

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

**FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

YEAR ENDED MAY 31, 2017

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Independent Auditors' Report

Board of Directors
Chalfont-New Britain Township
Joint Sewage Authority

Report on the Financial Statements

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, 2017, 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, 2017, 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 12 and 31 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 2016 financial statements, and our report dated October 11, 2016, 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, 2016, 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

Warrington, PA
November 8, 2017

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Management's Discussion and Analysis

May 31, 2017

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, 2017. 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 Auditors' Report and notes. The Authority's audited Financial Statements for Fiscal Year ended May 31, 2017 (FY 2017) 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 2017, compared to those for fiscal year ended May 31, 2016 (FY 2016), are reported on the accrual basis, as in the Financial Statements. Revenues and Expenses for FY 2017 compared to budget for FY 2017 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, 2017

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, 2017. 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 13 and 14 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.

The following table summarizes the financial position of the Authority as of May 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Assets		
Current Assets	\$ 8,357,845	\$ 9,514,951
Current Restricted Assets	125,084	71,659
Capital Assets	<u>40,567,023</u>	<u>37,218,576</u>
Total Assets	<u>\$ 49,049,952</u>	<u>\$ 46,805,186</u>
Liabilities		
Payable from Current Assets	\$ 1,037,350	\$ 851,301
Payable from Restricted Assets	125,084	71,659
Long Term Liabilities	<u>6,977,273</u>	<u>7,681,873</u>
Total Liabilities	<u>8,139,707</u>	<u>8,604,833</u>
Net Position		
Net Investment in Capital Assets	32,940,813	28,931,047
Unrestricted	<u>7,969,432</u>	<u>9,269,306</u>
Total Net Position	<u>\$ 40,910,245</u>	<u>\$ 38,200,353</u>

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Management's Discussion and Analysis

May 31, 2017

STATEMENTS OF NET POSITION (Continued)

Total Assets of the Authority, as of May 31, 2017, were about \$49.0 million, an increase of over \$2 million from FY 2016. Of the Total Assets, about \$8.3 million, about 17% are in Current Assets. Current Assets decreased 12% from FY 2016. Current Assets are general funds held in "Time Open" investments at Uninvest Bank and in Term and CD programs at Pennsylvania Local Government Investment Trust (PLGIT). Capital Assets of about \$40.5 million increased by over \$3 million from FY 2016 due to current Construction in Progress of new Capital Assets. Approximately \$125 thousand were in Current Restricted Assets. Current Restricted Assets are escrow accounts held by the Authority on behalf of developers.

Total Liabilities of the Authority as of May 31, 2017, were approximately \$8.1 million, a 6% decrease from FY 2016. Long Term Liabilities of about \$6.9 million (85% of the total) decreased about 9% from FY 2016, and are related to the Series 2013 and Series 2016 Construction Loans 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 was paid off in November of 2016 and re-financed with a new Series 2016 Loan with an initial principal amount of \$7.99 million. As of May 31, 2017 the outstanding principal is approximately \$7.6 million. Of the Total Liabilities, about \$1.0 million (12%) were Current, Payable from Current Assets. Approximately \$125 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. Long Term Liabilities also include employee-related Compensated Absences of approximately \$89 thousand.

Total Net Position of the Authority, as of May 31, 2017 is approximately \$41 million with \$32.9 million (76%) as Net Investment in Capital Assets, and approximately \$7.9 million (19%) in Unrestricted Assets. Total Net Position increased approximately 7% from FY 2016.

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Management's Discussion and Analysis

May 31, 2017

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

(page 15)

The Statement of Revenues, Expenses and Changes in Net Position summarizes the net position of the Authority as of May 31, 2017 and provides a comparison to FY 2016.

