

**NORTHAMPTON, BUCKS COUNTY,
MUNICIPAL AUTHORITY**

FINANCIAL STATEMENTS

OCTOBER 31, 2012

(See Independent Auditors' Report)

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INDEPENDENT AUDITOR'S REPORT

To the Board Members of
Northampton, Bucks County, Municipal Authority
Richboro, Pennsylvania

We have audited the accompanying financial statements of the business-type activities of Northampton, Bucks County, Municipal Authority, Pennsylvania, as of and for the years ended October 31, 2012 and 2011, which collectively comprise the Authority's basic financial statements 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Northampton, Bucks County, Municipal Authority, and the respective changes in financial position and cash flows thereof for the years 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 on pages 5 through 9 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 Northampton, Bucks County, Municipal Authority's financial statements as a whole. The Combining Schedules of Revenues, Expenses and Net Income (Loss) before Capital Contributions – Water and Sewer Systems and the Combining Schedules of Administrative and Operating Expenses – Water and Sewer Systems are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Combining Schedules of Revenues, Expenses and Net Income (Loss) before Capital Contributions – Water and Sewer Systems and the Combining Schedules of Administrative and Operating Expenses – Water and Sewer Systems are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Schedules of Revenues, Expenses and Net Income (Loss) before Capital Contributions – Water and Sewer Systems and the Combining Schedules of Administrative and Operating Expenses – Water and Sewer Systems is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Combining Schedules of Revenues, Expenses and Net Income (Loss) before Capital Contributions – Water and Sewer Systems and the Combining Schedules of Administrative and Operating Expenses – Water and Sewer Systems have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2013, on our consideration of Northampton, Bucks County, Municipal Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Northampton, Bucks County, Municipal Authority's internal control over financial reporting and compliance.



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

March 15, 2013

**NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Our discussion and analysis of Northampton, Bucks County, Municipal Authority's (the Authority) financial performance provides an overview of the Authority's financial activities for the fiscal year ended October 31, 2012.

This discussion should be read in conjunction with the Authority's basic financial statements.

FINANCIAL HIGHLIGHTS

Management believes the Authority's financial condition is strong. The Authority is in compliance with its debt covenants and the stringent financial policies and guidelines set by the 1985 Bond Indenture, the Board and management. The following are key financial highlights and activities:

The Authority developed and adopted a 5 year strategic plan (2013-2017) to provide a long range forecast of necessary sanitary sewer and water improvements and maintenance activities to meet the needs of the community. The plan provides policy makers and the community with a strategic approach to the implementation and administration of improvements and maintenance projects. The plan identifies the Authority's infrastructure, establishes priorities and provides for an allocation of resources to meet these objectives

The Authority commissioned a sewer and water rate study, the goal of which was to determine the adequacy of the sewer and water rates for a five-year period ending fiscal year 2017 and to evaluate the rate structure of each operation in terms of equitably recovering costs from all customers. As a result of the study, in November 2012 the Authority adopted a 25% sewer rate increase effective November 1, 2012.

On October 5, 2011, the Authority entered into an agreement with Bucks County Water and Sewer Authority, (BCWSA). BCWSA will continue to provide public water to Northampton from the Forest Park Water Treatment Plant. This will require certain infrastructure improvements. The total cost of the capital improvements is estimated at \$69,000,000. Northampton, Bucks County, Municipal Authority's proportionate share shall be \$7,849,380, which shall be paid at a rate of \$.84 per 1,000 gallons based upon a Debt Service Rate of 5 ¼% annual rate. The term of this agreement is 30 years and was effective May 1, 2011 and shall remain in full force and effect until May 1, 2041.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Authority's annual report includes the MD&A report, the independent auditors' report and the basic financial statements of the Authority. The financial statements also include schedules and notes that explain in more detail some of the information in the financial statements.

**NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

FINANCIAL ANALYSIS OF THE AUTHORITY

The following comparative condensed financial and other selected information serve as the key financial data and indicators for management, monitoring and planning. Comments regarding the year-to-year variances are included in each section by the name of the statement or account.

NET POSITION

A summary of the Authority's Statements of net position as of October 31, 2012 and 2011 is presented in Table A-1.

Table A-1
Condensed Statements of Net Position
(In thousands of dollars)

	<u>2012</u>	<u>2011</u>	<u>Dollar Change</u>	<u>Total % Change</u>
Current and other assets	\$ 10,807	\$ 12,444	\$ (1,637)	(13.2)
Long term assets	1,791	2,065	(274)	(13.3)
Capital assets (restated)	<u>76,743</u>	<u>78,530</u>	<u>(1,787)</u>	(2.3)
Total assets	<u>\$ 89,341</u>	<u>\$ 93,039</u>	<u>\$ (3,698)</u>	(4.0)
Deferred Outflows of Resources	<u>\$ 24</u>	<u>\$ 31</u>	<u>\$ (7)</u>	(22.6)
Long-term debt outstanding	\$ 24,512	\$ 26,216	\$ (1,704)	(6.5)
Other liabilities	<u>1,725</u>	<u>1,274</u>	<u>451</u>	35.4
Total liabilities	<u>\$ 26,237</u>	<u>\$ 27,490</u>	<u>\$ (1,253)</u>	(4.6)
Deferred Inflows of Resources	<u>\$ 253</u>	<u>\$ 120</u>	<u>\$ 133</u>	110.8
Invested in capital assets, net of related debt	\$ 52,231	\$ 52,314	\$ (83)	(0.2)
Restricted	6,327	6,944	(617)	(8.9)
Unrestricted	<u>4,317</u>	<u>6,202</u>	<u>(1,885)</u>	(30.4)
Total net position	<u>\$ 62,875</u>	<u>\$ 65,460</u>	<u>\$ (2,585)</u>	(3.9)

Table A-1 above shows that net position decreased by \$2.6 million as a result of this year's operations, primarily due to \$2.6 million of depreciation expense. Current and other assets decreased 1.6 million primarily due to \$787 thousand of capital expenditures and \$1.2 million of principal reduction of long-term debt partially offset by the collection of \$274 thousand of long-term assessment and tapping fees receivable relating to the west end sewer project.

**NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Table A-2
Condensed Statements of Revenues,
Expenses, and Changes in Net Position
(In thousands of dollars)

	<u>2012</u>	<u>2011</u>	<u>Dollar Change</u>	<u>Total % Change</u>
Operating revenues	\$ 12,031	\$ 16,233	\$ (4,202)	(25.9)
Nonoperating revenues	<u>7</u>	<u>575</u>	<u>(568)</u>	(98.8)
Total revenue	<u>12,038</u>	<u>16,808</u>	<u>(4,770)</u>	(28.4)
Operating and administrative expenses	10,835	11,038	(203)	(1.8)
Depreciation expense	2,575	2,615	(40)	(1.5)
Nonoperating expense	<u>1,149</u>	<u>913</u>	<u>236</u>	25.8
Total expenses	<u>14,559</u>	<u>14,566</u>	<u>(7)</u>	(0.0)
Net income before capital contributions	(2,521)	2,242	(4,763)	212.4
Capital contributions	<u>76</u>	<u>22</u>	<u>54</u>	245.5
Increase (decrease) in net position	(2,445)	2,264	(4,709)	208.0
Net Position, beginning of year (restated)	<u>65,320</u>	<u>63,196</u>	<u>2,124</u>	3.4
Net Position, end of year	<u>\$ 62,875</u>	<u>\$ 65,460</u>	<u>\$ (2,585)</u>	(3.9)

While the Statements of Net Position shows the change in assets and liabilities, the Statements of Revenues, Expenses, and Changes in Net Position provides answers as to the nature and source of these changes. In Table A-2 above, the increase (decrease) in net assets decreased \$4.7 million from fiscal 2011 to fiscal 2012.

The Authority's operating revenues decreased by \$4.2 million, or 25.9% primarily due to the one-time recognition in 2011 of \$4.2 million of assessment and tapping fee revenues relating to Phase II of the western end sewer project. The decrease of non-operating revenues of \$568 thousand in 2012 from \$575 thousand in 2011 is primarily due to the receipt, in 2011, of \$485 thousand of Federal Grant revenue from the Environmental Protection Agency.

**NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

The increase in nonoperating expenses of \$236 thousand or 25.8% in 2012 was due to an increase in interest expense on the BCWSA capital improvement debt, since in fiscal 2012 that debt was outstanding the entire year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The Authority's investment in capital assets decreased \$1.8 million at October 31, 2012 net of accumulated depreciation.

Table A-3
Property, Plant and Equipment
(In thousands of dollars)

	<u>2012</u>	<u>2011</u>	<u>Variance</u>
Land	\$ 6,595	\$ 6,545	\$ 50
BCWSA-Construction in Progress	7,849	7,849	-
Vehicles, trucks and accessories	1,019	804	215
Water systems	22,207	22,161	46
Sewer systems	42,575	42,175	400
Development lines	<u>43,047</u>	<u>42,971</u>	<u>76</u>
Total	123,292	122,505	787
Less accumulated depreciation	<u>(46,549)</u>	<u>(43,975)</u>	<u>(2,574)</u>
Net property, plant and equipment	<u>\$ 76,743</u>	<u>\$ 78,530</u>	<u>\$ (1,787)</u>

The categories of assets titled "vehicles, trucks and accessories" and "sewer system" experienced an increase in asset value of \$615 thousand combined, which reflects the replacement of a sewer maintenance vehicle and improvements from our Inflow and Infiltration program which significantly decreased wasted sewer infiltration flows and is expected to be extremely successful in reducing our expense dramatically over the decades to come during the life of the sewer system.

The majority of the Authority's 2013 \$207 thousand capital budget is for additional I&I remediation of \$130 thousand.

**NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

LONG-TERM DEBT

At the end of the current fiscal year, the Authority had total long-term debt of \$24.5 million, of which \$23.2 million is the principal maturity and \$1.3million is accrued interest. The remaining balance of Series 1990 is \$1.3 million (including \$1.0 million of accreted interest) and has a final maturity date of October, 2014. More detailed information about the Authority's debt is presented in the notes to the financial statements.

On November 15, 2006 the Authority adopted a resolution to issue new debt in the sum of \$11 million to finance the Authority's 2007-2011 Capital improvement programs. The Bonds are dated December 15, 2006 and amend and supplement the First Supplemental Trust Indenture, dated September 1, 1990, and have a final maturity date of December 2027. The Bonds are secured solely by a pledge of Revenues from the Authority, including investment interest, and are guaranteed by Financial Security Assurance, Inc., a guaranty bond insurance company.

On October 9, 2009 the Authority entered into a new credit agreement with the 1st National Bank of Newtown PA pursuant to which the Authority can borrow up to \$8 million on a non-revolving line of credit at a fixed rate of 3.8%. Proceeds received to date are \$6.3 million, and have been used to contribute to Western End construction.

On October 5, 2011, the Authority entered into an agreement with Bucks County Water and Sewer Authority, (BCWSA). BCWSA will continue to provide public water to Northampton from the Forest Park Water Treatment Plant. This will require certain infrastructure improvements. The total cost of the capital improvements is estimated at \$69,000,000. Northampton, Bucks County, Municipal Authority's proportionate share shall be \$7,849,380, which shall be paid at a rate of \$.84 per 1,000 gallons based upon a Debt Service Rate of 5 ¼% annual rate. The term of this agreement is 30 years and was effective May 1, 2011 and shall remain in full force and effect until May 1, 2041.

