

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

**FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

YEAR ENDED MAY 31, 2016

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936 Easton Rd., PO Box 754 Warrington, PA 18976 | 163 S. Broad St., Lansdale, PA 19446
252 W. Swamp Rd., Unit 9, Doylestown, PA 18901 | 444 South State St. Suite B2, Newtown, PA 18940
24 Arnett Ave. Suite 111, Lambertville, NJ 08530
215-343-2727 | www.bbco-cpa.com

Independent Auditors' Report

Board of Directors
Chalfont-New Britain Township
Joint Sewage Authority

We have audited the accompanying financial statements of the business type activities of Chalfont-New Britain Township Joint Sewage Authority, Bucks County, Pennsylvania, as of and for the year ended May 31, 2016, as listed in the table of contents, and the related notes to the financial statements.

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.

Auditors' Responsibility

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Chalfont-New Britain Township Joint Sewage Authority as of May 31, 2016, 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 historical trend information on pages 5 through 13 and 32 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 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 supplemental schedules-operating expenses and general and administrative expenses, 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.

Report on Summarized Comparative Information

We have previously audited the Chalfont-New Britain Township Joint Sewage Authority's 2015 financial statements, and our report dated September 22, 2015, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Bee, Bergvall & Co.

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

October 11, 2016

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Management's Discussion and Analysis

May 31, 2016

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, 2016. 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, 2016 (FY 2016) are attached.

The Financial Statements are prepared in conformity with the U.S. Generally Accepted Accounting Principles (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 2016, compared to those for fiscal year ended May 31, 2015 (FY 2015), are reported on the accrual basis, as in the Financial Statements. Revenues and Expenses for FY 2016 compared to budget for FY 2016 are reported on the cash basis.

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, 2016

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, 2016. 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.

STATEMENTS OF NET POSITION (pages 14 and 15 of the Financial Statements)

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

Total Assets of the Authority, as of May 31, 2016, were about \$46.8 million, a slight decrease from FY 2015. Of the Total Assets, over \$9.5 million, about 20% are in Current Assets. Current Assets decreased 3% from FY 2015. 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). Capital Assets of about \$37.2 million decreased slightly from FY 2015 primarily due to depreciation. Approximately \$72 thousand were in Current Restricted Assets. Current Restricted Assets are escrow accounts held by the Authority on behalf of developers.

Total Assets of the Authority for FY 2016 (compared to previous year) are summarized as follows:

| | <u>2016</u> | % of <u>Total</u> | <u>2015</u> | % of <u>Total</u> | % of Increase <u>(Decrease)</u> |
|---------------------------|----------------------|----------------------|----------------------|----------------------|------------------------------------|
| <u>Total Assets</u> | | | | | |
| Current Assets | \$ 9,514,951 | 20.3% | \$ 9,812,722 | 20.4% | -3.0% |
| Current Restricted Assets | 71,659 | 0.2% | 97,823 | 0.2% | -26.7% |
| Capital Assets | <u>37,218,576</u> | 79.5% | <u>38,284,702</u> | 79.4% | -2.8% |
| Total Assets | <u>\$ 46,805,186</u> | 100.0% | <u>\$ 48,195,247</u> | 100.0% | -2.9% |

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Management's Discussion and Analysis

May 31, 2016

STATEMENTS OF NET POSITION (Continued)

Total Liabilities of the Authority as of May 31, 2016, were approximately \$8.6 million, a 6.1% decrease from FY 2015. Long Term Liabilities of about \$7.7 million (89% of the total) decreased slightly from FY 2015, and are related to the Series 2013 Construction Loan for the current treatment plant construction project. See Note 10 of the Financial Statements for further description of Construction Loan activities. Outstanding principal on the Series 2013 Loan as of May 31, 2016 is approximately \$8.3 million. Of the Total Liabilities, about \$851 thousand (10%) were Current, Payable from Current Assets. Approximately \$72 thousand (1%) 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. Additional Long Term Liabilities are employee-related Compensated Absences of approximately \$95 thousand.

Total Liabilities of the Authority for FY 2016 (compared to previous year) are summarized as follows:

| | | % of | | % of | % of Increase |
|--------------------------------|---------------------|--------------|---------------------|--------------|-------------------|
| <u>Total Liabilities</u> | <u>2016</u> | <u>Total</u> | <u>2015</u> | <u>Total</u> | <u>(Decrease)</u> |
| Current Liabilities | | | | | |
| Payable from Current Assets | \$ 851,301 | 9.9% | \$ 945,628 | 10.3% | -10.0% |
| Payable from Restricted Assets | 71,659 | 0.8% | 97,823 | 1.1% | -26.7% |
| Long Term Liabilities | <u>7,681,873</u> | <u>89.3%</u> | <u>8,123,009</u> | <u>88.6%</u> | -5.4% |
| Total Liabilities | <u>\$ 8,604,833</u> | 100.0% | <u>\$ 9,166,460</u> | 100.0% | -6.1% |

Total Net Position of the Authority, as of May 31, 2016, is approximately \$38 million with \$28.9 million (76%) as Net Investment in Capital Assets, and approximately \$9.3 million (24%) in Unrestricted Assets. Total Net Position decreased approximately 2% from FY 2015.

