenses	895,879	23.8%	876,454	24.4%	2.2%
Depreciation Expense	969,612	25.8%	912,461	25.4%	6.3%
Compensated Absences	<u>8,340</u>	<u>0.2%</u>	<u>(5,289)</u>	<u>-0.2%</u>	-257.7%
Total Operating Expenses	<u>\$ 3,761,238</u>	100.0%	<u>\$ 3,591,695</u>	100.0%	4.7%

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Management's Discussion and Analysis

May 31, 2012

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS** (cont.)

***Income (Loss) Before Contributions***, in the amount of (\$610,978), are the Operating Revenues plus net Non-Operating Income/Expense, minus the Operating Expenses.  
[ \$3,269,256 + (\$118,996) - \$3,761,238 = (\$610,978) ]

***Capital Project Reimbursements/Advances*** There were no Capital Project Reimbursements in FY 2012. Previous payments by BCWSA contributed in FY 2008 were made in advance for treatment plant construction projects, some of which have been expended and some still held by the Authority as Current Assets.

***Net Assets - End of Year*** for FY 2012, in the amount of \$36,021,112, are calculated as Income (Loss) Before Contributions plus the Capital Contributions plus the Net Assets-Beginning of the Year. [ (\$610,978) + \$3,000 + \$36,629,090 = \$36,021,112 ]  
This figure is considered the true net worth of the Authority.

**STATEMENT OF REVENUES AND EXPENSES COMPARED TO BUDGET**

(pages 16 - 18)

The Statement of Revenues and Expenses Compared to Budget compares actual Revenues and Expenses for FY 2012, on a cash basis, to the adopted Budget.

***Operating Revenues*** for FY 2012, reported on the cash basis, were approximately \$3.3 million. Total Operating Revenues were almost 6% below Budget. Most of the shortfall is administrative in nature attributed to timing of receipt of payments to the Authority and obligatory refunds owed to customers from FY 2011.

Operating Revenues (compared to budget) for FY 2012 are summarized as follows:

	Budget 2012	Actual Cash Basis	% Over (Under)
Operating Revenues			
Sewer Rentals	\$ 2,148,000	\$ 2,081,187	-3.2%
BCWSA Operating Payment	1,285,000	1,156,081	-11.2%
Miscellaneous Income	25,000	20,588	-21.4%
Total Operating Revenues	<u>\$ 3,458,000</u>	<u>\$ 3,257,856</u>	-6.1%

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Management's Discussion and Analysis

May 31, 2012

**STATEMENT OF REVENUES AND EXPENSES COMPARED TO BUDGET** (cont.)

**Operating Expenses** for FY 2012, reported on the cash basis, were approximately \$3.8 million, inclusive of Depreciation Expense of about \$970 thousand. Total Operating Expenses appear over budget due to the Depreciation Expense. The Authority does not budget for depreciation. Cash-based Operating Expenses (excluding depreciation), in total (\$2,837,900), were about 1% less than Budget.

Operating Expenses (compared to budget) for FY 2012 are summarized as follows:

	Budget 2012	Actual Cash Basis	% Over (Under)
Operating Expenses			
Sanitary Sewers	\$ 360,000	\$ 381,948	5.7%
Sewage Disposal	1,619,000	1,554,664	-4.1%
Administrative Expenses	879,000	901,288	2.5%
Depreciation Expense	<u>N/A</u>	<u>969,612</u>	N/A
Total Operating Expenses	<u>\$ 2,858,000</u>	<u>\$ 3,807,512</u>	24.9%

**STATEMENT OF CASH FLOWS** (page 19)

The Statement of Cash Flows explains the sources and uses of cash throughout the fiscal year, on the accrual basis. Significant changes in Cash Flows, from FY 2011, were primarily related to Retirement of Debt, with the large payment to principal on the Series 2008 Loan, and the new borrowing from the Series 2011 Loan.

**NOTES TO FINANCIAL STATEMENTS** (pages 20-32)

The Notes to Financial Statements specify significant information about the business of the Authority.

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Management's Discussion and Analysis

May 31, 2012

**CAPITAL ASSETS** (NOTE 4 / page 25)

Capital Assets, net of depreciation, increased slightly from FY 2011. Completion in FY 2012 of a new Ultraviolet System and Building in the treatment plant significantly added to the Authority's Capital Assets. The schedule below summarizes Capital Assets. More detailed information can be found on page 25 of the Financial Statements (NOTE 4).

	Beginning Balance <u>6/1/11</u>	Net Additions/ Deletions	Ending Balance <u>5/31/12</u>
<b>Non-Depreciable Assets</b>			
Land	\$ 764,500	\$ -	\$ 764,500
Construction in progress	2,640,733	\$ (1,971,367)	669,366
<b>Other Capital Assets</b>			
Plant	25,442,380	971,158	26,413,538
Equipment	1,852,584	17,767	1,870,351
Sanitary Sewers	5,769,661	1,921,005	7,690,666
Contributed Sewers	13,672,739	(65,306)	13,607,433
Accumulated depreciation on capital assets	<u>(16,344,119)</u>	<u>(489,578)</u>	<u>(16,833,697)</u>
<b>Totals</b>	<u>\$ 33,798,478</u>	<u>\$ 383,679</u>	<u>\$ 34,182,157</u>

**FINANCIAL OUTLOOK**

The Financial Outlook for FY 2012-13 should again remain relatively stable. There are no significant changes anticipated for both operational Revenues and Expenses. Customer base will likely remain about the same, as the demand for new housing remains low. Inflation will continue to increase operational expenses.

