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

FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

MAY 31, 2013

TABLE OF CONTENTS

BEE BERGVALL & CO.
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Independent Auditors' Report

Board of Directors
Chalfont-New Britain Township
Joint Sewage Authority

We have audited the accompanying financial statements of the business type activities of Chalfont-New Britain Township Joint Sewage Authority, Bucks County, Pennsylvania, as of and for the year ended May 31, 2013, 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.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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, 2013, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and historical trend information on pages 5 through 12 and 36 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 2012 financial statements, and our report dated September 25, 2012, 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, 2012, 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

September 24, 2013

Management's Discussion and Analysis

May 31, 2013

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, 2013. 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, 2013 (FY 2013) are attached.

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

In this MD&A, Revenues and Expenses for FY 2013, compared to those for fiscal year ended May 31, 2012 (FY 2012), are reported on the accrual basis, as in the Financial Statements. Revenues and Expenses for FY 2013 compared to budget for FY 2013 are reported on the cash basis, as in the Financial Statements.

The following are general accounting terms used throughout this document:

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

Assets: Items of value owned by the Authority.

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

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

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

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

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

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, 2013. Questions concerning any information contained in this report or requests for additional information should be addressed to the Executive Director, Chalfont-New Britain Township Joint Sewage Authority, 1645 Upper State Road, Doylestown, Pennsylvania 18901-2624.

STATEMENT OF NET POSITION (pages 13 and 14 of the Financial Statements)

The Statement 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, 2013, were over $42 million, an increase of about 7% from FY 2012. Of the Total Assets, over $6 million or about 15% are in Current Assets. Current Assets increased from FY 2012 primarily due to a large Tap-in-Fee payment for a housing development project. Capital Assets of almost $36 million increased from FY 2012 primarily due to Construction in Progress related to the current treatment plant construction project. The Current Assets are general funds held in "Time Open" investments at Univest Bank and in Term and CD programs at Pennsylvania Local Government Investment Trust (PLGIT). Approximately $131 thousand, less than 1% of the total, were Current Restricted Assets. Current Restricted Assets are escrow accounts held by the Authority on behalf of developers.

Total Assets of the Authority (compared to previous year) for FY 2013 are summarized as follows:

	2013	% of Total	2012	% of Total	% of Increase (Decrease)
Total Assets					
Current Assets	$ 6,387,533	15.1%	$ 5,300,181	13.4%	20.5%
Current Restricted Assets	131,144	0.3%	58,413	0.2%	124.5%
Capital Assets	35,701,342	84.6%	34,182,157	86.5%	4.4%
Total Assets	$ 42,220,019	100.0%	$ 39,540,751	100.0%	6.8%

STATEMENT OF NET POSITION (Cont.)

Total Liabilities of the Authority as of May 31, 2013, were approximately $5.6 million. Long Term Liabilities of almost $5.2 million (92% of the total) increased significant from FY 2012 due to the continuing drawdown on the Series 2011 Construction Loan related to the current treatment plant construction project. Outstanding principal on the Series 2011 loan as of May 31, 2013 is approximately $2.8 million. In addition, a prior Construction Loan (Series 2008) has an outstanding principal of approximately $2.5 million, which includes $191 thousand in Current Liabilities. Of the Total Liabilities, about $334 thousand (6%) were current, payable from Current Assets. Approximately $131 thousand (2%) were Payable from Restricted Assets, which are escrow accounts held by the Authority to ensure the proper construction of sewer systems in new residential and commercial developments. Additional Long Term Liabilities are employee-related Compensated Absences of approximately $76 thousand.

Total Liabilities of the Authority (compared to previous year) for FY 2013 are summarized as follows:

Total Liabilities	2013	% of Total	2012	% of Total	% of Increase (Decrease)
Current Liabilities					
Payable from Current Assets	$ 334,035	5.9%	$ 382,131	10.9%	-12.6%
Payable from Restricted Assets	131,144	2.4%	58,413	1.6%	124.5%
Long Term Liabilities	5,157,160	91.7%	3,079,095	87.5%	67.5%
Total Liabilities	$ 5,622,339	100.0%	$ 3,519,639	100.0%	59.7%

Total Net Position of the Authority, as of May 31, 2013, is approximately $36.6 million with $30.4 million (83%) as Invested in Capital Assets (net of related debt), and approximately $6.1 million (17%) in Unrestricted Assets. Total Net Position increased slightly from FY 2012.