Total Net Position of the Authority for FY 2016 (compared to previous year) is summarized as follows:

| | | % of | | % of | % of Increase |
|---------------------------|----------------------|--------------|----------------------|--------------|-------------------|
| <u>Total Net Position</u> | <u>2016</u> | <u>Total</u> | <u>2015</u> | <u>Total</u> | <u>(Decrease)</u> |
| Net Investment in | | | | | |
| Capital Assets | \$ 28,931,047 | 75.7% | \$ 29,554,372 | 75.7% | -2.1% |
| Unrestricted | <u>9,269,306</u> | <u>24.3%</u> | <u>9,474,415</u> | <u>24.3%</u> | -2.2% |
| Total Net Position | <u>\$ 38,200,353</u> | 100.0% | <u>\$ 39,028,787</u> | 100.0% | -2.1% |

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Management's Discussion and Analysis

May 31, 2016

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

(page 16)

The Statement of Revenues, Expenses and Changes in Net Position summarizes the net position of the Authority as of May 31, 2016 and provides a comparison to FY 2015.

Operating Revenues for FY 2016, reported on the accrual basis, were almost \$3.2 million, a decrease of 11% from FY 2015. Approximately \$2.4 million (75.4%) of the Operating Revenues came from Authority Sewer Rentals, which increased 5.6% over FY 2015. Operating Payments from the Bucks County Water and Sewer Authority (BCWSA) accounted for over \$684 thousand (21.5%) of the Total Revenues. This shows as a significant decrease from FY 2015, however this is due entirely to timing of quarterly Operating Payments made near the fiscal year end, and is not a true shortfall. All quarterly payments were properly made by BCWSA. BCWSA Operating Payments are based on a contractually fixed percentage of the treatment plant operating costs, and matched the budgeted amount for FY 2016. Miscellaneous income accounted for approximately \$99 thousand.

Operating Revenues for FY 2016 (compared to previous year) is summarized as follows:

| | <u>2016</u> | % of <u>Total</u> | <u>2015</u> | % of <u>Total</u> | % of Increase <u>(Decrease)</u> |
|----------------------------------|--------------------|----------------------|--------------------|----------------------|------------------------------------|
| <u>Operating Revenues</u> | | | | | |
| Sewer Rentals | \$2,399,771 | 75.4% | \$2,273,165 | 63.5% | 5.6% |
| Operating Payment | 684,751 | 21.5% | 1,268,489 | 35.4% | -46.0% |
| Miscellaneous | <u>99,112</u> | <u>3.1%</u> | <u>37,898</u> | <u>1.1%</u> | 161.5% |
| Total Operating Revenues | <u>\$3,183,634</u> | 100.0% | <u>\$3,579,552</u> | 100.0% | -11.1% |

Non-Operating Income for FY 2016, reported on the accrual basis, totaled \$261 thousand, a significant decrease from FY 2015, primarily due to a reduced amount of capital project reimbursement received from the BCWSA for the current treatment plant construction project. Interest Income increased somewhat to about \$59 thousand due to increasing interest rates, and accounted for 22.7% of the Non-Operating Income. Tapping Fees for new connections were \$104 thousand and increased 169% over FY 2015.

Non-Operating Income for FY 2016 (compared to previous year) is summarized as follows:

| | <u>2016</u> | % of <u>Total</u> | <u>2015</u> | % of <u>Total</u> | % of Increase <u>(Decrease)</u> |
|-------------------------------------|-------------------|----------------------|-------------------|----------------------|------------------------------------|
| <u>Non-Operating Income</u> | | | | | |
| Interest Income | \$ 59,152 | 22.7% | \$ 47,352 | 10.0% | 24.9% |
| Reimbursement for capital purchases | 97,547 | 37.3% | 388,396 | 81.8% | 100.0% |
| Tap-in-Fees | <u>104,379</u> | <u>40.0%</u> | <u>38,818</u> | <u>8.2%</u> | 168.9% |
| Total Non-Operating Income | <u>\$ 261,078</u> | 100.0% | <u>\$ 474,566</u> | 100.0% | -45.0% |

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Management's Discussion and Analysis

May 31, 2016

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
(Continued)

Non-Operating Expenses for FY 2016, reported on the accrual basis, totaled approximately \$260 thousand. \$223 thousand (85.6%) were interest payments on the Construction Loan. Litigation Expenses are related to ongoing litigation from previous years. Loss on Replacement of Fixed Assets in the amount of \$500 is due to the retirement of fixed assets that were not fully depreciated.

Non-Operating Expenses for FY 2016 (compared to previous year) is summarized as follows:

| | <u>2016</u> | % of <u>Total</u> | <u>2015</u> | % of <u>Total</u> | % of Increase <u>(Decrease)</u> |
|-------------------------------------|-------------------|----------------------|-------------------|----------------------|------------------------------------|
| <u>Non-Operating Expenses</u> | | | | | |
| Interest Expense | \$ 222,878 | 85.6% | \$ 226,899 | 72.1% | -1.8% |
| DEP Assessment | 36,714 | 14.1% | - | - | 0.0% |
| Litigation Expense | 200 | 0.1% | 14,411 | 4.6% | -98.6% |
| Loss on Replacement of Fixed Assets | 500 | 0.2% | 73,374 | 23.3% | -99.3% |
| Total Non-Operating Expenses | <u>\$ 260,292</u> | 100.0% | <u>\$ 314,684</u> | 100.0% | -17.3% |

Operating Expenses for FY 2016, reported on the accrual basis, totaled \$4.0 million, an increase of 1.9% from FY 2015. Facility Operating Expenses of \$2.5 million increased slightly by 1% from FY 2015, and accounted for 62.3% of the Total Operating Expenses. They are listed in detail in Schedule A of the Financial Statements. General and Administrative Expenses, detailed in Schedule B, accounted for approximately \$964 thousand (24% of the total). Depreciation Expense, as shown in the amount of \$539 thousand, is related to depreciation of capital assets that were previously reimbursed by the BCWSA. Facility Operating and General & Administrative Expenses combined, which include depreciation on assets purchased with Authority's funds, increased about 2.4% from FY 2015. Compensated Absences, as a Long Term Liability, increased in FY 2016 by approximately \$9 thousand, and is reflected as an Operating Expense.