Recently completed projects, however, will decrease certain operating costs. The project to replace the Ultraviolet System, completed in FY 2012, is already significantly reducing electricity consumption, and a current project to bring natural gas to the site will reduce the consumption and cost of fuel oil. In addition, the Authority continues to benefit from multi-year agreements for both electricity generation, and employee health benefits, which will minimize increases in those significant expenses.

An increase in sewer usage rates will again be considered by the Authority Board for FY 2013 in order to help cover the debt service on the current and pending construction projects. Bids for Phase II of the treatment plant expansion and upgrade project have been awarded and construction will commence in FY 2013. In addition, design work for Phase III of the treatment plant expansion and upgrade project will commence in FY2013. These projects are being funded by a combination of existing reserve funds, BCWSA capital project contribution, and the bank loans. In November 2011, the Authority completed the bank loan agreements for additional borrowing of up to \$8 million for the construction projects, and began drawing on that loan in FY 2012. The loan will have a 15 year payback term.

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Statement of Net Assets

May 31, 2012 and 2011

**ASSETS**

	<u>2012</u>	<u>2011</u>
Current Assets		
Cash and cash equivalents	\$ 799,643	\$ 2,828,393
Investments	4,212,700	5,419,512
Interest receivable	33,123	107,876
Accounts receivable	242,338	221,123
Other current asset	12,377	-
Total Current Assets	<u>5,300,181</u>	<u>8,576,904</u>
Current Restricted Assets		
Escrow	<u>58,413</u>	<u>58,947</u>
Total Restricted Assets	<u>58,413</u>	<u>58,947</u>
Capital Assets (net of accumulated depreciation)		
Land	764,500	764,500
Construction in progress	669,366	2,640,733
Plant and equipment	17,404,966	16,740,033
Sanitary Sewers	5,950,847	4,082,564
Contributed Sewers	<u>9,392,478</u>	<u>9,570,648</u>
Total Capital Assets	<u>34,182,157</u>	<u>33,798,478</u>
TOTAL ASSETS	<u>\$ 39,540,751</u>	<u>\$ 42,434,329</u>

## LIABILITIES AND NET ASSETS

	<u>2012</u>	<u>2011</u>
Current Liabilities (Payable from Current Assets)		
Current maturities	\$ 187,115	\$ 321,471
Accounts payable	175,828	124,627
Accrued payroll	<u>19,188</u>	<u>55,005</u>
Total Payable from Current Assets	<u>382,131</u>	<u>501,103</u>
Current Liabilities (Payable from Restricted Assets)		
Escrow	<u>58,413</u>	<u>58,947</u>
Total Payable from Restricted Assets	<u>58,413</u>	<u>58,947</u>
Total Current Liabilities	<u>440,544</u>	<u>560,050</u>
Long-Term Debt		
Construction loan	3,000,002	5,174,436
Compensated absences	<u>79,093</u>	<u>70,753</u>
Total Long-Term Debt	<u>3,079,095</u>	<u>5,245,189</u>
Total Liabilities	<u>3,519,639</u>	<u>5,805,239</u>
Net Assets		
Investment in capital assets, net of related debt	30,995,040	28,624,042
Unrestricted	<u>5,026,072</u>	<u>8,005,048</u>
Total Net Assets	<u>36,021,112</u>	<u>36,629,090</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 39,540,751</u>	<u>\$ 42,434,329</u>

See auditors' report and accompanying notes to financial statements

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Statement of Revenues, Expenses, and Changes in Net Assets

For the Year Ended May 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating Revenues		
Sewer rents	\$ 2,095,582	\$ 2,168,148
Operating payment	1,156,081	1,382,467
Miscellaneous	<u>17,593</u>	<u>21,661</u>
Total Operating Revenues	<u>3,269,256</u>	<u>3,572,276</u>
Operating Expenses		
Operating expenses - Schedule A	1,887,407	1,808,069
General and administrative expenses - Schedule B	895,879	876,454
Compensated absences	8,340	(5,289)
Depreciation expense	<u>969,612</u>	<u>912,461</u>
Total Operating Expenses	<u>3,761,238</u>	<u>3,591,695</u>
Net Operating Income (Loss)	<u>(491,982)</u>	<u>(19,419)</u>
Net Non-Operating Income (Expense)		
Interest income	29,807	101,516
Grant income	-	147,869
Tap in fees	103,896	14,748
Gain (loss) on replacement of fixed assets	(64,827)	-
Litigation expense	-	(42,667)
Interest expense	<u>(187,872)</u>	<u>(249,511)</u>
Net Non-Operating Income (Expense)	<u>(118,996)</u>	<u>(28,045)</u>
Income (Loss) Before Contributions	(610,978)	(47,464)
Capital Contributions	<u>3,000</u>	<u>52,900</u>
Change in Net Assets	(607,978)	5,436
Net Assets, Beginning of Year	<u>36,629,090</u>	<u>36,623,654</u>
Net Assets, End of Year	<u>\$ 36,021,112</u>	<u>\$ 36,629,090</u>

See auditors' report and accompanying notes to financial statements



CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Statement of Revenues and Expenses Compared to Budget (Cash Basis)