ECONOMIC FACTORS AND NEXT YEAR'S RATES

Northampton Township has seen stabilization in population growth and building construction therefore, income realized through developer contributions and tapping fees is limited with the exception of the Western End. Revenue to cover future operating expenses and debt service will then be derived, primarily, from the water and sewer usage and rental charges. Management remains cautious with the forecast of consumption demand for the 2013 fiscal year, subject to unknown weather impacts and the economy. In November 2012 the Authority adopted a 25% sewer rate increase effective November 1, 2012 due to a sewer and water rate study, the goal of which was to determine the adequacy of the sewer and water rates for a five-year period ending fiscal year 2017 and to evaluate the rate structure of each operation in terms of equitably recovering costs from all customers.

The Authority continues to reduce operational costs through broad-based cost reduction programs, reducing engineering expenses, and a reduction of employee administration staff.

NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY

STATEMENT OF NET POSITION

FOR THE YEARS ENDED OCTOBER 31, 2012 AND 2011

ASSETS

	<u>2012</u>	<u>2011</u>
Current Assets		
Unrestricted:		
Cash and cash equivalents	\$ 903,634	\$ 967,684
Accounts receivable, billed	470,217	411,085
Accounts receivable, unbilled	1,976,644	2,070,681
Current tapping fees receivable	343,959	361,467
Current assessment fees receivable	264,734	281,193
Developer and other receivables	452,394	742,002
Grant receivable	-	485,000
Inventories	12,499	10,051
Prepaid expenses	<u>56,347</u>	<u>171,558</u>
Total Unrestricted Assets	<u>4,480,428</u>	<u>5,500,721</u>
Restricted:		
Revenue fund:		
Cash and money market accounts	1,608,885	1,025,452
Bond fund:		
Cash and money market accounts	104,445	104,435
Bond reserve fund:		
Cash and money market accounts	1,548,054	1,550,092
Investments	-	-
Bond redemption and improvement fund:		
Cash and money market accounts	3,042,103	4,240,429
Bond settlement - 2006 Series:		
Cash and money market accounts	543	543
Bond construction fund:		
Cash and money market accounts	119	119
2009 loan proceeds:		
Cash and money market accounts	<u>22,559</u>	<u>22,556</u>
Total Restricted Assets	<u>6,326,708</u>	<u>6,943,626</u>
Total Current Assets	<u>10,807,136</u>	<u>12,444,347</u>
Long Term Assets		
Notes receivable - assessment & tapping fees	1,790,690	2,065,124
Property, Plant and Equipment, net	<u>76,743,055</u>	<u>78,530,298</u>
TOTAL ASSETS	<u>\$ 89,340,881</u>	<u>\$ 93,039,769</u>

DEFERRED OUTFLOWS OF RESOURCES

Bond Discount, net of Amortization	<u>\$ 23,679</u>	<u>\$ 31,135</u>
TOTAL DEFERRED OUTFLOWS	<u>\$ 23,679</u>	<u>\$ 31,135</u>

LIABILITIES

	<u>2012</u>	<u>2011</u>
Current Liabilities		
Payable from unrestricted assets and restricted revenue fund:		
Accounts payable and accrued expenses	\$ 1,284,534	\$ 909,904
Funds in escrow	<u>440,671</u>	<u>364,533</u>
Total from Unrestricted Assets and Restricted Revenue Fund	<u>1,725,205</u>	<u>1,274,437</u>
Payable from restricted assets:		
Current maturities of long-term debt	1,353,212	1,195,594
Accrued interest	<u>852,158</u>	<u>854,993</u>
Total from Restricted Assets	<u>2,205,370</u>	<u>2,050,587</u>
Total Current Liabilities	<u>3,930,575</u>	<u>3,325,024</u>
Bond Reserve Fund		
Long-term debt	21,814,864	23,217,917
Accrued interest, long-term	<u>491,698</u>	<u>947,478</u>
Total Bond Reserve Fund	<u>22,306,562</u>	<u>24,165,395</u>
TOTAL LIABILITIES	<u>\$ 26,237,137</u>	<u>\$ 27,490,419</u>

DEFERRED INFLOWS OF RESOURCES

Unamortized bond premium, net of amortization	<u>\$ 252,726</u>	<u>\$ 120,250</u>
TOTAL DEFERRED INFLOWS	<u>\$ 252,726</u>	<u>\$ 120,250</u>

NET POSITION

Invested in capital assets, net of related debt	\$ 52,231,123	\$ 52,314,316
Restricted	6,326,708	6,943,626
Unrestricted	<u>4,316,866</u>	<u>6,202,293</u>
TOTAL NET POSITION	<u>\$ 62,874,697</u>	<u>\$ 65,460,235</u>

See accompanying notes to financial statements.

NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEARS ENDED OCTOBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Operating revenues (Schedule I)	\$ 12,031,118	\$ 16,233,273
Operating expenses (Schedule II)	8,617,771	8,778,156
Administrative expenses (Schedule II)	2,217,382	2,259,872
Depreciation and amortization	<u>2,574,622</u>	<u>2,614,921</u>
Income (loss) before nonoperating revenues (expenses) and capital contributions	<u>(1,378,657)</u>	<u>2,580,324</u>
Nonoperating revenues (expenses)		
Investment income	4,909	11,501
Interest expense	(1,149,516)	(912,769)
Gain/(loss) on disposal of assets	-	-
Grant income	-	485,000
Other income	<u>2,065</u>	<u>77,569</u>
Total nonoperating revenues (expenses)	<u>(1,142,542)</u>	<u>(338,699)</u>
Net income (loss) before capital contributions	<u>(2,521,199)</u>	<u>2,241,625</u>
Contributed capital		
Meters contributed	-	2,971
Contribution of systems from developers	<u>75,653</u>	<u>18,867</u>
Total contributed capital	<u>75,653</u>	<u>21,838</u>
Increase (decrease) in net assets	(2,445,546)	2,263,463
Net Position, beginning of year (Restated)	<u>65,320,243</u>	<u>63,196,772</u>
Net Position, end of year	<u>\$ 62,874,697</u>	<u>\$ 65,460,235</u>

See accompanying notes to financial statements.

NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED OCTOBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Cash received from customers	\$ 12,664,032	\$ 13,087,506
Cash paid to employees	(1,465,867)	(1,373,709)
Cash paid for sewer rental charges	(5,324,060)	(5,588,939)
Cash paid for water purchases	(1,444,818)	(1,634,169)
Cash paid to other suppliers	<u>(2,036,877)</u>	<u>(2,768,478)</u>
Net cash provided by operating activities	<u>2,392,410</u>	<u>1,722,211</u>
Cash flows from non-capital financing activities		
Grant receipts	485,000	-
Other income	<u>2,065</u>	<u>77,569</u>
Net cash provided by non-capital financing activities	<u>487,065</u>	<u>77,569</u>
Cash flows from capital and related financing activities:		
New borrowing	-	1,410,886
Principal paid on long-term debt	(1,245,432)	(1,031,042)
Interest paid on long-term debt	(1,608,130)	(1,280,223)
Acquisition of property, plant and equipment	<u>(787,438)</u>	<u>(1,907,674)</u>
Net cash provided by (used in) capital and financing activities	<u>(3,641,000)</u>	<u>(2,808,053)</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investment securities	14,350,504	13,877,606
Purchase of investment securities	(13,657,938)	(12,925,734)
Interest and other income received	<u>4,909</u>	<u>11,501</u>
Net cash provided by investing activities	<u>697,475</u>	<u>963,373</u>
Net increase (decrease) in cash and cash equivalents	(64,050)	(44,900)
Cash and cash equivalents, beginning of year	<u>967,684</u>	<u>1,012,584</u>
Cash and cash equivalents, end of year	<u>\$ 903,634</u>	<u>\$ 967,684</u>

Reconciliation of net income (loss) to net cash provided by operating activities:		
Net income /loss before nonoperating expenses	\$ (1,378,657)	\$ 2,580,324
Adjustments to reconcile net income before non-operating expenses to net cash provided by operating activities:		
Depreciation and amortization	2,574,622	2,614,921
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable and other receivables	632,914	(3,145,767)
Inventories	(2,448)	-
Prepaid expenses	115,211	-
Increase (decrease) in:		
Accounts payable and accrued expenses	374,630	(320,465)
Developers escrow fund	76,138	17,510
Net cash provided by operating activities	<u>\$ 2,392,410</u>	<u>\$ 1,746,523</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 1,608,130</u>	<u>\$ 1,280,223</u>
Supplemental disclosure of noncash capital and related financing activities:		
Dedicated assets contributed by developers	<u>\$ 75,653</u>	<u>\$ 18,867</u>

See accompanying notes to financial statements.

NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED OCTOBER 31, 2012 AND 2011

NOTE 1. The Organization

The Northampton, Bucks County, Municipal Authority (the Authority), incorporated in 1964 under the Pennsylvania Municipality Authorities Act of 1945, owns and operates a Water Systems and a Sewer Systems (collectively, the System). The two systems are combined for financial reporting purposes, but internally accounted for separately.

The Authority is empowered by law to, among other things, collect reasonable and uniform rates and other charges in the area served by the System, provide for payment of its expenses and debt service requirements, construct, improve, repair, maintain and operate the System, and fulfill the terms of agreements into which the Authority has entered. All revenues must be disbursed solely for these purposes in conformity with procedures stipulated by the Trust Indenture with M & T Investment Group.

Financial Reporting Entity

As defined by accounting principles generally accepted in the United States of America, the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. 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.

NOTE 2. Summary of Significant Accounting Policies

Basis of Accounting: The Authority maintains its books and records on the accrual basis of accounting. All activities of the Authority are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are used to account for operations that are financed and operated in a manner similar to private business enterprises.

Cash and Cash Equivalents: All highly liquid investments with original maturities of three months or less are considered to be cash equivalents.

NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED OCTOBER 31, 2012 AND 2011

NOTE 2. Summary of Significant Accounting Policies (Continued)

Inventories: Inventories of water meters and fire hydrants are recorded at cost and accounted for on the first-in, first-out basis.

Investments: Investments are reported at fair value based on quoted market prices.

Property, Plant and Equipment: Property, plant and equipment are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. Maintenance and repairs that do not significant extend the value or life or property, plant and equipment, are expensed as incurred. Depreciation is calculated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Water systems, wells, mains, lines structures and meters	20 – 50
Sewer system mains and lines	50
General office building	40
Equipment	5- 30

Deferred Financing Costs: Under GASB #65, bond issuance costs are written off in the year incurred.

Restricted Accounts: In accordance with the 1990 Water and Sewer Revenue Refunding Bond Trust Indentures and the Water and Sewer Revenue Bonds, Series of 2006 Indenture, the Authority has established the following restricted cash and investment accounts:

<u>Account</u>	<u>Minimum Required Balance</u>	<u>Restricted Use(s)</u>
Revenue Fund	No minimum balance required.	Operating expenses by certified request of the Authority and transfers specified in the Original Indenture.
Bond Fund	Amount required to pay current matured principal and interest.	Principal and interest payments currently due.
Bond Reserve Fund	\$1,547,906	Transfers to meet 1990 and 2006 Bonds debt service requirements.
Bond Redemption and Improvement Fund	Amount remaining in the Revenue Fund on October 20 each year in excess of normal operating requirements.	Transfers to meet the requirements of the Bond and Bond Reserve Funds and other purposes specified in the Original Indenture.

NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED OCTOBER 31, 2012 AND 2011

NOTE 2. 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: 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 for capital activity and debt service consists of net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates less any related liabilities. Unrestricted consists of all other net position not appropriated for expenditures or legally segregated for a specific future use.

For expenses that could be paid by either restricted or unrestricted resources, it is the Authority's policy to use restricted resources first, and then unrestricted resources as they are needed.