Operating Expenses (compared to previous year) for FY 2015 is summarized as follows:

| | <u>2016</u> | % of <u>Total</u> | <u>2015</u> | % of <u>Total</u> | % of Increase <u>(Decrease)</u> |
|---|---------------------|----------------------|---------------------|----------------------|------------------------------------|
| <u>Operating Expenses</u> | | | | | |
| Facility Operating Expenses | \$ 2,499,359 | 62.3% | \$ 2,474,117 | 62.8% | 1.0% |
| General & Administrative Expenses | 963,659 | 24.0% | 909,189 | 23.1% | 6.0% |
| Depreciation Expense on Assets Reimbursed | | | | | |
| Previously by BCWSA | 538,583 | 13.4% | 553,336 | 14.0% | -2.7% |
| Compensated Absences | <u>13,253</u> | 0.3% | <u>4,242</u> | 0.1% | 212.4% |
| Total Operating Expenses | <u>\$ 4,014,854</u> | 100.0% | <u>\$ 3,940,884</u> | 100.0% | 1.9% |

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Management's Discussion and Analysis

May 31, 2016

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
(Continued)

Income (Loss) Before Contributions in the amount of (\$830,434) is the Operating Revenues plus net Non-Operating Income/Expense, minus the Operating Expenses. [\$3,183,634 + \$786 - \$4,014,854 = (\$830,434)].

Capital Contributions in the amount of \$2000 are non-cash contributions of capital assets (assets paid for by a third-party then turned over to the Authority). Typically they are new development sewer lines.

Net Position - End of Year for FYE 2016, in the amount of \$38,200,353, is calculated as Income (Loss) Before Contributions plus the Capital Contributions plus the Net Position-Beginning of the Year. [(\$830,434) + \$2000 + \$39,028,787= \$38,200,353]. This figure is considered the true net worth of the Authority.

REVENUES AND EXPENSES COMPARED TO BUDGET

Revenues and Expenses Compared to Budget compares actual Revenues and Expenses for FY 2016, on a cash basis, to the adopted Budget.

Operating Revenues for FY 2016, reported on the cash basis, totaled \$3.18 million, 2.9% over Budget.

Operating Revenues (compared to budget) for FY 2016 is summarized as follows:

| | <u>Budget</u> <u>2016</u> | <u>Actual</u> <u>Cash Basis</u> | <u>% Over</u> <u>(Under)</u> |
|----------------------------------|------------------------------|------------------------------------|---------------------------------|
| <u>Operating Revenues</u> | | | |
| Sewer Rentals | \$ 2,339,000 | \$ 2,401,460 | 2.6% |
| BCWSA Operating Payment | 684,751 | 684,752 | 0.0% |
| Miscellaneous Income | <u>70,000</u> | <u>99,108</u> | 29.4% |
| Total Operating Revenues | <u>\$ 3,093,751</u> | <u>\$ 3,185,320</u> | 2.9% |

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Management's Discussion and Analysis

May 31, 2016

REVENUES AND EXPENSES COMPARED TO BUDGET (Continued)

Operating Expenses for FY 2016, reported on the cash basis, were approximately \$4.0 million, inclusive of total Depreciation Expense of about \$1.35 million. Total Operating Expenses appear over budget due to the Depreciation Expense. The Authority does not budget for depreciation. Operating Expenses, exclusive of depreciation, were \$2.67 million, about 8% less than Budget.

Operating Expenses for FY 2016 (compared to budget) is summarized as follows:

| | Budget <u>2016</u> | Actual <u>Cash Basis</u> | % Over <u>(Under)</u> |
|----------------------------------|-----------------------|-----------------------------|--------------------------|
| <u>Operating Expenses</u> | | | |
| Sanitary Sewers | \$ 392,000 | \$ 370,357 | -5.8% |
| Sewage Disposal | 1,446,000 | 1,346,168 | -7.4% |
| Administrative Expenses | 950,000 | 955,045 | 0.5% |
| Depreciation Expense on Assets | | | |
| Purchased with Authority's Funds | N/A | 812,545 | N/A |
| Depreciation Expense on Assets | | | |
| Reimbursed Previously by BCWSA | <u>N/A</u> | <u>538,583</u> | N/A |
| Total Operating Expenses | <u>\$ 2,788,000</u> | <u>\$ 4,022,698</u> | 30.7% |

STATEMENTS OF CASH FLOWS (page 17)

The Statement of Cash Flows for FY 2016 explains the sources and uses of cash throughout the fiscal year, on a cash basis. Significant changes in Cash Flows, from FY 2015, were primarily related to Capital Expenditures for the aforementioned current treatment plant construction project, borrowings on the 2013 Construction Loan, and the related financing activities. (See Note 10 of the Financial Statements for further description of Construction Loan activities.) Net Cash from operating activities decreased by about 53% from FY 2015 to about \$488 thousand.