	<u>2017</u>	<u>2016</u>
Operating Revenues		
Sewer Rentals	\$ 2,492,372	\$ 2,399,771
Operating Payment	1,080,513	684,751
Miscellaneous	118,914	99,112
Total Operating Revenues	<u>3,691,799</u>	<u>3,183,634</u>
Operating Expenses		
Facility Operating Expenses	2,535,401	2,499,359
General & Administrative Expenses	938,784	963,659
Compensated Absences	(5,778)	13,253
Depreciation Expense on Assets		
Reimbursed Previously by BCWSA	541,346	538,583
Total Operating Expenses	<u>4,009,753</u>	<u>4,014,854</u>
Net Operating Income (Loss)	(317,954)	(831,220)
Net Non-Operating Revenue (Expense)		
Interest income	77,104	59,152
Reimbursement for capital purchases	2,299,035	97,547
Tap in fees	700,840	104,379
Gain (loss) on replacement of fixed assets	(3,445)	(500)
DEP assessment	-	(36,714)
Litigation expense	-	(200)
Interest expense	(181,525)	(222,878)
Loan expenses	(34,414)	-
Net Non-Operating Revenue (Expense)	<u>2,857,595</u>	<u>786</u>
Income (Loss) Before Contributions	2,539,641	(830,434)
Capital Contributions	170,251	2,000
Change in Net Position	2,709,892	(828,434)
Net Position Beginning of Year	<u>38,200,353</u>	<u>605,556</u>
Net Position End of Year	<u>\$ 40,910,245</u>	<u>\$ (604,770)</u>

Operating Revenues for FY 2017, reported on the accrual basis, were about \$3.7 million, an increase of 16% from FY 2016. Approximately \$2.5 million (42%) of the Operating Revenues came from Authority Sewer Rentals, which increased 3.7% over FY 2016.

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Management's Discussion and Analysis

May 31, 2017

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

Operating Payments from the Bucks County Water and Sewer Authority (BCWSA) accounted for about \$1.1 million (29%) of the Total Revenues. The 16% increase in revenue is primarily due to BCWSA Operating Payments. As reported last year, the FY 2016 payment was shown artificially low due to timing of quarterly Operating Payments made near the fiscal year end. 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 both FY 2016 and FY 2017. Miscellaneous income accounted for approximately \$119 thousand.

Non-Operating Income for FY 2017, reported on the accrual basis, totaled about \$3.1 million, most of which (\$2.3 million) was from capital project reimbursements received from the BCWSA for the current treatment plant construction project. Interest Income increased somewhat to about \$77 thousand due to increasing interest rates. Tapping Fees for new customer connections accounted for \$701 thousand of the total and increased significantly over FY 2016.

Non-Operating Expenses for FY 2017, reported on the accrual basis, totaled approximately \$215 thousand, which were primarily related to interest and expenses for the Construction Loans.

Operating Expenses for FY 2017, reported on the accrual basis, totaled \$4.0 million, about the same as FY 2016. Facility Operating Expenses of \$2.5 million increased slightly by 1% from FY 2016, and accounted for 63% 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 \$941 thousand (23% of the total). Depreciation Expense, as shown in the amount of \$543 thousand, is related to depreciation of capital assets that were previously reimbursed by the BCWSA. Compensated Absences, as a Long Term Liability, decreased in FY 2017 by approximately \$6 thousand, and is reflected as a negative Operating Expense.

Income (Loss) Before Contributions in the amount of \$2,539,641 is the Operating Revenues plus net Non-Operating Income/Expense, minus the Operating Expenses.
[\$3,691,799 + \$2,857,595 - \$4,009,753 = \$2,539,641]

Capital Contributions, in the amount of \$170 thousand, are non-cash contributions of capital assets (assets paid for by a third-party then turned over to the Authority). Typically they are new sewer systems constructed in residential and commercial developments that are dedicated to the Authority.

Net Position End of Year, for FY 2017, in the amount of \$40,910,245, is calculated as Income (Loss) Before Contributions plus the Capital Contributions plus the Net Position Beginning of Year. [2,539,641 + \$170,251 + \$38,200,353 = \$40,910,245]. This figure is considered the true net worth of the Authority.