For the Year Ended May 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
<b>Operating Revenues</b>				
Sewer rents	\$ 2,148,000	\$ 2,148,000	\$ 2,081,187	\$ (66,813)
Operating payment	1,285,000	1,285,000	1,156,081	(128,919)
Miscellaneous income	25,000	25,000	20,588	(4,412)
Total Operating Revenues	<u>3,458,000</u>	<u>3,458,000</u>	<u>3,257,856</u>	<u>(200,144)</u>
<b>Operating Expenses</b>				
<b>Sanitary Sewers:</b>				
Salaries and wages	243,000	243,000	253,242	(10,242)
Education and training	2,000	2,000	1,001	999
Materials and supplies	20,000	20,000	27,927	(7,927)
Chemicals	20,000	20,000	16,748	3,252
Maintenance	15,000	15,000	19,553	(4,553)
Alarm system	3,000	3,000	2,516	484
Power-pump station	10,000	10,000	12,583	(2,583)
PA one call	1,000	1,000	1,033	(33)
Industrial pretreatment	1,000	1,000	800	200
Hatfield sewer district	34,000	34,000	34,672	(672)
Engineering	10,000	10,000	6,776	3,224
Legal	-	-	5,123	(5,123)
Miscellaneous customer service	1,000	1,000	(26)	1,026
Total Sanitary Sewers	<u>360,000</u>	<u>360,000</u>	<u>381,948</u>	<u>(21,948)</u>
<b>Sewage Disposal:</b>				
Salaries and wages	660,000	660,000	698,590	(38,590)
Education and training	5,000	5,000	2,421	2,579
Materials and supplies	85,000	85,000	56,303	28,697
Polymer	20,000	20,000	32,984	(12,984)
Ferric chloride	30,000	30,000	19,613	10,387
Laboratory	13,000	13,000	12,759	241
Outside laboratory	6,000	6,000	5,961	39
Equipment maintenance/repair	90,000	90,000	43,060	46,940
Electrical repair	10,000	10,000	3,938	6,062
Ground maintenance	15,000	15,000	14,019	981
Fuel oil	120,000	120,000	168,191	(48,191)
Power	400,000	400,000	350,145	49,855

(Continued...)

See auditors' report and accompanying notes to financial statements

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Statement of Revenues and Expenses Compared to Budget (Cash Basis)

For the Year Ended May 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
Operating Expenses (Continued)				
Sewage Disposal (Continued):				
Engineering	\$ 5,000	\$ 5,000	\$ 6,589	\$ (1,589)
Permits	5,000	5,000	5,103	(103)
Chemicals	130,000	130,000	109,287	20,713
Sludge disposal	25,000	25,000	25,701	(701)
Total Sewage Disposal	<u>1,619,000</u>	<u>1,619,000</u>	<u>1,554,664</u>	<u>64,336</u>
Administrative Expenses				
Salaries and wages	218,000	218,000	208,217	9,783
Insurance - plant/equipment	120,000	120,000	121,686	(1,686)
Insurance - medical	240,000	240,000	291,943	(51,943)
PA unemployment	5,000	5,000	4,076	924
Pension	89,000	89,000	90,258	(1,258)
Social security	85,000	85,000	88,841	(3,841)
Legal	35,000	35,000	25,020	9,980
Audit	13,000	13,000	14,345	(1,345)
Administrative	10,000	10,000	7,858	2,142
Engineering	10,000	10,000	4,938	5,062
Materials and supplies	10,000	10,000	9,339	661
Postage	12,000	12,000	10,953	1,047
Office equipment	14,000	14,000	13,579	421
Telephone	9,000	9,000	7,730	1,270
Maintenance	5,000	5,000	1,741	3,259
Education and training	4,000	4,000	764	3,236
Total Administrative Expenses	<u>879,000</u>	<u>879,000</u>	<u>901,288</u>	<u>(22,288)</u>
Depreciation Expense	<u>-</u>	<u>-</u>	<u>969,612</u>	<u>(969,612)</u>
Total Operating Expenses	<u>2,858,000</u>	<u>2,858,000</u>	<u>3,807,512</u>	<u>(949,512)</u>
Net Operating Income (Loss)	<u>600,000</u>	<u>600,000</u>	<u>(549,656)</u>	<u>(1,149,656)</u>

(Continued...)

See auditors' report and accompanying notes to financial statements

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Statement of Revenues and Expenses Compared to Budget (Cash Basis)