NOTES TO FINANCIAL STATEMENTS (pages 18-30)

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, 2016

CAPITAL ASSETS (NOTE 4 / page 24)

The Capital Assets of the Authority at the end of FY 2016 are about \$37.2 million (net of depreciation), a decrease of 2.8% from FY 2015, primarily due to depreciation of assets. The schedule below summarizes the Capital Assets. More detailed information can be found on page 24 of the Financial Statements (NOTE 4).

| | Beginning Balance <u>6/1/15</u> | Net Additions/ Deletions | Ending Balance <u>5/31/16</u> |
|--|---------------------------------------|--------------------------------|-------------------------------------|
| Non-Depreciable Assets | | | |
| Land | \$ 764,500 | \$ - | \$ 764,500 |
| Construction in progress | 288,829 | 224,708 | 513,537 |
| Other Capital Assets | | | |
| Plant | 33,626,402 | 22,263 | 33,648,665 |
| Equipment | 1,943,124 | 31,533 | 1,974,657 |
| Sanitary Sewers | 7,735,729 | - | 7,735,729 |
| Contributed Sewers | 13,922,937 | 2,000 | 13,924,937 |
| Accumulated depreciation on capital assets | <u>(19,996,819)</u> | <u>(1,346,630)</u> | <u>(21,343,449)</u> |
| Totals | <u>\$ 38,284,702</u> | <u>\$ (1,066,126)</u> | <u>\$ 37,218,576</u> |

DEBT

At the end of FY 2016, the Authority had total long-term debt of about \$8.3 million. In November 2013 the Authority obtained a construction loan (Series 2013 Loan) of \$10,000,000 to be used for plant improvement projects and refinancing of prior loans. The Authority drew down all of the remaining balance (\$241,538) on the loan during FY 2016. The loan is to be repaid over 155 months beginning in December 2013 at a fixed interest rate of 2.59% for 10 years, then a variable interest rate between 2.59% and 5.00% for the remaining 35 months. The first 10 years require monthly payments of \$75,601.49. After 10 years the loan will re-amortize based on the balance and interest rate.

The following is a summary of the Authority's outstanding long-term debt as of May 31, 2016:

| <u>Year of Issue</u> | <u>Amount of Original Issue</u> | <u>Average Interest Rate</u> | <u>Final Maturity</u> | <u>Balance 6/1/2015</u> | <u>Principal Payments</u> | <u>Additional Draws</u> | <u>Interest Payments</u> | <u>Balance 5/31/2016</u> |
|----------------------|---------------------------------|------------------------------|-----------------------|-------------------------|---------------------------|-------------------------|--------------------------|--------------------------|
| 2013 | \$ 10,000,000 | 2.590% | 2027 | \$ 8,730,329 | \$ 684,339 | \$ 241,538 | \$ 222,879 | \$ 8,287,528 |

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Management's Discussion and Analysis

May 31, 2016

FINANCIAL OUTLOOK

The Financial Outlook for FY 2016-17 should again remain relatively stable. There are no significant changes anticipated for both operational Revenues and Expenses. Customer base is expected to increase gradually, due to recent increasing development activity. Sewer usage rates were increased in the second half of FY 2016, and are expected to remain the same in FY 2016.

Inflation will continue to affect operational expenses. Recently completed projects, however, will continue to help contain certain operating costs. The FY 2013 project to bring natural gas to the site has significantly reduced the treatment facility's fuel costs. The project to replace the Ultraviolet System, completed in FY 2012, has proven to significantly reduce electricity consumption, and. In addition, the Authority continues to benefit from multi-year agreements for both electricity and natural gas generation, which will minimize increases in those significant expenses. A collective bargaining agreement, negotiated in FY 2015 and in effect through FY 2019, should keep employee-related expenses fairly stable.

Phase II of the treatment plant expansion and upgrade project was completed in FY 2015. The 15% increase in permitted flow capacity created by the Phase II project was approved for use in early FY 2015. This additional capacity will now meet the demand for residential and commercial development activity for the foreseeable future. Bids for Phase III of the treatment plant expansion and upgrade project were awarded in FY 2016 and construction has commenced, with a total bid cost of about \$5.4 million. These projects are being funded by a combination of existing reserve funds, BCWSA capital project contributions, and the Series 2013 Construction Loan.

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Statements of Net Position

May 31, 2016 and 2015

ASSETS

| | <u>2016</u> | <u>2015</u> |
|--|--------------------------|--------------------------|
| Current Assets | | |
| Cash and cash equivalents | \$ 875,051 | \$ 1,102,900 |
| Investments | 8,277,696 | 8,298,004 |
| Interest receivable | 56,054 | 45,040 |
| Accounts receivable | 306,150 | 359,390 |
| Other current asset | - | 7,388 |
| Total Current Assets | <u>9,514,951</u> | <u>9,812,722</u> |
| Current Restricted Assets | | |
| Escrow | <u>71,659</u> | <u>97,823</u> |
| Total Restricted Assets | <u>71,659</u> | <u>97,823</u> |
| Capital Assets (net of accumulated depreciation) | | |
| Land | 764,500 | 764,500 |
| Construction in progress | 513,537 | 288,829 |
| Plant and equipment | 21,349,463 | 22,362,832 |
| Sanitary sewers | 5,593,636 | 5,694,422 |
| Contributed sewers | <u>8,997,440</u> | <u>9,174,119</u> |
| Total Capital Assets | <u>37,218,576</u> | <u>38,284,702</u> |
| TOTAL ASSETS | <u>\$ 46,805,186</u> | <u>\$ 48,195,247</u> |