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Management's Discussion and Analysis

May 31, 2017

STATEMENTS OF CASH FLOWS (page 16)

The Statement of Cash Flows for FY 2017 explains the sources and uses of cash throughout the fiscal year, on a cash basis. Significant changes in Cash Flows, from FY 2016, were primarily related to Capital Expenditures for the aforementioned current treatment plant construction project, retirement of debt (Series 2013 loan), new borrowings on the Series 2016 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 increased by about 235% from FY 2016 to about \$1.1 million. Other significant changes in Cash Flows from FY 2016 include receipt of Tapping Fees (\$701 thousand), Net Cash provided by investing activities (\$2.1 million), and expenses and reimbursements related to the construction project.

NOTES TO FINANCIAL STATEMENTS (pages 17-29)

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

CAPITAL ASSETS (NOTE 4 / page 23)

The Capital Assets of the Authority at the end of FY 2017 are about \$40.5 million (net of depreciation), an increase of 9% from FY 2016 primarily due to Construction in Progress. The schedule below summarizes the Capital Assets. More detailed information can be found on page 23 of the Financial Statements (NOTE 4).

	Beginning Balance <u>6/1/16</u>	Net Additions/ Deletions <u></u>	Ending Balance <u>5/31/17</u>
Non-Depreciable Assets			
Land	\$ 764,500	\$ -	\$ 764,500
Construction in progress	513,537	4,445,910	4,959,447
Other Capital Assets			
Plant	33,487,399	(13,782)	33,473,617
Equipment	2,135,928	89,757	2,225,685
Sanitary Sewers	7,735,729	-	7,735,729
Contributed Sewers	13,924,937	170,251	14,095,188
Accumulated depreciation on capital assets	<u>(21,343,452)</u>	<u>(1,343,691)</u>	<u>(22,687,143)</u>
Totals	<u>\$ 37,218,578</u>	<u>\$ 3,348,445</u>	<u>\$ 40,567,023</u>

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Management's Discussion and Analysis

May 31, 2017

DEBT

At the end of FY 2017, the Authority had total long-term debt of about \$7.6 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 remaining principal of that Loan was paid off in FY 2017. Authority then obtained a new construction loan (Series 2016) with an initial principal amount of \$7.99 million. The loan is to be repaid over 10 years beginning in November 2016 at a fixed interest rate of 1.94%, with monthly payments of \$73,304.25.

The following is a summary of the Authority's outstanding long-term debt as of May 31, 2017:

<u>Year of Issue</u>	<u>Amount of Original Issue</u>	<u>Average Interest Rate</u>	<u>Final Maturity</u>	<u>Balance 6/1/2016</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Interest Payments</u>	<u>Balance 5/31/2017</u>
2013	\$ 10,000,000	2.590%	2027	\$ 8,287,528	\$ -	\$ (8,287,528)	\$ 107,221	\$ -
2016	\$ 7,990,000	1.940%	2026	\$ -	\$ 7,990,000	\$ (363,790)	\$ 74,305	\$ 7,626,210

FINANCIAL OUTLOOK

The Financial Outlook for FY 2017-18 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 last increased in the second half of FY 2016, and an increase may be anticipated sometime in FY 2018.

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, more recent construction projects have also implemented features designed to further reduce electric usage, including installing variable speed motors with automated and computerized controls, and installing more efficient lighting throughout the plant facility. 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.

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Management's Discussion and Analysis

May 31, 2017

FINANCIAL OUTLOOK (Continued)

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. Construction has been underway throughout FY 2017, with an anticipated total cost of about \$5.9 million and completion during FY 2018. These projects are being funded by a combination of existing reserve funds, BCWSA capital project contributions, and the Series 2016 Construction Loan.