For the Year Ended May 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
Non Operating Income (Expense)				
Interest income	\$ 100,000	\$ 100,000	\$ 103,850	\$ 3,850
Tap in fees	75,000	75,000	103,896	28,896
Disposal of fixed assets	-	-	(64,827)	(64,827)
Interest expense	(238,000)	(238,000)	(187,872)	50,128
Total Net Non Operating Income (Expense)	<u>(63,000)</u>	<u>(63,000)</u>	<u>(44,953)</u>	<u>18,047</u>
 NET INCOME (LOSS)	 <u>\$ 537,000</u>	 <u>\$ 537,000</u>	 <u>\$ (594,609)</u>	 <u>\$ (1,131,609)</u>
 <u>Supplementary Information</u>				
Loan Payments - Principal	310,000	310,000	2,829,368	2,519,368
Capital Purchases				
Pump Replacements	15,000	15,000	15,305	305
Bristol Road Sewer Extension	50,000	50,000	-	(50,000)
Pump St-Control Panel Replacements	10,000	10,000	-	(10,000)
Emergency Backup Pump	45,000	45,000	46,782	1,782
Pump St #1 & #5 Bypass	210,000	210,000	199,852	(10,148)
Portable Flow Meter	-	-	4,765	4,765
Impeller Replacements	-	-	12,672	12,672
Dryer - Conversion to Gas	-	-	76,771	76,771
Pump #3 Overhaul	-	-	31,327	31,327
Standby Pump #5	-	-	38,867	38,867
Silo Replacement	-	-	17,027	17,027
Sludge pump replacement	-	-	10,994	10,994
Door Replacements	5,000	5,000	-	(5,000)
Tower Hill Sewer Rehab	100,000	100,000	92,222	(7,778)
Computer Hardware Replacement	8,000	8,000	-	(8,000)
Computer Software Upgrades	25,000	25,000	-	(25,000)
Upgrade Phase II / Upgrade	200,000	200,000	422,090	222,090
West Branch Interceptor	150,000	150,000	240,431	90,431
UV System	170,000	170,000	216,314	46,314
Total Capital Purchases	<u>988,000</u>	<u>988,000</u>	<u>1,425,419</u>	<u>437,419</u>
 Total Net Budget	 <u>\$ (761,000)</u>	 <u>\$ (761,000)</u>		

See auditors' report and accompanying notes to financial statements

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Statement of Cash Flows

For the Years Ended May 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Cash received from customers	\$ 3,235,664	\$ 3,569,138
Cash paid to suppliers	(1,605,132)	(1,623,017)
Cash paid to employees	(1,162,770)	(1,070,959)
Net cash provided by (used in) operating activities	<u>467,762</u>	<u>875,162</u>
Cash flows from capital and related financing activities:		
Capital expenditures	(1,425,419)	(2,646,285)
Loss on sale of assets	10,301	-
New borrowings	520,578	-
Retirement of debt	(2,829,368)	(298,101)
Grants	-	147,869
Tap in fees	103,896	14,748
Litigation expense	-	(42,667)
Interest paid	(187,872)	(249,511)
Net cash provided by (used in) capital and related financing activities	<u>(3,807,884)</u>	<u>(3,073,947)</u>
Cash flows from investing activities:		
Net change in investments	1,206,812	2,025,731
Interest received	104,560	140,945
Net cash provided by (used in) investing activities	<u>1,311,372</u>	<u>2,166,676</u>
Net increase (decrease) in cash and cash equivalents	(2,028,750)	(32,109)
Cash and cash equivalents, at beginning of year	<u>2,828,393</u>	<u>2,860,502</u>
Cash and cash equivalents, at end of year	<u>\$ 799,643</u>	<u>\$ 2,828,393</u>

Reconciliation of Net Income (Loss) to Net Cash  
Provided by (Used In) Operating Activities

Operating income (loss)	\$ (491,982)	\$ (19,419)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation expense	969,612	912,461
(Increase) decrease in accounts receivable	(21,215)	(3,138)
(Increase) decrease in other current assets	(12,377)	-
Increase (decrease) in accounts payable	51,201	(9,876)
Increase (decrease) in payroll and payroll tax payable	(35,817)	423
Increase (decrease) in compensated absences	8,340	(5,289)
Total adjustments	<u>959,744</u>	<u>894,581</u>
Net cash provided by (used in) operating activities	<u>\$ 467,762</u>	<u>\$ 875,162</u>

Noncash investing, capital, and financing activities:

The Authority recognized contributed sewer lines in the amount of \$3,000.

The Authority recognized accrued interest in the amount of \$33,123.

See auditors' report and accompanying notes to financial statements

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Notes to Financial Statements

May 31, 2012

**NOTE 1. Summary of Significant Accounting Policies**

Reporting Entity: The Authority is a municipal corporation existing and operating under the Municipal Authorities Act of the Commonwealth of Pennsylvania. The accompanying financial statements present the primary government. In evaluating the Authority (the primary government) as a reporting entity, all potential component units that may or may not fall within the financial accountability of the Authority have been addressed. Financial accountability is present if the Authority appoints a voting majority of a component unit's governing body and has the ability to impose its will on the organization or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Authority. Based on the aforementioned criteria, there were no entities which were considered for inclusion in the reporting entity.

Basis of Accounting: The accompanying financial statements have been prepared on the accrual basis of accounting, whereby revenues are recognized when earned and expenditures are recognized when incurred.

In accordance with Governmental Accounting Standards Board Codification for Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting, the Authority applies all applicable pronouncements. The Authority has elected to apply only those Financial Accounting Standards Board Standards Codification, Accounting Principles Board Opinions, and Accounting Research Bulletins, issued on or before November 30, 1989, that does not conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents: The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with maturities within three months or less from the fiscal year end.

Revenue Recognition: The Authority distinguishes between operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Authority's ongoing operation. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Notes to Financial Statements

May 31, 2012

**NOTE 1. Summary of Significant Accounting Policies (continued)**

Restricted Assets: Certain investments have been classified as restricted assets on the balance sheet because the donor's restriction on their use extends beyond one year.

Capital Assets: Capital assets, which include property, plant, equipment, and sewer system assets, are defined by the Authority as assets with an initial, individual cost of more than \$4,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects when constructed.