LIABILITIES AND NET POSITION

| | <u>2016</u> | <u>2015</u> |
|--|--------------------------|--------------------------|
| Current Liabilities (Payable from Current Assets) | | |
| Current maturities | \$ 700,741 | \$ 689,154 |
| Accounts payable | 99,207 | 217,787 |
| Accrued payroll | <u>51,353</u> | <u>38,687</u> |
| Total Payable from Current Assets | <u>851,301</u> | <u>945,628</u> |
| Current Liabilities (Payable from Restricted Assets) | | |
| Escrow | <u>71,659</u> | <u>97,823</u> |
| Total Payable from Restricted Assets | <u>71,659</u> | <u>97,823</u> |
| Total Current Liabilities | <u>922,960</u> | <u>1,043,451</u> |
| Long-Term Debt | | |
| Construction loan | 7,586,788 | 8,041,176 |
| Compensated absences | <u>95,085</u> | <u>81,833</u> |
| Total Long-Term Debt | <u>7,681,873</u> | <u>8,123,009</u> |
| Total Liabilities | <u>8,604,833</u> | <u>9,166,460</u> |
| Net Position | | |
| Net Investment in Capital Assets | 28,931,047 | 29,554,372 |
| Unrestricted | <u>9,269,306</u> | <u>9,474,415</u> |
| Total Net Position | <u>38,200,353</u> | <u>39,028,787</u> |
| TOTAL LIABILITIES AND NET POSITION | <u>\$ 46,805,186</u> | <u>\$ 48,195,247</u> |

See auditors' report and accompanying notes to financial statements

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Position

For the Years Ended May 31, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|---|----------------------|----------------------|
| Operating Revenues | | |
| Sewer rents | \$ 2,399,771 | \$ 2,273,165 |
| Operating payment | 684,751 | 1,268,489 |
| Miscellaneous | 99,112 | 37,898 |
| Total Operating Revenues | <u>3,183,634</u> | <u>3,579,552</u> |
| Operating Expenses | | |
| Operating expenses - Schedule A | 2,499,359 | 2,474,117 |
| General and administrative expenses - Schedule B | 963,659 | 909,189 |
| Compensated absences | 13,253 | 4,242 |
| Depreciation expense on assets reimbursed previously by BCWSA | 538,583 | 553,336 |
| Total Operating Expenses | <u>4,014,854</u> | <u>3,940,884</u> |
| Net Operating Income (Loss) | <u>(831,220)</u> | <u>(361,332)</u> |
| Net Non-Operating Income (Expense) | | |
| Interest income | 59,152 | 47,352 |
| Reimbursement for capital purchases | 97,547 | 388,396 |
| Tap in fees | 104,379 | 38,818 |
| Gain (loss) on replacement of fixed assets | (500) | (73,374) |
| DEP assessment | (36,714) | - |
| Litigation expense | (200) | (14,411) |
| Interest expense | (222,878) | (226,899) |
| Net Non-Operating Income (Expense) | <u>786</u> | <u>159,882</u> |
| Income (Loss) Before Contributions | (830,434) | (201,450) |
| Capital Contributions | <u>2,000</u> | <u>196,024</u> |
| Change in Net Position | (828,434) | (5,426) |
| Net Position Beginning of Year | <u>39,028,787</u> | <u>39,034,213</u> |
| Net Position End of Year | <u>\$ 38,200,353</u> | <u>\$ 39,028,787</u> |

See auditors' report and accompanying notes to financial statements

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Statements of Cash Flows

For the Years Ended May 31, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|---|-------------------|---------------------|
| Cash flows from operating activities: | | |
| Cash received from customers | \$ 3,244,262 | \$ 3,548,899 |
| Cash paid to suppliers | (1,516,867) | (1,319,266) |
| Cash paid to employees | (1,239,511) | (1,182,824) |
| Net cash provided by (used in) operating activities | <u>487,884</u> | <u>1,046,809</u> |
| Cash flows from capital and related financing activities: | | |
| Capital expenditures | (283,502) | (879,705) |
| New borrowings | 241,538 | 783,515 |
| Retirement of debt | (684,339) | (680,318) |
| Capital project reimbursements | 97,547 | 2,896,203 |
| Tap in fees | 104,379 | 38,818 |
| Emergency repairs | (36,714) | - |
| Litigation expense | (200) | (14,411) |
| Interest paid | (222,878) | (226,899) |
| Net cash provided by (used in) capital and related financing activities | <u>(784,169)</u> | <u>1,917,203</u> |
| Cash flows from investing activities: | | |
| Net change in investments | 20,308 | (2,528,589) |
| Interest received | 48,128 | 22,960 |
| Net cash provided by (used in) investing activities | <u>68,436</u> | <u>(2,505,629)</u> |
| Net increase (decrease) in cash and cash equivalents | (227,849) | 458,383 |
| Cash and cash equivalents, at beginning of year | 1,102,900 | 644,517 |
| Cash and cash equivalents, at end of year | <u>\$ 875,051</u> | <u>\$ 1,102,900</u> |