Revenues and Rate Structure: Revenues from water and sewer services are recognized on the accrual basis as earned. Services are supplied to customers under a rate structure designed to produce revenues sufficient to provide for operating and maintenance costs, capital outlay, debt service, reserves and debt coverage.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Budgets and Budgetary Accounting: The Authority follows these procedures in establishing the budgetary data reflected in the financial statements:

1. During October, the budget is discussed and approved in a public meeting.
2. All budget revisions require the approval of the Authority.
3. Budgetary control is maintained at the account level.
4. The budget is adopted on the accrual basis of accounting. All appropriations lapse at year end.

NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED OCTOBER 31, 2012 AND 2011

NOTE 3. A. Deposits and Investments

The Board of Directors (the Board) of the Authority, in accordance with the Commonwealth of Pennsylvania (the Commonwealth) statute, may appoint one or more depositories for Authority funds and approve security to be furnished by such depository. This security may be in the form of collateral consisting of obligations of the United States of America or the Commonwealth, or any political subdivision thereof, deposited with the financial institution.

The Pennsylvania Act 72 of 1971 (Act 72), as amended, allows depositories to satisfy the collateralization requirement by pooling eligible investments to cover total public funds on deposits in excess of federal insurance. Such pooled collateral is pledged with the financial institution's trust department.

The Board also has the power to invest Authority sinking funds in the manner provided for by the Local Government Unit Debt Act, to invest monies of the Authority other than sinking funds as authorized below, and to liquidate any such investments, in whole or in part, by disposing of securities or withdrawing funds on deposit. Any action taken to make or to liquidate any investment shall be made by the officers designated by action of the Board.

The Board shall invest Authority funds consistent with business practice. The Municipality Authorities Act of 1945 allows the Authority to invest in the following instruments:

- a) United States Treasury bills.
- b) Short-term obligations of United States Government of its agencies or instrumentalities.
- c) Deposits in savings accounts, time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation (FDIC) to the extent that such accounts are so insured, and for any amounts above the insured maximum, provided that approved collateral as provided by law therefore shall be pledged by the financial institution.
- d) Obligations of the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.
- e) Shares of an investment company registered under the Investment Company Act of 1940 (mutual funds), whose shares are registered under the Securities Act of 1933, provided that the only investments are in the authorized investments for Authority funds listed in (a) through (d) above.

NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED OCTOBER 31, 2012 AND 2011

NOTE 3. A. Deposits and Investments (Continued)

Concentration of Credit Risk: The Authority places no limit on the amount the Authority may invest in any one issuer. All of the Authority's investments as of October 31, 2012 and October 31, 2011 consist of U. S. Government Money Market and investment in an external investment pool money market, the Pennsylvania Local Government Investment Trust. At October 31, 2012 and 2011, there were no investments other than Money Market.

Credit Risk: As of October 31, 2012 and 2011, the Authority's investments were in U.S. Government Money Markets and an external investment pool money market investing in obligations backed by the full faith and credit of the United States Government, and short-term obligations of the United States Government.

Interest Rate Risk: As a meaning of limiting its exposure to fair value losses arising from rising interest rates, the Authority's investment policy states that the average portfolio maturity shall be at a target range of three to seven years. No individual investment shall exceed ten years.

Custodial Credit Risk – Deposits: Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority's investment policy gives the members of the Board the authority to permit assets pledged as collateral under subsection (d)(3), to be pooled in accordance with the act of August 6, 1971 (P.L. 281, No. 72), entitled "An act standardizing the procedures for pledges of assets to secure deposits of public funds with banking institutions pursuant to other laws; establishing a standard rule for the types, amounts and valuations of assets eligible to be used as collateral for deposits of public funds; permitting assets to be pledged against deposits on a pooled basis; and authorizing the appointment of custodians to act as pledges of assets." At October 31, 2012, \$903,226 of the Authority's bank balance of \$1,153,226 was exposed to custodial credit risk as follows:

Amount insured by FDIC or collateralized with securities held by the Authority in its name	\$ 250,000
Uncollateralized but covered under the provisions of Act 72 described above	<u>903,226</u>
Total Bank Balance	<u>\$ 1,153,226</u>

NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED OCTOBER 31, 2012 AND 2011

NOTE 3. B. Receivables

Accounts receivable are stated at their net realizable value. The Authority recognizes uncollectible accounts as a direct charge to bad debt expense at the time the Board deems the accounts to be uncollectible. At October 31, 2012 and 2011, all amounts were considered collectible and no allowance for uncollectible accounts has been calculated.

The Authority has constructed sanitary sewer facilities which provide a benefit to the Property by enabling the Property Owners to connect the Property into the Authority's public sanitary sewer facilities. Some Authority Property Owners have signed agreements to set up a payment plan to pay Tapping Fees and/or Assessments Fees over a term of 60 months ending May 31, 2016. The annual interest rate is 3.8% per annum on the unpaid portion.

NOTE 4. Property, Plant and Equipment

Property, plant and equipment consist of the following as of October 31:

	Balance November 1, <u>2011</u> <u>(Restated)</u>	<u>Additions</u>	<u>Deletions</u>	Balance October 31, <u>2012</u>
Capital assets, not being depreciated:				
BCWSA Infrastructure Improvement	\$ 7,849,380	\$ -	\$ -	\$ 7,849,380
Land	<u>6,545,318</u>	<u>49,485</u>	<u>-</u>	<u>6,594,803</u>
Total capital assets, not being depreciated	<u>14,394,698</u>	<u>49,485</u>	<u>-</u>	<u>14,444,183</u>
Capital assets, being depreciated:				
Water system, wells, mains, lines, structures & meters	42,275,304	76,504	-	42,351,808
Sewer system mains & meters	63,789,302	446,388	-	64,235,690
General office building	694,935	-	-	694,935
Equipment	<u>1,350,840</u>	<u>215,062</u>	<u>-</u>	<u>1,565,902</u>
Total	108,110,381	737,954	-	108,848,335
Accumulated depreciation	<u>(43,974,781)</u>	<u>(2,574,682)</u>	<u>-</u>	<u>(46,549,463)</u>
Total capital assets, being depreciated, net	<u>64,135,600</u>	<u>(1,836,728)</u>	<u>-</u>	<u>62,298,872</u>
All capital assets, net	<u>\$ 78,530,298</u>	<u>\$ (1,787,243)</u>	<u>\$ -</u>	<u>\$ 76,743,055</u>

NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED OCTOBER 31, 2012 AND 2011

NOTE 4. Property, Plant and Equipment (Continued)

Depreciation expense was \$2,574,682 and \$2,614,745 for the years ended October 31, 2012 and 2011, respectively.