Total Net Position of the Authority (compared to previous year) for FY 2013 is summarized as follows:

Total Net Position	2013	% of Total	2012	% of Total	% of Increase (Decrease)
Invested in Capital Assets,					
Net of Related Debt	$ 30,428,425	83.1%	$ 30,995,040	86.0%	-1.8%
Unrestricted	6,169,255	16.9%	5,026,072	14.0%	22.7%
Total Net Position	$ 36,597,680	100.0%	$ 36,021,112	100.0%	1.6%

STATEMENT 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, 2013 and provides a comparison to FY 2012.

Operating Revenues for FY 2013, reported on the accrual basis, were almost $3.4 million, 3.7% increase over FY 2012. Over $2.1 million (64%) of the Operating Revenues came from Authority Sewer Rentals, which increase slightly over FY 2012. Operating Payments from the Bucks County Water and Sewer Authority (BCWSA) accounted for almost $1.2 million (35%) of the Total Revenues. BCWSA Operating Payments are based on a fixed percentage of the treatment plant operating costs, and matched the budgeted amount for FY 2013. Miscellaneous income accounted for approximately $53 thousand (<2%).

Operating Revenues (compared to previous year) for FY 2013 are summarized as follows:

	2013	% of Total	2012	% of Total	% of Increase (Decrease)
Operating Revenues					
Sewer Rentals	$ 2,160,481	63.7%	$ 2,095,582	64.1%	3.1%
Operating Payment	1,175,471	34.8%	1,156,081	35.4%	1.7%
Miscellaneous	53,562	1.6%	17,593	0.5%	204.5%
Total Operating Revenues	$ 3,389,514	100.0%	$ 3,269,256	100.0%	3.7%

Non-Operating Income for FY 2013, reported on the accrual basis, totaled a little less than $1.1 million, a significant increase over FY 2012 due to Tap-in Fees of over $900 thousand. Most of the increase in Tap-in-Fee income resulted from one large residential development project. Interest Income, which continued to decline due to declining interest rates of the Authority's invested funds, accounted for <2% of the Non-Operating Income. Reimbursement for Capital Purchases of almost $100 thousand was received from the BCWSA for Capital Purchases made by the Authority in FY 2012.

Non-Operating Income (compared to previous year) for FY 2013 are summarized as follows:

	2013	% of Total	2012	% of Total	% of Increase (Decrease)
Non-Operating Income					
Interest Income	$ 16,456	1.5%	$ 29,807	22.3%	-44.8%
Reimbursement for capital purchases	99,759	9.3%	-	-	100.0%
Tap-in-Fees	959,388	89.2%	103,896	77.7%	823.4%
Total Non-Operating Income	$ 1,075,603	100.0%	$ 133,703	100.0%	704.5%

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (Cont.)

Non-Operating Expenses for FY 2013, reported on the accrual basis, totaled approximately $310 thousand, of which 36% was interest payments on the Construction Loans. The Loss on Replacement of Fixed Assets was due to retirement of fixed assets that were not fully depreciated and accounted for 64% of the Total.

Non-Operating Expenses (compared to previous year) for FY 2013 are summarized as follows:

	2013	% of Total	2012	% of Total	% of Increase (Decrease)
Non-Operating Expenses					
Interest Expense	$ 112,775	36.3%	$ 187,872	74.3%	-40.0%
Loss on Replacement of Fixed Assets	197,890	63.7%	64,827	25.7%	-100.0%
Total Non-Operating Expenses	$ 310,665	100.0%	$ 252,699	100.0%	22.9%

Operating Expenses for FY 2013, reported on the accrual basis, totaled $3.58 million, a slight decrease from FY 2012. Facility Operating Expenses of less than $1.8 million, a 6% decrease from FY 2012, accounted for 49% of the Total Operating Expenses, and are listed in detail in Schedule A of the Financial Statements. General and Administrative Expenses, detailed in Schedule B, accounted for approximately $828 thousand (23%). Depreciation Expense accounted for $986 thousand (27%) of the total Operating Expenses. Facility Operating and General & Administrative Expenses decreased about 7% from FY 2012, due to continuing efforts by the Authority to reduce costs. Compensated Absences, as a Long Term Liability, decreased in FY 2013 by approximately $3 thousand, and is reflected as an Operating Expense.

Operating Expenses (compared to previous year) for FY 2013 are summarized as follows:

	2013	% of Total	2012	% of Total	% of Increase (Decrease)
Operating Expenses					
Facility Operating Expenses	$ 1,766,712	49.4%	$ 1,887,407	50.2%	-6.4%
General & Administrative Expenses	828,233	23.1%	895,879	23.8%	-7.6%
Depreciation Expense	986,060	27.6%	969,612	25.8%	1.7%
Compensated Absences	(3,121)	-0.1%	8,340	0.2%	-137.4%
Total Operating Expenses	$ 3,577,884	100.0%	$ 3,761,238	100.0%	-4.9%

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (Cont.)