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

| | | |
|--|---------------------|---------------------|
| Operating income (loss) | <u>\$ (831,220)</u> | <u>\$ (361,332)</u> |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation expense | 1,351,128 | 1,380,515 |
| (Increase) decrease in accounts receivable | 53,250 | (30,643) |
| (Increase) decrease in other current assets | 7,388 | - |
| Increase (decrease) in accounts payable | (118,580) | 49,848 |
| Increase (decrease) in payroll and payroll tax payable | 12,666 | 4,178 |
| Increase (decrease) in compensated absences | 13,252 | 4,243 |
| Total adjustments | <u>1,319,104</u> | <u>1,408,141</u> |
| Net cash provided by (used in) operating activities | <u>\$ 487,884</u> | <u>\$ 1,046,809</u> |
| Noncash investing, capital, and financing activities: | | |
| The Authority recognized contributed sewer lines in the amount of \$2,000 | | |
| The Authority recognized accrued interest in the amount of \$56,054 | | |

See auditors' report and accompanying notes to financial statements

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Notes to Financial Statements

May 31, 2016

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.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

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.

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.

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.

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.

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Notes to Financial Statements

May 31, 2016

NOTE 1. Summary of Significant Accounting Policies (Continued)

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 |

Depreciation is shown in operating expense, general and operating expense and depreciation expense reimbursed previously by BCWSA. BCWSA reimburses the Authority a percentage for capital outlay which is capitalized and depreciation over the asset's useful life.

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.

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Notes to Financial Statements

May 31, 2016

NOTE 1. Summary of Significant Accounting Policies (Continued)

Net Position: Net position includes the various net earnings from operating and nonoperating revenues, expenses and contributions of capital. Net position is classified in the following three components: net investment in capital assets; restricted for capital activity and debt services; and unrestricted net position. Net investment in capital assets consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted assets include developer deposits held by the Authority to be used to pay costs of certain engineering, legal, and inspection work required by the Authority. Unrestricted are amounts that do not meet the definitions above and are available for the Authority operations.

Deferred Outflows/Inflows of Resources: In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Authority does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Authority does not have any items that qualify for reporting in this category.

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, 2015 is \$95,085.

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Notes to Financial Statements

May 31, 2016

NOTE 1. Summary of Significant Accounting Policies (Continued)

Comparative Information: The financial statements include certain prior year 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 the management discussion and analysis is presented for two years only. Accordingly, such prior year information should be read in conjunction with the Authority's financial statements for the year ended May 31, 2015, from which the comparative information was derived.

Subsequent Events: The Authority has evaluated events and transactions for potential recognition or disclosure in the financial statements through the date of this report, which is the date the statements were available for release. No subsequent events have been recognized or disclosed.

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, 2016

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.

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 \$875,049 and the bank balance was \$913,887. 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, 2016 the amount in excess of this insurance was \$663,887.

The Authority has deposits of \$1,235 in external investment pools that is considered cash equivalents because of their short maturity dates and is included in the deposits figures above.

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Notes to Financial Statements

May 31, 2016

NOTE 3. Cash and Investments (Continued)

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> | <u><1 year</u> | <u>1-5 years</u> |
|-----------------------------|-----------------------|---------------------|---------------------|---------------------|
| External Pooled Investments | 2015 | \$ 1,235 | \$ 1,235 | \$ - |
| Certificate of Deposit | 2014-2016 | <u>8,277,696</u> | <u>6,345,974</u> | <u>1,931,722</u> |
| Total | | <u>\$ 8,278,931</u> | <u>\$ 6,347,209</u> | <u>\$ 1,931,722</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.

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, 2016, \$71,659 represents the balance of these monies held in escrow.

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Notes to Financial Statements

May 31, 2016

NOTE 4. Capital Assets

Capital asset activity for the year ended May 31, 2016 was as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--|------------------------------|-----------------------|--------------------|---------------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 764,500 | \$ - | \$ - | \$ 764,500 |
| Construction in progress | 288,829 | 283,502 | (58,794) | 513,537 |
| Total capital assets, not being depreciated | <u>1,053,329</u> | <u>283,502</u> | <u>(58,794)</u> | <u>1,278,037</u> |
| Capital assets, being depreciated: | | | | |
| Plant | 33,626,402 | 22,263 | - | 33,648,665 |
| Equipment | 1,943,124 | 36,531 | (4,998) | 1,974,657 |
| Sanitary Sewers | 7,735,729 | - | - | 7,735,729 |
| Contributed Sewers | 13,922,937 | 2,000 | - | 13,924,937 |
| Total capital assets, being depreciated | <u>57,228,192</u> | <u>60,794</u> | <u>(4,998)</u> | <u>57,283,988</u> |
| Less accumulated depreciation for: | | | | |
| Plant | 11,861,411 | 989,845 | - | 12,851,256 |
| Equipment | 1,345,283 | 82,318 | (4,998) | 1,422,603 |
| Sanitary Sewers | 2,041,307 | 100,786 | - | 2,142,093 |
| Contributed Sewers | 4,748,818 | 178,679 | - | 4,927,497 |
| Total accumulated depreciation | <u>19,996,819</u> | <u>1,351,628</u> | <u>(4,998)</u> | <u>21,343,449</u> |
| Total capital assets, being depreciated, net | <u>37,231,373</u> | <u>(1,290,834)</u> | <u>-</u> | <u>35,940,539</u> |
| All capital assets, net | <u>\$ 38,284,702</u> | <u>\$ (1,007,332)</u> | <u>\$ (58,794)</u> | <u>\$ 37,218,576</u> |

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.