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Statements of Net Position

May 31, 2017 and 2016

ASSETS

	<u>2017</u>	<u>2016</u>
Current Assets		
Cash and cash equivalents	\$ 1,712,265	\$ 875,051
Investments	6,248,434	8,277,696
Interest receivable	56,054	56,054
Accounts receivable	341,092	306,150
Other current asset	-	-
Total Current Assets	<u>8,357,845</u>	<u>9,514,951</u>
Current Restricted Assets		
Escrow	<u>125,084</u>	<u>71,659</u>
Total Restricted Assets	<u>125,084</u>	<u>71,659</u>
Capital Assets (net of accumulated depreciation)		
Land	764,500	764,500
Construction in progress	4,959,447	513,537
Plant and equipment	20,364,651	21,349,463
Sanitary sewers	5,491,542	5,593,636
Contributed sewers	<u>8,986,883</u>	<u>8,997,440</u>
Total Capital Assets	<u>40,567,023</u>	<u>37,218,576</u>
 TOTAL ASSETS	 <u>\$ 49,049,952</u>	 <u>\$ 46,805,186</u>

LIABILITIES AND NET POSITION

	<u>2017</u>	<u>2016</u>
Current Liabilities (Payable from Current Assets)		
Current maturities	\$ 738,244	\$ 700,741
Accounts payable	290,193	99,207
Accrued payroll	<u>8,913</u>	<u>51,353</u>
Total Payable from Current Assets	<u>1,037,350</u>	<u>851,301</u>
Current Liabilities (Payable from Restricted Assets)		
Escrow	<u>125,084</u>	<u>71,659</u>
Total Payable from Restricted Assets	<u>125,084</u>	<u>71,659</u>
Total Current Liabilities	<u>1,162,434</u>	<u>922,960</u>
Long-Term Debt		
Construction loan	6,887,966	7,586,788
Compensated absences	<u>89,307</u>	<u>95,085</u>
Total Long-Term Debt	<u>6,977,273</u>	<u>7,681,873</u>
Total Liabilities	<u>8,139,707</u>	<u>8,604,833</u>
Net Position		
Net Investment in Capital Assets	32,940,813	28,931,047
Unrestricted	<u>7,969,432</u>	<u>9,269,306</u>
Total Net Position	<u>40,910,245</u>	<u>38,200,353</u>
 TOTAL LIABILITIES AND NET POSITION	 <u>\$ 49,049,952</u>	 <u>\$ 46,805,186</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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Revenues		
Sewer rents	\$ 2,492,372	\$ 2,399,771
Operating payment	1,080,513	684,751
Miscellaneous	<u>118,914</u>	<u>99,112</u>
Total Operating Revenues	<u>3,691,799</u>	<u>3,183,634</u>
Operating Expenses		
Operating expenses - Schedule A	2,535,401	2,499,359
General and administrative expenses - Schedule B	938,784	963,659
Compensated absences	(5,778)	13,253
Depreciation expense on assets reimbursed previously by BCWSA	<u>541,346</u>	<u>538,583</u>
Total Operating Expenses	<u>4,009,753</u>	<u>4,014,854</u>
Net Operating Income (Loss)	<u>(317,954)</u>	<u>(831,220)</u>
Net Non-Operating Revenue (Expense)		
Interest income	77,104	59,152
Reimbursement for capital purchases	2,299,035	97,547
Tap in fees	700,840	104,379
Gain (loss) on replacement of fixed assets	(3,445)	(500)
DEP assessment	-	(36,714)
Litigation expense	-	(200)
Interest expense	(181,525)	(222,878)
Loan expenses	<u>(34,414)</u>	<u>-</u>
Net Non-Operating Revenue (Expense)	<u>2,857,595</u>	<u>786</u>
Income (Loss) Before Contributions	2,539,641	(830,434)
Capital Contributions	<u>170,251</u>	<u>2,000</u>
Change in Net Position	2,709,892	(828,434)
Net Position Beginning of Year	<u>38,200,353</u>	<u>39,028,787</u>
Net Position End of Year	<u>\$ 40,910,245</u>	<u>\$ 38,200,353</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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Cash received from customers	\$ 3,656,857	\$ 3,244,262
Cash paid to suppliers	(1,271,756)	(1,516,867)
Cash paid to employees	<u>(1,236,203)</u>	<u>(1,239,511)</u>
Net cash provided by (used in) operating activities	<u>1,148,898</u>	<u>487,884</u>
Cash flows from capital and related financing activities:		
Capital expenditures	(4,540,667)	(283,502)
New borrowings	7,990,000	241,538
Retirement of debt	(8,651,319)	(684,339)
Capital project reimbursements	2,299,035	97,547
Tap in fees	700,840	104,379
Emergency repairs	-	(36,714)
Litigation expense	-	(200)
Loan expenses	(34,414)	-
Interest paid	<u>(181,525)</u>	<u>(222,878)</u>
Net cash provided by (used in) capital and related financing activities	<u>(2,418,050)</u>	<u>(784,169)</u>
Cash flows from investing activities:		
Sales of investments	6,345,974	4,954,504
Purchases of investments	(4,316,712)	(4,934,196)
Interest received	<u>77,104</u>	<u>48,128</u>
Net cash provided by (used in) investing activities	<u>2,106,366</u>	<u>68,436</u>
Net increase (decrease) in cash and cash equivalents	837,214	(227,849)
Cash and cash equivalents, at beginning of year	<u>875,051</u>	<u>1,102,900</u>
Cash and cash equivalents, at end of year	<u>\$ 1,712,265</u>	<u>\$ 875,051</u>