Income (Loss) Before Contributions in the amount of $576,568, are the Operating Revenues plus net Non-Operating Income/Expense, minus the Operating Expenses.
[$3,389,514 + $764,938 - $3,577,884 = $576,568]

Capital Project Reimbursements/Advances There were no Capital Project Reimbursements in FY 2013. Previous payments by BCWSA contributed in FY 2008 were made in advance for treatment plant construction projects, some of which have been expended and some still held by the Authority as Current Assets.

Net Position - End of Year for FY 2013, in the amount of $36,597,680, are calculated as Income (Loss) Before Contributions plus the Capital Contributions plus the Net Position-Beginning of the Year. [$576,568 + $0 + $36,021,112 = $36,597,680] This figure is considered the true net worth of the Authority.

STATEMENT OF REVENUES AND EXPENSES COMPARED TO BUDGET
(pages 16 - 18)

The Statement of Revenues and Expenses Compared to Budget compares actual Revenues and Expenses for FY 2013, on a cash basis, to the adopted Budget.

Operating Revenues for FY 2013, reported on the cash basis, totaled $3.37 million, about 2% more than Budget.

Operating Revenues (compared to budget) for FY 2013 are summarized as follows:

	Budget 2013	Actual Cash Basis	% Over (Under)
Operating Revenues			
Sewer Rentals	$ 2,098,000	$ 2,142,771	2.1%
BCWSA Operating Payment	1,175,000	1,175,471	0.0%
Miscellaneous Income	16,000	53,562	70.1%
Total Operating Revenues	$ 3,289,000	$ 3,371,804	2.5%

STATEMENT OF REVENUES AND EXPENSES COMPARED TO BUDGET (Cont.)

Operating Expenses for FY 2013, reported on the cash basis, were approximately $3.6 million, inclusive of Depreciation Expense of about $986 thousand. Total Operating Expenses appear over budget due to the Depreciation Expense. The Authority does not budget for depreciation. Operating Expenses, exclusive of depreciation, were $2.63 million, about 8% less than Budget.

Operating Expenses (compared to budget) for FY 2013 are summarized as follows:

	Budget 2013	Actual Cash Basis	% Over (Under)
Operating Expenses			
Sanitary Sewers	$ 384,000	$ 377,229	-1.8%
Sewage Disposal	1,576,000	1,417,610	-11.2%
Administrative Expenses	901,000	831,685	-8.3%
Depreciation Expense	N/A	986,060	N/A
Total Operating Expenses	$ 2,861,000	$ 3,612,584	20.8%

STATEMENT OF CASH FLOWS (page 19)

The Statement of Cash Flows explains the sources and uses of cash throughout the fiscal year, on the accrual basis. Significant changes in Cash Flows, from FY 2012, were primarily related to Capital Expenditures for the aforementioned current treatment plant construction project and the new borrowings on the 2011 Construction Loan related to that construction project, and the large increase In Tap-in-Fees collected.

NOTES TO FINANCIAL STATEMENTS (pages 20-34)

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

CAPITAL ASSETS (NOTE 4 / page 26)

Capital Assets of the Authority are about $35.7 million (net of depreciation) and increased slightly from FY 2012, primarily due to Construction in progress related to the treatment plant construction project. The schedule below summarizes the Capital Assets. More detailed information can be found on page 26 of the Financial Statements (NOTE 4).

	Beginning Balance 6/1/12	Net Additions/ Deletions	Ending Balance 5/31/13
Non-Depreciable Assets			
Land	$ 764,500	$ -	$ 764,500
Construction in progress	669,366	2,276,035	2,945,401
Other Capital Assets			
Plant	26,413,538	(51,855)	26,361,683
Equipment	1,870,351	191,072	2,061,423
Sanitary Sewers	7,690,666	10,626	7,701,292
Contributed Sewers	13,607,433	(5,072)	13,602,361
Accumulated depreciation on capital assets	(16,833,697)	(901,621)	(17,735,318)
Totals	$ 34,182,157	$ 1,519,185	$ 35,701,342

FINANCIAL OUTLOOK

The Financial Outlook for FY 2013-14 should again remain relatively stable. There are no significant changes anticipated for both operational Revenues and Expenses. Customer base will likely remain about the same, as the demand for new housing remains low, although there are signs of increasing development activity. Inflation will continue to increase operational expenses.

Recently completed projects, however, will decrease 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 generation, and employee health benefits, which will minimize increases in those significant expenses.