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Notes to Financial Statements

May 31, 2016

NOTE 6. Post-Retirement Benefits

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 \$2,324, 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, 2016 was \$-0-. There were no retirees receiving this benefit.

Funded Status and Funding Progress

The funded status of the plan as of June 1, 2012, 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 |
|----------------|---------------------|------------------------------|-------------------|----------------------------|--|--------------------------------------|
| 6/1/2015 | \$ - | \$ 7,618 | 0% | \$ 7,165 | \$ 1,112,933 | 1% |

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Notes to Financial Statements

May 31, 2016

NOTE 6. Post-Retirement Benefits (Continued)

Funded Status and Funding Progress (continued)

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.

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:

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Notes to Financial Statements

May 31, 2016

NOTE 6. Post-Retirement Benefits (Continued)

Annual OPEB Cost and Net OPEB Obligation (continued)

| | <u>OPEB</u> |
|--|-----------------|
| Annual required contribution | \$ 197 |
| Interest on net OPEB obligation | 62 |
| Adjustments to annual required contribution | <u>-</u> |
| Annual OPEB cost | 259 |
| Contributions made | <u>-</u> |
| Increase (decrease) in net OPEB obligation | 259 |
| Net OPEB obligation (asset) at beginning of year | <u>2,065</u> |
| Net OPEB obligation (asset) at end of year | <u>\$ 2,324</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, 2012 valuation used the following assumptions:

| | <u>OPEB</u> |
|---|---------------------|
| Date of valuation | 6/1/2012 |
| 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.

Trend Information

| Fiscal | Annual | Percentage | Net |
|-----------------|-------------|--------------------|-------------------|
| <u>Year End</u> | <u>OPEB</u> | <u>Contributed</u> | <u>OPEB</u> |
| | <u>Cost</u> | | <u>Obligation</u> |
| 2014 | \$ 346 | 0% | \$ 1,813 |
| 2015 | 252 | 0% | 2,065 |
| 2016 | 259 | 0% | 2,324 |

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Notes to Financial Statements

May 31, 2016

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.

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, 2016 was \$1,252,177 on the cash basis of accounting, which is the basis used to calculate the pension contributions. The total covered payroll was \$1,193,208. The Authority has made the necessary contribution of \$95,457 (8.0% of covered payroll).

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Notes to Financial Statements

May 31, 2016

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.

In October 2012, negotiation of a new Operating Agreement between the Authority and the BCWSA was finalized that outlined new terms and conditions for capacity, treatment, and cost sharing of the Authority's treatment facility.

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 November 2013 (series 2013 loan) the Authority obtained a construction loan of \$10,000,000 to be used for plant improvement projects and refinancing of prior loans. The Authority is drawing down on the \$10,000,000 available loan balance as construction progresses. The total drawn down must be taken by November 2015. The loan is to be repaid over 155 months beginning in December 2013 at a fixed interest rate of 2.59% for 10 years, then a variable interest rate between 2.59% and 5.00% for the remaining 35 months. The first 10 years require monthly payments of \$75,601. After 10 years the loan will re-amortize based on the balance and interest rate. As of May 31, 2016 the Authority had borrowed \$10,000,000 and paid interest of \$575,877. The balance as of May 31, 2016 is \$8,287,528.

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Notes to Financial Statements

May 31, 2016

NOTE 10. Debt (Continued)

Long-term liability activity for the year ended May 31, 2016 was as follows:

| | <u>Beginning</u> | | | <u>Ending</u> | <u>Due Within</u> |
|--------------------------|---------------------|-------------------|-------------------|---------------------|-------------------|
| | <u>Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance</u> | <u>One Year</u> |
| Construction loan 2013 | \$ 8,730,330 | \$ 241,538 | \$ 684,339 | \$ 8,287,529 * | \$ 700,741 |
| Compensated absences | <u>81,833</u> | <u>13,252</u> | <u>-</u> | <u>95,085</u> | <u>-</u> |
| Business-type activities | | | | | |
| Long-Term Liabilities | <u>\$ 8,812,163</u> | <u>\$ 254,790</u> | <u>\$ 684,339</u> | <u>\$ 8,382,614</u> | <u>\$ 700,741</u> |

*Maturities are based on required minimum payments with no further draw-downs included in the calculation.

Debt service for the construction loan is funded primarily from charges for services. Any liabilities for compensated absences are generally liquidated by the Authority's activities.