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Plant	15-40 years
Equipment	5-40 years
Sanitary Sewers	40-80 years
Contributed Sewers	40-80 years

Contributions in Aid of Construction: Sewer systems and equipment, which are constructed and installed by developers in new housing developments within the Township, are generally dedicated to the Authority upon completion of each section of the development. Upon dedication, the estimated cost to construct such property is recorded by the Authority as an increase to property, plant and equipment and as an increase to contributions in aid of construction.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Fund Equity: The financial statements report reservations of net assets for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Notes to Financial Statements

May 31, 2012

**NOTE 1. Summary of Significant Accounting Policies (continued)**

Compensated Absences: Employees of the Authority are entitled to accrue unused sick leave and vacation time, from one calendar year to the next, up to a maximum of 600 hours of sick time and 40 hours of vacation time. At retirement an employee may receive up to 5% of their individual salary as a cash payout.

Vacation pay is granted to employees depending on length of service and other factors. Employees are encouraged to take all of their vacation time in the year earned. Long-term vacation and sick pay obligation for the year ended May 31, 2012 is \$79,093.

Comparative Information: The financial statements include certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting policies generally accepted in the United States of America, because a comparative management discussion and analysis is presented for two years only. Accordingly, such information should be read in conjunction with the Authority's financial statements for the year ended May 31, 2011, from which the summarized information was derived.

**NOTE 2. Budgets and Budgetary Accounting**

Annual budgets are adopted on a cash basis of accounting, which is not consistent with Generally Accepted Accounting Principles (GAAP). The budget and all transactions are presented in accordance with the Authority's method (cash basis) in the Statement of Revenues and Expenses Compared to Budget to provide a meaningful comparison of actual results with the budget. The major differences between the cash basis of accounting and GAAP are that:

Revenues are recorded when received in cash as opposed to when susceptible to accrual. Expenditures are recorded when paid as opposed to when the liability is incurred, except for interest on general long term obligations, which is recorded when due. Debt principal payments and capitalized fixed assets are recorded on the balance sheet instead of in expenditures.

The Authority follows these procedures in establishing the budgetary data reflected in the financial statements:

1. During April a preliminary budget is adopted.
2. In June or July the final budget is adopted.
3. All budget revisions require the approval of the Authority.
4. Budgetary control is maintained at the account level.
5. The budget is adopted on the cash basis of accounting. All appropriations lapse at year end.

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Notes to Financial Statements

May 31, 2012

**NOTE 2. Budgets and Budgetary Accounting (continued)**

Adjustment necessary to convert the results of operations and net assets at the end of the year from the GAAP basis of accounting to the cash basis of accounting are as follows:

Net income - GAAP basis	\$	(607,978)
Adjustments:		
Change in receivables		59,221
Change in payables		<u>(45,852)</u>
Net income - cash basis	\$	<u><u>(594,609)</u></u>

**NOTE 3. Cash and Investments**

With the exception of Pension Trust Funds, state law allows the Authority to invest in obligations of the United States of America, the Commonwealth of Pennsylvania, or any agency or instrumentality of either, which are secured by the full faith and credit of such entity. The law also allows for the Authority to invest in certificates of deposit of banks, savings and loans, and savings banks both within and outside the Commonwealth of Pennsylvania, provided such amounts are insured by the Federal Deposit Insurance Corporation (FDIC) or other like insurance, and that deposits in excess of such insurance are collateralized by the depository. The state also imposes limitations with respect to the amount of investment in certificates of deposit to the extent that such deposits may not exceed 20% of a bank's total capital surplus or 20% of a savings and loans or savings bank's assets, net of its liabilities. The Authority may also invest in shares of registered investment companies, provided that investments of the Authority are authorized investments, as noted above.

The law provides that the Authority's Pension Trust Funds may invest in any form or type of investment, financial instrument, or financial transaction if determined by the Authority to be prudent.

Investments for the Authority are reported at fair value. The Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.



CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Notes to Financial Statements

May 31, 2012

**NOTE 3. Cash and Investments (continued)**

*Custodial Credit Risk – Deposits.* In the case of deposits, this 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 require their banking institution to provide a letter stating that they follow the Commonwealth of Pennsylvania Act 72, where all funds in excess of federal depository insurance limits held by the bank are collateralized in public funds secured on a pooled basis. At year-end, the carrying amount of deposits was \$799,643 and the bank balance was \$931,203. Of the bank balance, \$250,000 was covered per bank by depository insurance. Any balances exceeding depository insurance are exposed to custodial credit risk because it is uninsured and collateralized with securities held by the pledging institution's trust department or agent, but not in the Authority's name. At May 31, 2012 the amount in excess of this insurance was \$131,142.

The Authority has deposits of \$12,250 in external investment pools that is considered cash equivalents because of their short maturity dates and are included in the deposits figures above.

*Custodial Credit Risk – Investments.* For an investment, this is the risk that, in the event of a failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The risks of default are eliminated due to the constraints imposed upon allowable investment instruments through state limitations as discussed above.