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

Operating income (loss)	\$ (317,954)	\$ (831,220)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation expense	1,359,026	1,351,128
(Increase) decrease in accounts receivable	(34,942)	53,250
(Increase) decrease in other current assets	-	7,388
Increase (decrease) in accounts payable	190,986	(118,580)
Increase (decrease) in payroll and payroll tax payable	(42,440)	12,666
Increase (decrease) in compensated absences	<u>(5,778)</u>	<u>13,252</u>
Total adjustments	<u>1,466,852</u>	<u>1,319,104</u>
Net cash provided by (used in) operating activities	<u>\$ 1,148,898</u>	<u>\$ 487,884</u>

Noncash investing, capital, and financing activities:

The Authority recognized contributed sewer lines in the amount of \$170,251

See auditors' report and accompanying notes to financial statements

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Notes to Financial Statements

May 31, 2017

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: 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 fees incurred on behalf of a specific project. Any unused deposits are returned to the developer upon completion of the project. 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, 2017, \$125,084 represents the balance of these monies held in escrow.

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Notes to Financial Statements

May 31, 2017

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 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 on assets reimbursed previously by BCWSA. BCWSA reimburses the Authority a percentage for capital outlay.

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, 2017

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, 2017 is \$89,307.

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Notes to Financial Statements

May 31, 2017

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, 2016, 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, 2017

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 pool's amortized cost-based net asset value per share, which approximates fair value. There are no limitations or restrictions on withdrawals.

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 \$1,712,265 and the bank balance was \$1,712,152. 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, 2017 the amount in excess of this insurance was \$1,462,152.

The Authority has deposits of \$381,778 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, 2017

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	2017	\$ 381,777	\$ 381,777	\$ -
Term Deposits	2017-2018	1,100,000	1,100,000	-
Certificate of Deposit	2017-2018	<u>5,148,434</u>	<u>4,355,335</u>	<u>793,099</u>
Total		<u>\$ 6,630,211</u>	<u>\$ 5,837,112</u>	<u>\$ 793,099</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. The government’s investments in the external investment pool were rated AAAM by Standard & Poor’s.

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, 2017, \$125,084 represents the balance of these monies held in escrow.

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Notes to Financial Statements

May 31, 2017

NOTE 4. Capital Assets

Capital asset activity for the year ended May 31, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 764,500	\$ -	\$ -	\$ 764,500
Construction in progress	513,537	4,469,857	(23,947)	4,959,447
Total capital assets, not being depreciated	<u>1,278,037</u>	<u>4,469,857</u>	<u>(23,947)</u>	<u>5,723,947</u>
Capital assets, being depreciated:				
Plant	33,487,399	-	(13,782)	33,473,617
Equipment	2,135,928	94,755	(4,998)	2,225,685
Sanitary sewers	7,735,729	-	-	7,735,729
Contributed sewers	13,924,937	170,251	-	14,095,188
Total capital assets, being depreciated	<u>57,283,993</u>	<u>265,006</u>	<u>(18,780)</u>	<u>57,530,219</u>
Less accumulated depreciation for:				
Plant	12,851,256	989,845	(10,337)	13,830,764
Equipment	1,422,606	86,279	(4,998)	1,503,887
Sanitary sewers	2,142,093	102,094	-	2,244,187
Contributed sewers	4,927,497	180,808	-	5,108,305
Total accumulated depreciation	<u>21,343,452</u>	<u>1,359,026</u>	<u>(15,335)</u>	<u>22,687,143</u>
Total capital assets, being depreciated, net	<u>35,940,541</u>	<u>(1,094,020)</u>	<u>(3,445)</u>	<u>34,843,076</u>
All capital assets, net	<u>\$ 37,218,578</u>	<u>\$ 3,375,837</u>	<u>\$ (27,392)</u>	<u>\$ 40,567,023</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, 2017