Future maturities as of May 31, 2016 are as follows:

| Year Ending | | |
|-------------|---------------------|---------------------|
| 31-May | <u>Principal</u> | <u>Interest</u> |
| 2017 | \$ 700,741 | \$ 206,477 |
| 2018 | 719,108 | 188,110 |
| 2019 | 737,955 | 169,263 |
| 2020 | 757,297 | 149,921 |
| 2021 | 711,613 | 195,605 |
| 2022-2025 | <u>4,660,815</u> | <u>299,608</u> |
| | <u>\$ 8,287,529</u> | <u>\$ 1,208,984</u> |

**REQUIRED
SUPPLEMENTAL INFORMATION**

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Required Supplemental Information – OPEB Plan

For the Year Ended May 31, 2016

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> |
| 6/1/2015 | \$ - | \$ 7,618 | 0% | \$ 7,165 | \$ 1,112,933 | 1% |

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

| Fiscal | Annual | Contributions | Percentage |
|-----------------|---------------------|-----------------|--------------------|
| <u>Year End</u> | <u>Required</u> | <u>From</u> | <u>Contributed</u> |
| | <u>Contribution</u> | <u>Employer</u> | |
| 2012 | \$ 388 | \$ - | 0% |
| 2013 | 336 | - | 0% |
| 2014 | 302 | - | 0% |
| 2015 | 197 | - | 0% |
| 2016 | 197 | - | 0% |

SUPPLEMENTAL INFORMATION

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Schedule A: Operating Expenses

For the Years Ended May 31, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|--------------------------------|------------------|------------------|
| Operating Expenses | | |
| Sanitary Sewers | | |
| Salaries and wages | \$ 282,475 | \$ 260,313 |
| Education and training | 1,286 | 678 |
| Materials and supplies | 26,217 | 14,256 |
| Chemicals | 12,617 | 12,006 |
| Maintenance | 23,289 | 22,359 |
| Alarm system | 2,457 | 2,715 |
| Power-pump station | 8,757 | 10,245 |
| PA one call | 724 | 693 |
| Industrial pretreatment | 973 | 724 |
| Engineering | 8,448 | 3,912 |
| Hatfield Sewer District | - | 13,950 |
| Legal | 2,074 | 6,283 |
| Miscellaneous customer service | - | 56 |
| Depreciation expense | 315,693 | 317,269 |
| Total Sanitary Sewers | <u>685,010</u> | <u>665,459</u> |
| Sewage Disposal | | |
| Salaries and wages | 721,121 | 689,853 |
| Education and training | 4,046 | 2,549 |
| Materials and supplies | 71,508 | 68,686 |
| Polymer | 27,542 | 11,054 |
| Ferric chloride | 11,373 | 12,830 |
| Laboratory | 8,841 | 9,631 |
| Outside laboratory | 12,633 | 11,928 |
| Equipment maintenance/repair | 46,384 | 44,798 |
| Electrical repair | 8,636 | 10,315 |
| Ground maintenance | 15,077 | 11,485 |
| Fuel oil | - | 14,693 |
| Power | 199,782 | 244,244 |
| Natural gas | 54,428 | 51,362 |
| Engineering | 4,664 | 6,056 |
| Permits | 5,914 | 6,033 |
| Sludge disposal | 25,092 | 17,677 |
| Chemicals | 106,390 | 91,489 |
| Depreciation expense | 490,918 | 503,975 |
| Total Sewage Disposal | <u>1,814,349</u> | <u>1,808,658</u> |

See auditors' report

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Schedule B: General and Administrative Expenses

For the Years Ended May 31, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|-----------------------------------|-----------------------|-----------------------|
| Administrative Expenses | | |
| Salaries and wages | \$ 248,581 | \$ 236,836 |
| Insurance - plant/equipment | 138,711 | 134,065 |
| Insurance - medical | 286,470 | 247,895 |
| PA unemployment | 4,810 | 4,938 |
| Pension | 95,457 | 91,345 |
| Social security | 93,963 | 90,270 |
| Legal | 11,885 | 17,966 |
| Audit | 11,766 | 10,825 |
| Administrative | 6,825 | 10,251 |
| Engineering | 6,236 | 6,000 |
| Materials and supplies | 8,603 | 10,406 |
| Postage | 12,339 | 10,006 |
| Office equipment | 17,686 | 16,327 |
| Telephone | 10,373 | 9,911 |
| Maintenance | 2,609 | 2,574 |
| Education and training | 1,411 | 3,639 |
| Depreciation expense | <u>5,934</u> | <u>5,935</u> |
| TOTAL ADMINISTRATIVE EXPENSES | <u>\$ 963,659</u> | <u>\$ 909,189</u> |

See auditors' report

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Schedule C: Net Operating Income After Adjustments

For the Years Ended May 31, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|--|---------------------|--------------------|
| Operating Revenues | | |
| Sewer rents | \$ 2,399,771 | \$ 2,273,165 |
| Operating payment | 684,751 | 1,268,489 |
| Miscellaneous | 99,112 | 37,898 |
| Total Operating Revenues | <u>3,183,634</u> | <u>3,579,552</u> |
| Operating Expenses | | |
| Operating expenses - Schedule A | 2,499,359 | 2,474,117 |
| General and administrative expenses - Schedule B | 963,659 | 909,189 |
| Compensated absences | 13,253 | 4,242 |
| Depreciation expense on assets reimbursed previously by BCWSA | <u>538,583</u> | <u>553,336</u> |
| Total Operating Expenses | <u>4,014,854</u> | <u>3,940,884</u> |
| Net Operating Income (Loss) | (831,220) | (361,332) |
| Add back: | | |
| Depreciation expense on assets reimbursed previously by BCWSA | 538,583 | 553,336 |
| Less: Nonoperating Expenses | | |
| Interest expense | <u>(222,878)</u> | <u>(226,899)</u> |
| Net operating loss adjusted for BCWSA reimbursements and interest expense | <u>\$ (515,515)</u> | <u>\$ (34,895)</u> |

See auditors' report