An increase in sewer usage rates was initiated by the Authority Board in FY 2013 in order to help cover the debt service on the current and pending construction projects. Phase II of the treatment plant expansion and upgrade project is currently under construction with anticipated completion before the end of FY 2014. In addition, design work for Phase III of the treatment plant expansion and upgrade project has commenced. These projects are being funded by a combination of existing reserve funds, BCWSA capital project contribution, and the Series 2011 Construction Loan. In November 2011, the Authority completed the bank loan agreements for the borrowing of up to $8 million for the construction projects, and began drawing on that loan in FY 2012. Drawdown on that loan will continue into FY 2014 as construction projects progress. The loan has a 15 year payback term.

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Statement of Net Position

May 31, 2013 and 2012

ASSETS

	2013	2012
Current Assets		
Cash and cash equivalents	$ 692,526	$ 799,643
Investments	5,392,335	4,212,700
Interest receivable	12,085	33,123
Accounts receivable	267,535	242,338
Other current asset	23,052	12,377
Total Current Assets	6,387,533	5,300,181
Current Restricted Assets		
Escrow	131,144	58,413
Total Restricted Assets	131,144	58,413
Capital Assets (net of accumulated depreciation)		
Land	764,500	764,500
Construction in progress	2,945,401	669,366
Plant and equipment	16,917,764	17,404,966
Sanitary Sewers	5,861,122	5,950,847
Contributed Sewers	9,212,555	9,392,478
Total Capital Assets	35,701,342	34,182,157
TOTAL ASSETS	$ 42,220,019	$ 39,540,751

LIABILITIES AND NET POSITION

	2013	2012
Current Liabilities (Payable from Current Assets)		
Current maturities	$ 191,729	$ 187,115
Accounts payable	101,859	175,828
Accrued payroll	40,447	19,188
Total Payable from Current Assets	334,035	382,131
Current Liabilities (Payable from Restricted Assets)		
Escrow	131,144	58,413
Total Payable from Restricted Assets	131,144	58,413
Total Current Liabilities	465,179	440,544
Long-Term Debt		
Construction loan	5,081,188	3,000,002
Compensated absences	75,972	79,093
Total Long-Term Debt	5,157,160	3,079,095
Total Liabilities	5,622,339	3,519,639
Net Position		
Investment in capital assets, net of related debt	30,428,425	30,995,040
Unrestricted	6,169,255	5,026,072
Total Net Position	36,597,680	36,021,112
TOTAL LIABILITIES AND NET POSITION	$ 42,220,019	$ 39,540,751

See auditors' report and accompanying notes to financial statements

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Statement of Revenues, Expenses, and Changes in Net Position

For the Year Ended May 31, 2013 and 2012

	2013	2012
Operating Revenues		
Sewer rents	$ 2,160,481	$ 2,095,582
Operating payment	1,175,471	1,156,081
Miscellaneous	53,562	17,593
Total Operating Revenues	3,389,514	3,269,256
Operating Expenses		
Operating expenses - Schedule A	1,766,712	1,887,407
General and administrative expenses - Schedule B	828,233	895,879
Compensated absences	(3,121)	8,340
Depreciation expense	986,060	969,612
Total Operating Expenses	3,577,884	3,761,238
Net Operating Income (Loss)	(188,370)	(491,982)
Net Non-Operating Income (Expense)		
Interest income	16,456	29,807
Reimbursement for capital purchases	99,759	-
Tap in fees	959,388	103,896
Gain (loss) on replacement of fixed assets	(197,890)	(64,827)
Interest expense	(112,775)	(187,872)
Net Non-Operating Income (Expense)	764,938	(118,996)
Income (Loss) Before Contributions	576,568	(610,978)
Capital Contributions	-	3,000
Change in Net Position	576,568	(607,978)
Net Position Beginning of Year	36,021,112	36,629,090
Net Position End of Year	$ 36,597,680	$ 36,021,112