At year-end, the Authority's investment balances were as follows:

<u>INVESTMENTS</u>	<u>Maturity Dates</u>	<u>Fair Value</u>
External Pooled Investments	2012	\$ 12,250
Certificate of Deposit - Cash Equivalents	2012	550,037
Certificate of Deposit	2012-2014	4,212,700
Total		<u>\$ 4,774,987</u>

*Interest Rate Risk.* This is the risk that changes in interest rates will adversely affect the fair market value of an investment. The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk.* This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits the investment of governmental funds as described above. The Authority does not have a formal investment policy for credit risk.

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Notes to Financial Statements

May 31, 2012

**NOTE 3. Cash and Investments (continued)**

*Concentration of Credit Risk.* This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The concentration of credit risk in investments of external investment pools is not required to be disclosed.

The Authority acts in a custodial capacity with respect to monies deposited with it by developers and others. These monies are held by the Authority and used to pay legal, engineering, and other fees incurred on behalf of a specific project. Any unused deposits are returned to the developer upon completion of the project, except for an administrative handling fee. None of the monies received from or expended on behalf of the developers are recorded in the revenues or expenses of the Authority. At May 31, 2012, \$58,413 represents the balance of these monies held in escrow.

**NOTE 4. Capital Assets**

Capital asset activity for the year ended May 31, 2012 was as follows:

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Capital assets, not being depreciated:				
Land	\$ 764,500	\$ -	\$ -	\$ 764,500
Construction in progress	<u>2,640,733</u>	<u>1,425,419</u>	<u>(3,396,786)</u>	<u>669,366</u>
Total capital assets, not being depreciated	<u>3,405,233</u>	<u>1,425,419</u>	<u>(3,396,786)</u>	<u>1,433,866</u>
Capital assets, being depreciated:				
Plant	25,442,380	1,232,773	(261,615)	26,413,538
Equipment	1,852,584	160,713	(142,946)	1,870,351
Sanitary Sewers	5,769,661	2,003,300	(82,295)	7,690,666
Contributed Sewers	<u>13,672,739</u>	<u>3,000</u>	<u>(68,306)</u>	<u>13,607,433</u>
Total capital assets, being depreciated	<u>46,737,364</u>	<u>3,399,786</u>	<u>(555,162)</u>	<u>49,581,988</u>
Less accumulated depreciation for:				
Plant	9,281,868	604,430	(225,307)	9,660,991
Equipment	1,273,063	87,815	(142,946)	1,217,932
Sanitary Sewers	1,687,097	100,041	(47,319)	1,739,819
Contributed Sewers	<u>4,102,091</u>	<u>177,326</u>	<u>(64,462)</u>	<u>4,214,955</u>
Total accumulated depreciation	<u>16,344,119</u>	<u>969,612</u>	<u>(480,034)</u>	<u>16,833,697</u>
Total capital assets, being depreciated, net	<u>30,393,245</u>	<u>2,430,174</u>	<u>(75,128)</u>	<u>32,748,291</u>
All capital assets, net	<u>\$ 33,798,478</u>	<u>\$ 3,855,593</u>	<u>\$ (3,471,914)</u>	<u>\$ 34,182,157</u>

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Notes to Financial Statements

May 31, 2012

**NOTE 5. Deferred Compensation Plan/Payable**

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Authority employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

Participants' rights under the plan are equal to the fair market value of the deferred account for each participant.

**NOTE 6. Post-Retirement Benefits**

Effective June 1, 2009, the Authority adopted the provisions of Governmental Accounting Standards Board Codification, "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*" (OPEB). In addition to the relevant disclosures within this note related to the implementation of Governmental Accounting Standards Board Codification, the financial statements do not reflect a long-term liability and related expenses of \$1,131, resulting from the adoption due to the immateriality of the amount. The Authority has elected to use the alternative measurement method to value the liability.

Description of the OPEB Plan

In accordance with the Union Labor Contract the Authority implemented a single employer plan. Plan benefits may be amended through Union Labor Contracts.

The Authority provides a health care bridge for certain employees by continuing to pay the same premium costs provided to regular full-time active employees for those employees who retire with 25 years of continuous active service, for a period not to exceed 3 years should such employee retire before he is eligible for Medicare. This period shall be a bridge between early retirement eligibility and Medicare eligibility. The coverage will be funded on a pay-as-you-go basis. Currently no participants are eligible to receive or are receiving these benefits.

The plan does not issue a stand-alone financial report.

Funding Policy

This benefit is funded on a pay-as-you go basis. The expense for post retiree health care costs for the year ended May 31, 2012 was \$-0-. There were no retirees receiving this benefit.

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Notes to Financial Statements

May 31, 2012

**NOTE 6. Post-Retirement Benefits (continued)**

Funded Status and Funding Progress

The funded status of the plan as of June 1, 2009, the most recent valuation date, is as follows:

Valuation Date	Value of Net Assets	Accrued Liability Obligation	Percentage Funded	Unfunded Accrued Liability	Accrued Projected Annual Covered Payroll	Liability as a Percentage of Payroll
6/1/2009	\$ -	\$ 7,618	0%	\$ 7,618	\$ 1,048,251	1%

Valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as *required supplemental information* (RSI) following the notes to the financial statements, is to present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. However, because the Authority maintains no Plan assets, required disclosures over Plan assets is not applicable.