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 \$2,592, 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, 2017 was \$-0-. There were no retirees receiving this benefit.

Funded Status and Funding Progress

The funded status of the plan as of June 1, 2015, 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, 2017

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.

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Notes to Financial Statements

May 31, 2017

NOTE 6. Post-Retirement Benefits (Continued)

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:

Annual OPEB Cost and Net OPEB Obligation (continued)

	<u>OPEB</u>
Annual required contribution	\$ 199
Interest on net OPEB obligation	69
Adjustments to annual required contribution	<u>-</u>
Annual OPEB cost	268
Contributions made	<u>-</u>
Increase (decrease) in net OPEB obligation	268
Net OPEB obligation (asset) at beginning of year	<u>2,324</u>
Net OPEB obligation (asset) at end of year	<u><u>\$ 2,592</u></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, 2015 valuation used the following assumptions:

	<u>OPEB</u>
Date of valuation	6/1/2015
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

	Annual		Net
<u>Fiscal</u>	<u>OPEB</u>	<u>Percentage</u>	<u>OPEB</u>
<u>Year End</u>	<u>Cost</u>	<u>Contributed</u>	<u>Obligation</u>
2015	\$ 251	0%	\$ 2,065
2016	259	0%	2,324
2017	268	0%	2,592

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Notes to Financial Statements

May 31, 2017

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, 2017 was \$1,193,764. The total covered payroll was \$1,206,872 on the cash basis of accounting, which is the basis used to calculate the pension contributions. The Authority has made the necessary contribution of \$96,550 (8.0% of covered payroll).

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Notes to Financial Statements

May 31, 2017

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 was drawing down on the \$10,000,000 available loan balance as construction progressed. The loan was refunded in November 2016.

In November 2016, the Authority obtained a \$7,990,000 loan (series 2016 loan) to currently refund the series 2013. The loan is to be repaid over 120 months beginning in December 2016 at a fixed interest rate of 1.94%. The monthly payments are \$73,304. The refunding resulted in a savings of approximately \$27,000 per year.

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Notes to Financial Statements

May 31, 2017

NOTE 10. Debt (Continued)

Long-term liability activity for the year ended May 31, 2017 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	\$ 8,287,529	\$ -	\$ (8,287,529)	\$ -	\$ -
Construction loan 2016	-	7,990,000	(363,790)	7,626,210	738,244
Compensated absences	<u>95,085</u>	<u>-</u>	<u>(5,778)</u>	<u>89,307</u>	<u>-</u>
Business-type activities					
Long-Term Liabilities	<u>\$ 8,382,614</u>	<u>\$ 7,990,000</u>	<u>\$ (8,657,097)</u>	<u>\$ 7,715,517</u>	<u>\$ 738,244</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, 2017 are as follows:

Year Ending		
31-May	<u>Principal</u>	<u>Interest</u>
2018	\$ 738,244	\$ 141,407
2019	752,694	126,957
2020	767,427	112,224
2021	782,448	97,203
2022	797,763	81,888
2023-2025	<u>3,787,634</u>	<u>170,793</u>
	<u>\$ 7,626,210</u>	<u>\$ 730,472</u>

NOTE 11. New Accounting Pronouncements

GASB Statement No. 79 – Certain External Investment Pools and Pool Participants. This Statement is effective for fiscal years beginning after December 15, 2015. The objective of this Statement is to establish criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The external investment pool described in these financial statements elected to continue reporting its investments at amortized cost. The implementation of this Statement had no effect on the balances of the investment in the financial statements.