See auditors' report and accompanying notes to financial statements

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

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

For the Year Ended May 31, 2013

	Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variance
Operating Revenues				
Sewer rents	$ 2,098,000	$ 2,098,000	$ 2,142,771	$ 44,771
Operating payment	1,175,000	1,175,000	1,175,471	471
Miscellaneous income	16,000	16,000	53,562	37,562
Total Operating Revenues	3,289,000	3,289,000	3,371,804	82,804
Operating Expenses				
Sanitary Sewers:				
Salaries and wages	255,000	255,000	248,195	6,805
Education and training	1,000	1,000	1,157	(157)
Materials and supplies	25,000	25,000	24,787	213
Chemicals	25,000	25,000	11,351	13,649
Maintenance	15,000	15,000	23,996	(8,996)
Alarm system	3,000	3,000	2,363	637
Power-pump station	10,000	10,000	10,048	(48)
PA one call	1,000	1,000	1,115	(115)
Industrial pretreatment	1,000	1,000	920	80
Hatfield sewer district	38,000	38,000	37,200	800
Engineering	8,000	8,000	11,666	(3,666)
Legal	1,000	1,000	4,431	(3,431)
Miscellaneous customer service	1,000	1,000	-	1,000
Total Sanitary Sewers	384,000	384,000	377,229	6,771
Sewage Disposal:				
Salaries and wages	700,000	700,000	687,641	12,359
Education and training	3,000	3,000	2,319	681
Materials and supplies	80,000	80,000	61,819	18,181
Polymer	30,000	30,000	21,849	8,151
Ferric chloride	30,000	30,000	28,275	1,725
Laboratory	15,000	15,000	8,747	6,253
Outside laboratory	10,000	10,000	6,941	3,059
Equipment maintenance/repair	90,000	90,000	42,332	47,668
Electrical repair	10,000	10,000	3,432	6,568
Ground maintenance	15,000	15,000	12,713	2,287
Fuel oil	50,000	50,000	70,571	(20,571)
Power	325,000	325,000	290,680	34,320

(Continued...)

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

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

For the Year Ended May 31, 2013

	Budgeted Amounts			
	Original	Final	Actual	Variance
Operating Expenses (Continued)				
Sewage Disposal (Continued):				
Natrual gas	$ 60,000	$ 60,000	$ 36,396	$ 23,604
Engineering	8,000	8,000	3,428	4,572
Permits	5,000	5,000	5,286	(286)
Chemicals	120,000	120,000	102,320	17,680
Sludge disposal	25,000	25,000	32,861	(7,861)
Total Sewage Disposal	1,576,000	1,576,000	1,417,610	158,390
Administrative Expenses				
Salaries and wages	232,000	232,000	221,821	10,179
Insurance - plant/equipment	130,000	130,000	132,713	(2,713)
Insurance - medical	235,000	235,000	204,117	30,883
PA unemployment	5,000	5,000	4,477	523
Pension	94,000	94,000	89,035	4,965
Social security	90,000	90,000	88,380	1,620
Legal	30,000	30,000	21,868	8,132
Audit	14,000	14,000	10,165	3,835
Administrative	10,000	10,000	7,715	2,285
Engineering	8,000	8,000	6,000	2,000
Materials and supplies	10,000	10,000	9,373	627
Postage	12,000	12,000	11,244	756
Office equipment	14,000	14,000	11,357	2,643
Telephone	9,000	9,000	8,540	460
Maintenance	5,000	5,000	1,183	3,817
Education and training	3,000	3,000	3,697	(697)
Total Administrative Expenses	901,000	901,000	831,685	69,315
Depreciation Expense	-	-	986,060	(986,060)
Total Operating Expenses	2,861,000	2,861,000	3,612,584	(751,584)
Net Operating Income (Loss)	428,000	428,000	(240,780)	(668,780)

(Continued...)

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

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

For the Year Ended May 31, 2013

	Budgeted Amounts			
	Original	Final	Actual	Variance
Non Operating Income (Expense)				
Interest income	$ 50,000	$ 50,000	$ 49,579	$ (421)
Reimbursement for capital purchases	100,000	100,000	99,759	(241)
Tap in fees	900,000	900,000	959,388	59,388
Disposal of fixed assets	-	-	(197,890)	(197,890)
Interest expense	(192,000)	(192,000)	(112,775)	79,225
Total Net Non Operating Income (Expense)	858,000	858,000	798,061	(59,939)
NET INCOME (LOSS)	$ 1,286,000	$ 1,286,000	$ 557,281	$ (728,719)
Supplementary Information				
Loan Payments - Principal	307,000	307,000	309,123	2,123
Capital Purchases				
Pump Replacements	15,000	15,000	-	(15,000)
Bristol Road Sewer Extension	50,000	50,000	-	(50,000)
Pump St-Control Panel Replacements	15,000	15,000	15,929	929
Emergency Backup Pump	55,000	55,000	49,979	(5,021)
Pump St #1 & #5 Bypass	10,000	10,000	10,969	969
Portable Flow Meter	-	-	3,847	3,847
Generator connection- PS#4	6,000	6,000	5,463	(537)
Dryer - Conversion to Gas	30,000	30,000	28,258	(1,742)
Generator upgrades- control panel & fuel tank	32,000	32,000	-	(32,000)
Pallet Lifter	-	-	3,864	3,864
Silo Replacement	155,000	155,000	176,971	21,971
Sludge Pump Replacement	-	-	13,627	13,627
Executive Director Vehicle	-	-	24,019	24,019
Computer Hardware Replacement	15,000	15,000	12,474	(2,526)
Computer Software Upgrades	50,000	50,000	-	(50,000)
Phase II Plant Expansion / Upgrade	2,500,000	2,500,000	2,374,210	(125,790)
Phase III Plant Exp / Upgrade- Solids Handling	100,000	100,000	20,713	(79,287)
Total Capital Purchases	3,033,000	3,033,000	2,740,323	(292,677)
Total Net Budget	$ (2,054,000)	$ (2,054,000)		