Projections of benefits are based on the types of benefits provided under the substantive plan at the time of each valuation and on the pattern of sharing of benefit costs between the employer and plan members to that point, and the projections of benefits for financial reporting purposes do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Notes to Financial Statements

May 31, 2012

**NOTE 6. Post-Retirement Benefits (continued)**

Annual OPEB Cost and Net OPEB Obligation

The Authority's annual OPEB cost is calculated based on the *annual required contribution* (ARC) of the employer, an amount determined by the alternative measurement method in accordance with the parameters of Governmental Accounting Standards Board Codification, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of 30 years. The following table illustrates the components of the Authority's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the Authority's net OPEB obligation:

	<u>OPEB</u>
Annual required contribution	\$ 366
Interest on net OPEB obligation	22
Adjustments to annual required contribution	<u>-</u>
Annual OPEB cost	388
Contributions made	<u>-</u>
Increase (decrease) in net OPEB obligation	388
Net OPEB obligation (asset) at beginning of year	<u>743</u>
Net OPEB obligation (asset) at end of year	<u>\$ 1,131</u>

Alternative measurement method calculations reflect a long-term perspective, and consistent with that perspective, methods and assumptions used include techniques that are designed to reduce short-term volatility in accrued liabilities and the actuarial value of assets. The June 1, 2009 valuation used the following assumptions:

	<u>OPEB</u>
Date of valuation	6/1/2009
Investment rate of return	3.0%
Projected salary increases due to inflation	4%
Actuarial value of assets	Market Value
Cost method	Entry Age Normal
Amortization method	Level Dollar - Open
Remaining amortization period	30

Healthcare trend rate: 5.4% increase average for the next 10 years.

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Notes to Financial Statements

May 31, 2012

**NOTE 6. Post-Retirement Benefits (continued)**

Trend Information

Fiscal Year End	Annual		Net	
	OPEB Cost	Percentage Contributed	OPEB Obligation	
2010	\$ 366	0%	\$ 366	
2011	377	0%	743	
2012	388	0%	1,131	

**NOTE 7. Money Purchase Pension Plan**

The Authority sponsors a money purchase plan under which substantially all employees are covered. Following are details of the plan.

***Chalfont-New Britain Township Joint Sewage Authority Pension Trust***

Plan Description:

The Authority sponsors a money purchase plan to provide pension benefits for employees of the Authority. The plan covers all full-time employees and requires 1,000 hours of service for eligibility.

As required by the plan document, the employer contributes 8.0% of eligible compensation and covered employees contribute 2.5% of their salary to the pension trust. Employees are allowed to voluntarily contribute an additional 7.5% of eligible compensation.

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Notes to Financial Statements

May 31, 2012

**NOTE 7. Money Purchase Pension Plan (continued)**

The Pension Trust provides retirement benefits, as well as, death and disability benefits. All benefits vest after 7 years of credited service. Married employees who retire at or after age 60 with 10 years of credited service are entitled to a 50% joint and survivor annuity. Members who are not married are entitled to a life annuity. Members may elect not to take the annuities and choose to take one of the following forms of payment:

- a) A single lump sum payment,
- b) The purchase of a different form of annuity,
- c) Equal installments over a period of not more than the member's or the beneficiary's life expectancy at the time of distribution.

If an employee terminates employment before 7 years of credited service for reasons other than death, disability, or retirement, he or she is entitled to only the "vested percentage" of the account balance; therefore, the accumulated employee contributions plus related investment earnings are refunded to the employee upon termination. If an employee dies before 7 years of credited service, the beneficiary will be entitled to 100% of the members account balance.

The Authority's total payroll for all employees for the year ended May 31, 2012 was \$1,160,049 on the cash basis of accounting, which is the basis used to calculate the pension contributions. The total covered payroll was \$1,128,225. The Authority has made the necessary contribution of \$90,258 (8.0% of covered payroll).

**NOTE 8. Agreements with Other Municipalities**

The Authority has agreements with other municipalities for the transportation and treatment of sanitary wastes.

With Montgomery Township Municipal Sewer Authority, Hatfield Township Municipal Authority (HTMA), and Warrington Township connections are billed at the same rate as the connections in the Authority's service area.

A Temporary Capacity Agreement with the Hatfield Township Municipal Authority that allows the Authority to treat sanitary sewage from one new housing subdivision at the HTMA treatment facility. This Agreement will terminate when the Authority expands its plant and gains sufficient capacity to treat the waste at its own facility.

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Notes to Financial Statements

May 31, 2012

**NOTE 8. Agreements with Other Municipalities (continued)**

In May 2007, a Settlement and Mutual Release Agreement was signed by BCWSA and the Authority that outlined new terms and conditions for capacity, treatment and shared costs. BCWSA paid the Authority \$187,000 to be applied against prior year capital costs, based on the new formula, and \$4,000,000 as an advance payment towards its share of future capital costs.

**NOTE 9. Risk Management and Contingencies**

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Authority carries commercial insurance.

In the normal course of business, there are various relatively minor claims and suits pending against the Authority, none of which materially affect the financial position of the Authority. At the present time, there are no unasserted claims or significant litigation matters pending.

**NOTE 10. Debt**

In July of 2009 (series 2008 loan) The Authority obtained a construction loan of \$6,000,000 to be used for plant improvement projects. The loan is to be repaid over 16 years at an interest rate of 4.35%. As of May 31, 2011 the Authority had a loan balance of \$2,666,539 and paid interest of \$187,872.