Operating Leases: The Authority leases office equipment under noncancellable operating leases. Total liabilities under these leases are considered immaterial to the financial statements.

NOTE 5. Long Term Debt

In September 1990, the Authority issued \$4,654,118 of Water and Sewer Revenue (Capital Appreciation) Bonds (the 1990 Bonds). The 1990 Bonds were issued as a supplement to the 1985 issue and were authorized to decrease the 1995, 2000 and 2013 principal maturities on the 1985 Bonds aggregating \$5,625,000, plus pay certain interest and provide for new construction projects. Callable bonds were redeemed in full on December 1, 1995.

The 1990 Bonds pay interest only at maturity. The maturity amount of each 1990 Bond consists of the original principal amount and interest based on the stated yield to maturity which ranges from 6.5% to 7.5%.

On December 15, 2006, the Authority issued \$11,000,000 Water and Sewer Revenue Bonds, Series of 2006. Proceeds of the Bonds together with other available funds of the Authority will be used to (1) provide funds for the Authority's capital improvement program, (2) fund the Bond Reserve Fund in an amount equal to maximum annual debt service on the Bonds, and (3) pay costs of issuance of the Bonds. Proceeds of the Bonds will be used to improve, expand, modernize and rehabilitate the Authority's aging water and wastewater collection systems with the purpose of meeting regulatory, environmental, and contractual requirements, while simultaneously integrating technology to aid in operational efficiency. The primary goal of the capital improvement program is to reduce the wastewater inflow and infiltration that the Authority currently experiences in periods of wet weather.

On October 9, 2009, the Authority entered into a loan agreement with The First National Bank and Trust Company of Newtown. The note is a Water and Sewer Revenue Note, Series of 2009, in the maximum principal amount of \$8,000,000, which matures October 9, 2019. The bank note is a non-revolving, "draw-down," line of credit. The note bears interest at a fixed rate of 3.8%.

NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED OCTOBER 31, 2012 AND 2011

NOTE 5. Long Term Debt (Continued)

The note is being issued for the purpose of providing funds for and toward a capital project which consists of alterations, additions and improvements to or for the benefit of the water and sewer system facilities of the Authority. The bank note will permit multiple advances for a draw period of 18 months from the date of issuance of the bank note during which all draws for the project must be completed.

At October 31, 2012 and 2011, the total draws on the line of credit were -0- and \$1,410,886, respectively.

On October 5, 2011, the Authority entered into an agreement with Bucks County Water and Sewer Authority, (BCWSA). BCWSA will continue to provide public water to Northampton from the Forest Park Water Treatment Plant. This will require certain infrastructure improvements. The total cost of the capital improvements is estimated at \$69,000,000. Northampton, Bucks County, Municipal Authority's proportionate share shall be \$7,849,380, which shall be paid at a rate of \$.84 per 1,000 gallons based upon a Debt Service Rate of 5¼% annual rate. The term of this agreement is 30 years and was effective May 1, 2011 and shall remain in full force and effect until May 1, 2041.

Changes in long-term debt and accrued interest during the fiscal year 2012 were as follows:

	1990 <u>Bonds</u> (includes interest)	2006 <u>Bonds</u> Principal only	2009 <u>Note</u> Principal only	BCWSA Share of Capital <u>Improvement</u> Principal only	<u>Total</u>
Balance, October 31, 2011	\$ 1,889,627	\$ 9,865,000	\$ 6,329,700	\$ 7,816,790	\$ 25,901,117
Accreted interest on revenue bonds	98,468	-	-	-	98,468
Principal Payments (1990 bond-Principal & interest paid)	<u>(685,000)</u>	<u>(400,000)</u>	<u>(643,248)</u>	<u>(57,315)</u>	<u>(1,785,563)</u>
Balance, October 31, 2012	1,303,095	9,465,000	5,686,452	7,759,475	24,214,022
Current Portion	<u>(690,000)</u>	<u>(450,000)</u>	<u>(668,218)</u>	<u>(99,242)</u>	<u>(1,907,460)</u>
Long-Term Portion	<u>\$ 613,095</u>	<u>\$ 9,015,000</u>	<u>\$ 5,018,234</u>	<u>\$ 7,660,233</u>	<u>\$ 22,306,562</u>

NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED OCTOBER 31, 2012 AND 2011

NOTE 5. Long Term Debt (Continued)

Debt service maturities of the outstanding debt obligations are as follows:

<u>October 31</u>	<u>1990</u> <u>Bonds</u>	<u>2006</u> <u>Bonds</u>	<u>2009</u> <u>Note</u> <u>Anticipated</u>	<u>BCWSA</u> <u>Share of</u> <u>Capital</u> <u>Improvement</u> <u>Anticipated</u>	<u>Total</u>
2013	\$ 135,752	\$ 450,000	\$ 668,217	\$ 99,242	\$ 1,353,211
2014	121,397	450,000	693,898	120,853	1,386,148
2015	-	465,000	720,565	127,352	1,312,917
2016	-	485,000	748,256	134,202	1,367,458
2017	-	500,000	777,013	141,420	1,418,433
2018-2022	-	2,815,000	2,078,503	829,704	5,723,207
2023-2027	-	3,495,000	-	1,078,144	4,573,144
2028-2032	-	805,000	-	1,400,976	2,205,976
2033-2037	-	-	-	1,820,472	1,820,472
2038-2041	-	-	-	2,007,110	2,007,110
Total	<u>\$ 257,149</u>	<u>\$ 9,465,000</u>	<u>\$ 5,686,452</u>	<u>\$ 7,759,475</u>	<u>\$ 23,168,076</u>

NOTE 6. Capital Contributions

Funds are received from developers to reimburse the Authority for costs incurred, such as design fees, engineering inspections and legal expenses relating to Authority constructed and developer constructed property, plant and equipment. Developer constructed property; plant and equipment are subsequently dedicated to the Authority. These contributions are reported as nonoperating revenues in the statements of revenues, expenses and changes in net position.