See auditors' report and accompanying notes to financial statements

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Statement of Cash Flows

For the Years Ended May 31, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Cash received from customers	$ 3,353,642	$ 3,235,664
Cash paid to suppliers	(1,502,886)	(1,605,132)
Cash paid to employees	(1,144,769)	(1,162,770)
Net cash provided by (used in) operating activities	705,987	467,762
Cash flows from capital and related financing activities:		
Capital expenditures	(2,706,730)	(1,425,419)
Loss on sale of assets	3,595	10,301
New borrowings	2,394,923	520,578
Retirement of debt	(309,123)	(2,829,368)
Grants	99,759	-
Tap in fees	959,388	103,896
Interest paid	(112,775)	(187,872)
Net cash provided by (used in) capital and related financing activities	329,037	(3,807,884)
Cash flows from investing activities:		
Net change in investments	(1,179,635)	1,206,812
Interest received	37,494	104,560
Net cash provided by (used in) investing activities	(1,142,141)	1,311,372
Net increase (decrease) in cash and cash equivalents	(107,117)	(2,028,750)
Cash and cash equivalents, at beginning of year	799,643	2,828,393
Cash and cash equivalents, at end of year	$ 692,526	$ 799,643

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

	2013	2012
Operating income (loss)	$ (188,370)	$ (491,982)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation expense	986,060	969,612
(Increase) decrease in accounts receivable	(25,197)	(21,215)
(Increase) decrease in other current assets	(10,675)	(12,377)
Increase (decrease) in accounts payable	(73,969)	51,201
Increase (decrease) in payroll and payroll tax payable	21,259	(35,817)
Increase (decrease) in compensated absences	(3,121)	8,340
Total adjustments	894,357	959,744
Net cash provided by (used in) operating activities	$ 705,987	$ 467,762

Noncash investing, capital, and financing activities:
The Authority recognized accrued interest in the amount of $12,085.

See auditors' report and accompanying notes to financial statements

NOTE 1. Summary of Significant Accounting Policies

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

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

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

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

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

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

NOTE 1. Summary of Significant Accounting Policies (Continued)

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

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

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

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

Assets	Years
Plant	15-40 years
Equipment	5-40 years
Sanitary Sewers	40-80 years
Contributed Sewers	40-80 years

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

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

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 are classified in the following three components: invested in capital assets, net of related liabilities; restricted for capital activity and debt services; and unrestricted net position. Invested in capital assets, net of related debt, 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, 2013 is $75,972.

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, 2012, from which the comparative information was derived.

NOTE 2. Budgets and Budgetary Accounting

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

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

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

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

NOTE 2. Budgets and Budgetary Accounting (Continued)

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

Net income - GAAP basis	$	576,568
Adjustments:		
Change in receivables		15,413
Change in payables		(34,700)
Net income - cash basis	$	557,281

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.

NOTE 3. Cash and Investments (Continued)

Custodial Credit Risk – Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority's policy is to require their banking institution to provide a letter stating that they follow the Commonwealth of Pennsylvania Act 72, where all funds in excess of federal depository insurance limits held by the bank are collateralized in public funds secured on a pooled basis. At year-end, the carrying amount of deposits was $692,526 and the bank balance was $699,710. Of the bank balance, $250,062 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, 2013 the amount in excess of this insurance was $449,648.

The Authority has deposits of $5,499 in external investment pools that is considered cash equivalents because of their short maturity dates and are included in the deposits figures above.

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

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

INVESTMENTS	Maturity Dates	Fair Value
External Pooled Investments	2013	$ 5,499
Certificate of Deposit	2013-2014	5,392,335
Total		$ 5,397,834

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.