In November 2011 (series 2011 loan) The Authority obtained a construction loan of \$8,000,000 to be used for plant improvement projects. The Authority is drawing down on the \$8,000,000 available loan balance as construction progresses. The total drawn down must be taken by November 2013. The loan is to be repaid over 15 years from the time of final distribution at a fixed interest rate of 3.15% for 10 years then a variable interest rate between 3.00% and 5.25% for the remaining 5 years. As of May 31, 2011 the Authority had borrowed \$520,578 and paid interest of \$2,883.



CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Notes to Financial Statements

May 31, 2012

**NOTE 10. Debt (continued)**

Long-term liability activity for the year ended May 31, 2011 was as follows:

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	Ending <u>Balance</u>	Due Within <u>One Year</u>
Construction loan 2009	\$ 5,495,907	\$ -	\$ 2,829,368	\$ 2,666,539	\$ 187,115
Construction loan 2011	-	520,578	-	520,578 *	-
Compensated absences	<u>70,753</u>	<u>8,340</u>	<u>-</u>	<u>79,093</u>	<u>-</u>
Business-type activities					
Long-Term Liabilities	<u>\$ 5,566,660</u>	<u>\$ 528,918</u>	<u>\$ 2,829,368</u>	<u>\$ 3,266,210</u>	<u>\$ 187,115</u>

\*No principal is due until the entire available balance is withdrawn. Therefore, no principal payments are included in the chart below.

Future maturities as of May 31, 2012 are as follows:

Year Ending 31-May	<u>Principal</u>	<u>Interest</u>
2012	\$ 187,115	\$ 77,399
2013	191,737	72,777
2014	197,652	66,862
2015	203,585	60,929
2016	210,027	54,487
2017-2022	1,151,302	171,268
2022-2025	<u>525,121</u>	<u>17,263</u>
	<u>\$ 2,666,539</u>	<u>\$ 520,985</u>

**NOTE 11. Subsequent Events**

The Authority has evaluated events and transactions for potential recognition or disclosure in the financial statements through September 25, 2012, which is the date the statements were available for release. No subsequent events have been recognized or disclosed.

**REQUIRED  
SUPPLEMENTAL INFORMATION**

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Required Supplemental Information –OPEB Plan

For the Year Ended May 31, 2012

**SCHEDULE OF FUNDING PROGRESS**

Valuation	Value of	Accrued	Percentage	Unfunded	Accrued	Liability
<u>Date</u>	<u>Net Assets</u>	<u>Obligation</u>	<u>Funded</u>	<u>Liability</u>	<u>Payroll</u>	<u>of Payroll</u>
6/1/2009	\$ -	\$ 7,618	0%	\$ 7,618	\$ 1,048,251	1%

**SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES**

Fiscal	Annual	Contributions	Percentage
<u>Year End</u>	<u>Contribution</u>	<u>From Employer</u>	<u>Contributed</u>
2010	\$ 366	\$ -	0%
2011	366	-	0%
2012	366	-	0%

**SUPPLEMENTAL INFORMATION**

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Schedule A: Operating Expenses (Accrual Basis)

For the Year Ended May 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating Expenses		
Sanitary Sewers		
Salaries and wages	\$ 245,533	\$ 233,059
Education and training	1,001	1,271
Materials and supplies	18,859	27,174
Chemicals	9,288	19,372
Maintenance	23,627	12,336
Alarm system	2,455	2,716
Power-pump station	12,512	10,073
PA one call	1,172	672
Industrial pretreatment	800	800
Engineering	8,413	10,200
Hatfield Sewer District	34,672	28,107
Legal	6,254	-
Miscellaneous customer service	(183)	716
Total Sanitary Sewers	<u>364,403</u>	<u>346,496</u>
Sewage Disposal		
Salaries and wages	680,033	626,754
Education and training	2,421	2,262
Materials and supplies	54,923	72,790
Polymer	27,870	20,273
Ferric chloride	19,613	17,242
Laboratory	10,722	11,987
Outside laboratory	7,241	4,974
Equipment maintenance/repair	44,593	73,051
Electrical repair	4,150	3,916
Ground maintenance	14,365	11,085
Fuel oil	193,098	139,462
Power	313,316	346,935
Engineering	6,589	5,381
Permits	5,103	3,318
Alarm system	-	831
Sludge disposal	29,630	18,853
Chemicals	109,337	102,459
Total Sewage Disposal	<u>1,523,004</u>	<u>1,461,573</u>
TOTAL OPERATING EXPENSES	<u>\$ 1,887,407</u>	<u>\$ 1,808,069</u>

See accountants' report

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Schedule B: General and Administrative Expenses (Accrual Basis)

For the Year Ended May 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Administrative Expenses		
Salaries and wages	\$ 201,387	\$ 211,569
Insurance - plant/equipment	121,686	113,005
Insurance - medical	292,008	275,904
PA unemployment	4,076	4,117
Pension	90,258	80,458
Social security	88,841	81,037
Legal	23,885	31,220
Audit	14,345	11,285
Administrative	8,302	11,401
Engineering	4,938	5,900
Materials and supplies	9,084	8,922
Postage	10,953	10,482
Office equipment	15,708	12,617
Telephone	7,806	7,862
Maintenance	1,838	-
Education and training	<u>764</u>	<u>10,675</u>
TOTAL ADMINISTRATIVE EXPENSES	<u>\$ 895,879</u>	<u>\$ 876,454</u>

See accountants' report