During the years ended October 31, 2012 and 2011, the Authority received dedicated property, plant and equipment aggregating \$75,653 and \$21,838, respectively.

NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED OCTOBER 31, 2012 AND 2011

NOTE 7. Pension Plan

The Authority maintains two separate defined contribution pension plans. The Target Money Purchase Plan and Trust (the Plan) covers all non-union, administrative individuals employed as of November 1, 2008, who are between the ages of 20½ and 61 at their initial plan entry date (November 1). The Plan has no length of service requirement prior to entry and provides benefits targeted at approximately 30% of a defined “Average Pay at Retirement” under a straight-life annuity with an assumed interest rate of 5.5%, and vesting over a six-year period, starting March 2009. Authority contributions are made each pay.

The Valic Governmental Volume Submitter Plan covers all Union employees and any non-union employee that starts employment after November 1, 2008. The Authority contributes to each eligible employee’s account a base percentage of gross earnings and a matching contribution up to a maximum of three to five percent per year based on years of service. Authority contributions are made each pay with vesting over a six year period.

The Authority’s pension expense for the years ended October 31, 2012 and 2011 totaled \$167,198 and \$159,038, respectively.

NOTE 8. Commitments

The Authority has agreements with neighboring municipal authorities to purchase water from other water supply systems and connect to sewer lines and utilize capacity at other treatment plants through rental arrangements.

Bucks County Water & Sewer Authority (BCWSA) sent a notice stating that the Authority’s share of the Neshaminy Surge Tank project is estimated at \$846,000 and will be due in the event of BCWSA’s award of the project. No agreement has been ratified.

NOTE 9. Contingent Liabilities

Pending or Threatened Litigation

In the normal course of business, there are various claims and suits pending against the Authority, none of which materially affect the financial position of the Authority.

NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED OCTOBER 31, 2012 AND 2011

NOTE 10. Risk Management

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.

NOTE 11. Subsequent Events

Subsequent events were evaluated through March 15, 2013, which is the date the financial statements were available to be issued. No subsequent events have been recognized or disclosed.

NOTE 12. Prior Period Restatement

The Authority's capital improvement agreement with BCWSA was not recorded in the fiscal year 2011. Recording this agreement required restatement of the 2011 fiscal year figures pertaining to Property, Plant & Equipment, Long-Term Debt and Water Purchases. The net effect of this restatement increased the 2011 ending net position by \$32,590.

NOTE 13. 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 – governmental activities, business-type activities, proprietary funds, and fiduciary funds. GASB Statement No. 63 is effective for financial statements for fiscal years beginning after December 15, 2011. Northampton, Bucks County, Municipal Authority has implemented this standard for the year ended October 31, 2012.

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. Northampton, Bucks County, Municipal Authority has implemented this standard for the year ended October 31, 2012.

NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED OCTOBER 31, 2012 AND 2011

NOTE 13. New Accounting Pronouncements (Continued)

Under these Statements, deferred outflows and inflows have been defined as relating to Service Concession Arrangements and Hedging Derivative Instruments. Debt Issuance and Costs, Nonexchange Transactions, Sales of Future Revenues, Leases, Insurance Activities, Lending Activities, Commitment Fees, Purchase of a Loan, Mortgage Banking, and Regulated Operations.

Northampton, Bucks County, Municipal Authority had deferred outflows from the issuance of the Bond Series of 2006. Net Asset accounts have been renamed net position to comply with this standard. Under GASB #65, bond issuance costs are written off in the year incurred. Since the bond issuance costs are from the fiscal year 2006, some of the bond costs have been amortized. The unamortized bond costs totaling \$139,992 are a prior period adjustment and the Authority's net position as of November 1, 2011 has been restated as follows:

<u>Beginning Net Position, As Previously Reported</u>	<u>Reduction of Assets</u>	<u>Beginning Net Position, as Restated</u>
\$ <u>65,460,235</u>	\$ <u>(139,992)</u>	\$ <u>65,320,243</u>

SUPPLEMENTAL INFORMATION

NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY

**COMBINING SCHEDULES OF REVENUES, EXPENSES AND NET INCOME
(LOSS) BEFORE CAPITAL CONTRIBUTIONS – WATER AND SEWER SYSTEMS**

FOR THE YEARS ENDED OCTOBER 31, 2012 AND 2011

	2012		
	<u>Combined</u>	<u>Water System</u>	<u>Sewer System</u>
Operating revenues			
Usage and rental charges	\$ 11,281,120	\$ 4,184,964	\$ 7,096,156
Overhead charges to developers	192,659	64,285	128,374
Tapping fees	86,553	19,973	66,580
Connection charges	3,880	3,780	100
Penalties	269,164	66,308	202,856
Fire hydrant service	34,708	34,708	-
Assessment fees	1,879	-	1,879
Other services and miscellaneous	161,155	112,522	48,633
Total operating revenues	<u>12,031,118</u>	<u>4,486,540</u>	<u>7,544,578</u>
Operating expenses (Schedule II)	<u>8,617,771</u>	<u>2,335,714</u>	<u>6,282,057</u>
Operating income before administrative & depreciation expenses	<u>3,413,347</u>	<u>2,150,826</u>	<u>1,262,521</u>
Administrative expenses (Schedule II)	2,217,382	1,090,270	1,127,112
Depreciation	<u>2,574,682</u>	<u>1,042,989</u>	<u>1,531,693</u>
Income (loss) before nonoperating revenues (expenses)	<u>(1,378,717)</u>	<u>17,567</u>	<u>(1,396,284)</u>
Nonoperating revenues (expenses)			
Investment income	4,909	4,909	-
Interest expense	(1,149,516)	(779,116)	(370,400)
Amortization of bond costs	60	7,516	(7,456)
Grant income	-	-	-
Other income	2,065	2,315	(250)
Total nonoperating revenues	<u>(1,142,482)</u>	<u>(764,376)</u>	<u>(378,106)</u>
Net income (loss) before capital contributions	<u>\$ (2,521,199)</u>	<u>\$ (746,809)</u>	<u>\$ (1,774,390)</u>