**REQUIRED
SUPPLEMENTAL INFORMATION**

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Required Supplemental Information – OPEB Plan

For the Year Ended May 31, 2017

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%
2017	199	-	0%

SUPPLEMENTAL INFORMATION

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Schedule A: Operating Expenses

For the Years Ended May 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Expenses		
Sanitary Sewers		
Salaries and wages	\$ 290,027	\$ 282,475
Education and training	1,281	1,286
Materials and supplies	12,167	26,217
Chemicals	14,071	12,617
Maintenance	17,739	23,289
Alarm system	2,578	2,457
Power-pump station	10,789	8,757
PA one call	1,211	724
Industrial pretreatment	2,243	973
Engineering	21,914	8,448
Hatfield Sewer District	-	-
Legal	3,924	2,074
Miscellaneous customer service	82	-
Depreciation expense	318,410	315,693
Total Sanitary Sewers	<u>696,436</u>	<u>685,010</u>
Sewage Disposal		
Salaries and wages	655,809	721,121
Education and training	1,423	4,046
Materials and supplies	67,050	71,508
Polymer	7,340	27,542
Ferric chloride	9,385	11,373
Laboratory	11,479	8,841
Outside laboratory	7,679	12,633
Equipment maintenance/repair	56,845	46,384
Electrical repair	9,581	8,636
Ground maintenance	15,398	15,077
Fuel oil	-	-
Power	247,347	199,782
Natural gas	74,185	54,428
Engineering	5,405	4,664
Permits	5,546	5,914
Sludge disposal	65,048	25,092
Chemicals	106,109	106,390
Depreciation expense	493,336	490,918
Total Sewage Disposal	<u>1,838,965</u>	<u>1,814,349</u>
 TOTAL OPERATING EXPENSES	 <u>\$ 2,535,401</u>	 <u>\$ 2,499,359</u>

See auditors' report

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Schedule B: General and Administrative Expenses

For the Years Ended May 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Administrative Expenses		
Salaries and wages	\$ 247,927	\$ 248,581
Insurance - plant/equipment	119,290	138,711
Insurance - medical	281,010	286,470
PA unemployment	4,860	4,810
Pension	96,550	95,457
Social security	93,367	93,963
Legal	17,067	11,885
Audit	10,830	11,766
Administrative	7,510	6,825
Engineering	6,241	6,236
Materials and supplies	8,843	8,603
Postage	10,467	12,339
Office equipment	13,836	17,686
Telephone	9,811	10,373
Maintenance	2,717	2,609
Education and training	2,524	1,411
Depreciation expense	<u>5,934</u>	<u>5,934</u>
Total Administrative Expenses	<u>\$ 938,784</u>	<u>\$ 963,659</u>

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CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Schedule C: Net Operating Income After Adjustments

For the Years Ended May 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Revenues		
Sewer rents	\$ 2,492,372	\$ 2,399,771
Operating payment	1,080,513	684,751
Miscellaneous	<u>118,914</u>	<u>99,112</u>
Total Operating Revenues	<u>3,691,799</u>	<u>3,183,634</u>
Operating Expenses		
Operating expenses - Schedule A	2,535,401	2,499,359
General and administrative expenses - Schedule B	938,784	963,659
Compensated absences	(5,778)	13,253
Depreciation expense on assets reimbursed previously by BCWSA	<u>541,346</u>	<u>538,583</u>
Total Operating Expenses	<u>4,009,753</u>	<u>4,014,854</u>
Net Operating Income (Loss)	(317,954)	(831,220)
Add back:		
Depreciation expense on assets reimbursed previously by BCWSA	541,346	538,583
Less: Nonoperating Expenses		
Interest expense	<u>(181,525)</u>	<u>(222,878)</u>
Net operating loss adjusted for BCWSA reimbursements and interest expense	<u>\$ 41,867</u>	<u>\$ (515,515)</u>

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