NOTE 3. Cash and Investments (Continued)

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

The Authority acts in a custodial capacity with respect to monies deposited with it by developers and others. These monies are held by the Authority and used to pay legal, engineering, and other fees incurred on behalf of a specific project. Any unused deposits are returned to the developer upon completion of the project, except for an administrative handling fee. None of the monies received from or expended on behalf of the developers are recorded in the revenues or expenses of the Authority. At May 31, 2013, $131,144 represents the balance of these monies held in escrow.

NOTE 4. Capital Assets

Capital asset activity for the year ended May 31, 2013 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 764,500	$ -	$ -	$ 764,500
Construction in progress	669,366	2,706,727	(430,692)	2,945,401
Total capital assets, not being depreciated	1,433,866	2,706,727	(430,692)	3,709,901
Capital assets, being depreciated:				
Plant	26,413,538	185,837	(237,692)	26,361,683
Equipment	1,870,351	234,229	(43,157)	2,061,423
Sanitary Sewers	7,690,666	10,626	-	7,701,292
Contributed Sewers	13,607,433	-	(5,072)	13,602,361
Total capital assets, being depreciated	49,581,988	430,692	(285,921)	49,726,759
Less accumulated depreciation for:				
Plant	9,660,991	609,470	(38,931)	10,231,530
Equipment	1,217,932	99,037	(43,157)	1,273,812
Sanitary Sewers	1,739,819	100,351	-	1,840,170
Contributed Sewers	4,214,955	177,199	(2,348)	4,389,806
Total accumulated depreciation	16,833,697	986,057	(84,436)	17,735,318
Total capital assets, being depreciated, net	32,748,291	(555,365)	(201,485)	31,991,441
All capital assets, net	$ 34,182,157	$ 2,151,362	$ (632,177)	$ 35,701,342

NOTE 5. Deferred Compensation Plan/Payable

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

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

NOTE 6. Post-Retirement Benefits

Effective June 1, 2009, the Authority adopted the provisions of Governmental Accounting Standards Board Codification, "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*" (OPEB). In addition to the relevant disclosures within this note related to the implementation of Governmental Accounting Standards Board Codification, the financial statements do not reflect a long-term liability and related expenses of $1,467, 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, 2013 was $-0-. There were no retirees receiving this benefit.

NOTE 6. Post-Retirement Benefits (Continued)

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
6/1/2012	$ -	$ 7,618	0%	$ 7,165	$ 1,112,933	1%

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

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

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

NOTE 6. Post-Retirement Benefits (Continued)

Annual OPEB Cost and Net OPEB Obligation

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

	OPEB
Annual required contribution	$ 302
Interest on net OPEB obligation	34
Adjustments to annual required contribution	-
Annual OPEB cost	336
Contributions made	-
Increase (decrease) in net OPEB obligation	336
Net OPEB obligation (asset) at beginning of year	1,131
Net OPEB obligation (asset) at end of year	$ 1,467

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:

	OPEB
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.

NOTE 6. Post-Retirement Benefits (Continued)

Trend Information

Fiscal Year End	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
2011	$ 377	0%	$ 743
2012	388	0%	1,131
2013	336	0%	1,467

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.

NOTE 7. Money Purchase Pension Plan (Continued)

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

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

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

The Authority's total payroll for all employees for the year ended May 31, 2012 was $1,160,049 on the cash basis of accounting, which is the basis used to calculate the pension contributions. The total covered payroll was $1,112,933. The Authority has made the necessary contribution of $89,035 (8.0% of covered payroll).

NOTE 8. Agreements with Other Municipalities

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

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

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

NOTE 8. Agreements with Other Municipalities (Continued)

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

NOTE 9. Risk Management and Contingencies

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

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

NOTE 10. Debt

In July of 2009 (series 2008 loan) The Authority obtained a construction loan of $6,000,000 to be used for plant improvement projects. The loan is to be repaid over 16 years at an interest rate of 4.35%. During fiscal year end 2010 the final drawdown distribution was made. As of May 31, 2013 the Authority had a loan balance of $2,479,416 and paid interest of $78,493.

In November 2011 (series 2011 loan) The Authority obtained a construction loan of $8,000,000 to be used for plant improvement projects. The Authority is drawing down on the $8,000,000 available loan balance as construction progresses. The total drawn down must be taken by November 2013. The loan is to be repaid over 15 years from the time of final distribution at a fixed interest rate of 3.15% for 10 years then a variable interest rate between 3.00% and 5.25% for the remaining 5 years. As of May 31, 2013 the Authority had borrowed $2,793,501 and paid interest of $34,282.