2011		
<u>Combined</u>	<u>Water System</u>	<u>Sewer System</u>
\$ 11,643,621	\$ 4,408,901	\$ 7,234,720
3,435	1,581	1,854
2,284,176	26,630	2,257,546
5,660	5,460	200
244,366	66,606	177,760
34,067	34,067	-
1,898,536	-	1,898,536
119,412	82,722	36,690
<u>16,233,273</u>	<u>4,625,967</u>	<u>11,607,306</u>
<u>8,778,156</u>	<u>2,489,470</u>	<u>6,288,686</u>
<u>7,455,117</u>	<u>2,136,497</u>	<u>5,318,620</u>
2,259,872	1,117,071	1,142,801
<u>2,614,745</u>	<u>1,075,828</u>	<u>1,538,917</u>
<u>2,580,500</u>	<u>(56,402)</u>	<u>2,636,902</u>
11,501	11,483	18
(912,769)	(559,307)	(353,462)
(176)	(176)	-
485,000	-	485,000
<u>77,569</u>	<u>77,434</u>	<u>135</u>
<u>(338,875)</u>	<u>(470,566)</u>	<u>131,691</u>
<u>\$ 2,241,625</u>	<u>\$ (526,968)</u>	<u>\$ 2,768,593</u>

NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY

**COMBINING SCHEDULES OF ADMINISTRATIVE AND OPERATING EXPENSES –
WATER AND SEWER SYSTEMS**

FOR THE YEARS ENDED OCTOBER 31, 2012 AND 2011

	2012		
	<u>Combined</u>	<u>Water System</u>	<u>Sewer System</u>
Operating expenses:			
Maintenance salaries	\$ 749,848	\$ 374,710	\$ 375,138
Rental charges	5,618,793	-	5,618,793
Water purchases	1,437,457	1,437,457	-
Power	282,457	245,509	36,948
Other maintenance	141,616	77,813	63,803
Testing	14,662	14,662	-
Building maintenance	30,011	30,011	-
Chemicals	31,901	26,502	5,399
Contract engineering fees	237,085	119,771	117,314
Other	73,941	9,279	64,662
Total operating expenses	<u>\$ 8,617,771</u>	<u>\$ 2,335,714</u>	<u>\$ 6,282,057</u>
Administrative expenses:			
Salaries			
Administration	\$ 654,766	\$ 326,136	\$ 328,630
Board members	15,400	7,700	7,700
Total salaries expense	670,166	333,836	336,330
Insurance	600,781	307,965	292,816
Legal and accounting	400,532	172,443	228,089
Pension	167,198	83,599	83,599
Payroll taxes	114,591	57,265	57,326
Telephone	24,076	12,038	12,038
Bank service fees	25,618	12,803	12,815
Motor vehicle expenses	78,957	37,704	41,253
Contracted administrative services	15,543	8,908	6,635
Office building utilities	13,280	6,240	7,040
Office supplies	19,684	10,177	9,507
Postage and box rental	26,229	13,793	12,436
Computer service	17,298	8,649	8,649
Association dues	9,818	7,506	2,312
Legal advertising	18,631	13,521	5,110
Mileage	305	261	44
Office maintenance	1,436	329	1,107
Other	13,239	3,233	10,006
Total administrative expenses	<u>\$ 2,217,382</u>	<u>\$ 1,090,270</u>	<u>\$ 1,127,112</u>

2011		
<u>Combined</u>	<u>Water System</u>	<u>Sewer System</u>
\$ 707,368	\$ 353,854	\$ 353,514
5,598,627	-	5,598,627
1,575,055	1,575,055	-
277,738	240,147	37,591
127,891	70,980	56,911
76,454	76,454	-
37,474	37,474	-
78,033	12,516	65,517
233,765	116,957	116,808
65,751	6,033	59,718
<u>\$ 8,778,156</u>	<u>\$ 2,489,470</u>	<u>\$ 6,288,686</u>

\$ 649,382	\$ 324,677	\$ 324,705
14,356	7,178	7,178
<u>663,738</u>	<u>331,855</u>	<u>331,883</u>
579,897	295,853	284,044
458,863	211,784	247,079
159,038	79,519	79,519
108,372	54,256	54,116
24,384	12,192	12,192
26,456	13,228	13,228
73,156	36,746	36,410
15,609	8,885	6,724
13,602	6,801	6,801
9,070	4,473	4,597
39,042	19,713	19,329
30,776	9,553	21,223
5,509	3,421	2,088
37,343	24,531	12,812
38	17	21
2,722	-	2,722
12,257	4,244	8,013
<u>\$ 2,259,872</u>	<u>\$ 1,117,071</u>	<u>\$ 1,142,801</u>



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**INDEPENDENT AUDITORS' REPORT
ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Members of the Board
Northampton, Bucks County, Municipal Authority
Richboro, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities, as of and for the year ended October 31, 2012, and the related notes to the financial statements, which collectively comprise Northampton, Bucks County Municipal Authority's basic financial statements, and have issued our report thereon dated March 15, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Northampton, Bucks County, Municipal Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Northampton, Bucks County, Municipal Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Northampton, Bucks County, Municipal Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance

As part of obtaining reasonable assurance about whether Northampton, Bucks County, Municipal Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



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

March 15, 2013