NOTE 10. Debt (Continued)

Long-term liability activity for the year ended May 31, 2013 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Construction loan 2009	$ 2,666,539	$ -	$ 187,123	$ 2,479,416	$ 191,729
Construction loan 2011	520,578	2,394,923	122,000	2,793,501 *	-
Compensated absences	79,093	-	3,121	75,972	-
Business-type activities Long-Term Liabilities	$ 3,266,210	$ 2,394,923	$ 312,244	$ 5,348,889	$ 191,729

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

Future maturities as of May 31, 2013 are as follows:

Year Ending 31-May	Principal	Interest
2013	$ 191,729	$ 72,785
2014	197,652	66,862
2015	203,585	60,929
2016	210,027	54,487
2017	216,505	48,009
2018-2022	1,186,814	135,756
2023-2024	273,104	4,766
	$ 2,479,416	$ 443,594

NOTE 11. Subsequent Events

The Authority has evaluated events and transactions for potential recognition or disclosure in the financial statements through September 24, 2013, which is the date the statements were available for release. No subsequent events have been recognized or disclosed.

NOTE 12. New Accounting Pronouncements

Statement No. 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, was issued in June 2011. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments,* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. This statement only applies to full accrual accounting. GASB Statement No. 63 is effective for financial statements for fiscal years beginning after December 15, 2011. Chalfont-New Britain Township Joint Sewage Authority has implemented this standard for the year ended May 31, 2013.

Statement No. 65 - *Items Previously Reported as Assets and Liabilities*, was issued in March 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 is effective for financial statements for fiscal years beginning after December 15, 2012. Chalfont-New Britain Township Joint Sewage Authority has implemented this standard for the year ended May 31, 2013. There were no deferred outflows or inflows that required restating.

REQUIRED
SUPPLEMENTAL INFORMATION

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Required Supplemental Information –OPEB Plan

For the Year Ended May 31, 2013

SCHEDULE OF FUNDING PROGRESS

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
6/1/2012	$ -	$ 7,618	0%	$ 7,165	$ 1,112,933	1%

SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYER AND OTHER CONTRIBUTING ENTITIES

Fiscal Year End	Annual Required Contribution	Contributions From Employer	Percentage Contributed
2011	$ 366	$ -	0%
2012	366	-	0%
2013	302	-	0%

SUPPLEMENTAL INFORMATION

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Schedule A: Operating Expenses (Accrual Basis)

For the Years Ended May 31, 2013 and 2012

	2013	2012
Operating Expenses		
Sanitary Sewers		
Salaries and wages	$ 250,097	$ 245,533
Education and training	1,157	1,001
Materials and supplies	29,501	18,859
Chemicals	11,351	9,288
Maintenance	19,544	23,627
Alarm system	2,374	2,455
Power-pump station	10,153	12,512
PA one call	1,120	1,172
Industrial pretreatment	920	800
Engineering	9,999	8,413
Hatfield Sewer District	37,200	34,672
Legal	3,300	6,254
Miscellaneous customer service	-	(183)
Total Sanitary Sewers	376,716	364,403
Sewage Disposal		
Salaries and wages	692,939	680,033
Education and training	2,319	2,421
Materials and supplies	60,309	54,923
Polymer	21,849	27,870
Ferric chloride	27,247	19,613
Laboratory	9,071	10,722
Outside laboratory	7,475	7,241
Equipment maintenance/repair	41,154	44,593
Electrical repair	2,882	4,150
Ground maintenance	11,479	14,365
Fuel oil	45,665	193,098
Power	291,296	313,316
Natural gas	41,865	-
Engineering	4,956	6,589
Permits	5,436	5,103
Alarm system	-	-
Sludge disposal	30,286	29,630
Chemicals	93,768	109,337
Total Sewage Disposal	1,389,996	1,523,004
TOTAL OPERATING EXPENSES	$ 1,766,712	$ 1,887,407

See accountants' report

CHALFONT-NEW BRITAIN TOWNSHIP JOINT SEWAGE AUTHORITY

Schedule B: General and Administrative Expenses (Accrual Basis)

For the Years Ended May 31, 2013 and 2012

	2013	2012
Administrative Expenses		
Salaries and wages	$ 222,992	$ 201,387
Insurance - plant/equipment	132,713	121,686
Insurance - medical	203,727	292,008
PA unemployment	4,477	4,076
Pension	89,035	90,258
Social security	88,380	88,841
Legal	20,912	23,885
Audit	10,165	14,345
Administrative	7,287	8,302
Engineering	6,000	4,938
Materials and supplies	9,481	9,084
Postage	11,244	10,953
Office equipment	8,483	15,708
Telephone	8,555	7,806
Maintenance	1,085	1,838
Education and training	3,697	764
TOTAL ADMINISTRATIVE EXPENSES	$ 828,233	$ 895,879

See accountants' report