

**NORTHAMPTON, BUCKS COUNTY,
MUNICIPAL AUTHORITY**

FINANCIAL STATEMENTS

OCTOBER 31, 2013

(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 year ended October 31, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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, as of October 31, 2013, and the respective changes in financial position and, where applicable, 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 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 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 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 relate 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 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Bee, Bergvall & Co.

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

February 7, 2014

**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, 2013.

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 and 1990 Bond Indentures, the Board and management. In addition, the Authority's two separate defined contribution pension plans are fully funded. The following are key financial highlights and activities:

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 and based on management's Five Year Strategic Plan, in November 2012 the Authority adopted a 25% sewer rate increase effective in the February 2013 billing period.

The Authority added 107 new water customers from the Western End Water Infrastructure Project which was completed by Northampton Township in fiscal 2013. The project was financed through a grant to Northampton Township administered by Pennsylvania Department of Environmental Protection. The Authority did not receive any tapping fees for this project as a condition of the grant. Acceptance by dedication of the public water infrastructure from Northampton Township to the Authority, which will increase the Authority's total assets by \$1.8 million, will likely occur in fiscal 2015.

In July 2013 the Authority refinanced its loan facility with the First National Bank of Newtown (principal balance of \$5.0 million at date of refinance and October 31, 2013), reducing the interest rate from 3.8% to 2.65%, with no other amendment to any existing terms and conditions. This will result in a \$248 thousand cost savings to the Authority over the term of the loan.

In 2013 the Authority embraced a "green energy" initiative by the implementation of Purchase Power Agreement with a third party. As a result of incentive funding facilitated by a grant from the Pennsylvania Department of Environmental Protection, a 39,000 watt solar system was installed at no cost to the Authority. The system is guaranteed to produce 1.1 million kWh of energy over its warranty period of 25 years. The projected savings to the Authority is estimated at \$100 thousand over the term of the PPA. The environmental savings equate to the elimination of 60,000 pounds of CO₂ each year of operation.

In 2013, the Authority recognized \$239 thousand of other revenue relating to cash received in connection with a settlement with many of the country's leading oil companies over the gasoline additive methyl tertiary butyl ether. The settlement stems from a lawsuit filed by the Authority which was consolidated in a Federal Multi-District Litigation Court in New York established to hear nationwide cases related to the gasoline additive.

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

The settlement funds will enable the Authority to invest in its water system to help protect the long term viability of its water resource. The settlement also requires the settling oil companies to pay their share of treatment costs for wells owned and operated by the Authority that become contaminated by the gasoline additive in the future and qualify for treatment over the next thirty years.

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.

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, 2013 and 2012 is presented in Table A-1.

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

| | <u>2013</u> | <u>2012</u> | <u>Dollar Change</u> | <u>Total % Change</u> |
|--|------------------|------------------|--------------------------|---------------------------|
| Current and other assets | \$ 10,860 | \$ 10,807 | \$ 53 | 0.5 |
| Long term assets | 1,245 | 1,791 | (546) | (30.5) |
| Capital assets | <u>74,338</u> | <u>76,743</u> | <u>(2,405)</u> | (3.1) |
| Total assets | <u>86,443</u> | <u>89,341</u> | <u>(2,898)</u> | (3.2) |
| Deferred Outflows of Resources | <u>16</u> | <u>24</u> | <u>(8)</u> | (33.3) |
| Long-term debt outstanding | 22,594 | 24,512 | (1,918) | (7.8) |
| Other liabilities | <u>1,639</u> | <u>1,725</u> | <u>(86)</u> | (5.0) |
| Total liabilities | <u>24,233</u> | <u>26,237</u> | <u>(2,004)</u> | (7.6) |
| Deferred Inflows of Resources | <u>236</u> | <u>253</u> | <u>(17)</u> | (6.7) |
| Invested in capital assets, net of related debt | 51,744 | 52,231 | (487) | (0.9) |
| Restricted | 6,287 | 6,327 | (40) | (0.6) |
| Unrestricted | <u>3,959</u> | <u>4,317</u> | <u>(358)</u> | (8.3) |
| Total net position | <u>\$ 61,990</u> | <u>\$ 62,875</u> | <u>\$ (885)</u> | (1.4) |

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

Table A-1 above shows that net position decreased by \$885 thousand as a result of this year's operations, primarily due to \$2.6 million of depreciation expense, partially offset by a \$2.0 million reduction of long-term debt.

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

| | <u>2013</u> | <u>2012</u> | <u>Dollar Change</u> | <u>Total % Change</u> |
|--|------------------|------------------|--------------------------|---------------------------|
| Operating revenues | \$ 13,416 | \$ 12,031 | \$ 1,385 | 11.5 |
| Nonoperating revenues | <u>243</u> | <u>7</u> | <u>236</u> | 3371.4 |
| Total revenue | <u>13,659</u> | <u>12,038</u> | <u>1,621</u> | 13.5 |
| | | | | |
| Operating and administrative expenses | 10,932 | 10,835 | 97 | 0.9 |
| Depreciation expense | 2,573 | 2,575 | (2) | (0.1) |
| Nonoperating expense | <u>1,039</u> | <u>1,149</u> | <u>(110)</u> | (9.6) |
| Total expenses | <u>14,544</u> | <u>14,559</u> | <u>(15)</u> | (0.1) |
| | | | | |
| Net income before capital contribution: | (885) | (2,521) | 1,636 | 64.9 |
| | | | | |
| Capital contributions | <u>-</u> | <u>76</u> | <u>(76)</u> | (100.0) |
| | | | | |
| Increase (decrease) in net position | (885) | (2,445) | 1,560 | 63.8 |
| | | | | |
| Net Position, beginning of year (restated) | <u>62,875</u> | <u>65,320</u> | <u>(2,445)</u> | (3.7) |
| | | | | |
| Net Position, end of year | <u>\$ 61,990</u> | <u>\$ 62,875</u> | <u>\$ (885)</u> | (1.4) |

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 position increased \$1.6 million from fiscal 2012 to fiscal 2013.

The Authority's total revenues increased by \$1.6 million, or 13.5% primarily due to the 25% sewer rate increase effective February 1, 2013 and to the recognition of \$239 thousand of income resulting from the settlement with many of the country's leading oil companies, of a class-action lawsuit over the gasoline additive methyl tertiary butyl ether.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

The Authority's investment in capital assets decreased \$2.4 million at October 31, 2013 net of accumulated depreciation.

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

| | <u>2013</u> | <u>2012</u> | <u>Variance</u> |
|--------------------------------------|------------------|------------------|-------------------|
| Land | \$ 6,595 | \$ 6,595 | \$ - |
| BCWSA-Construction in Progress | 7,849 | 7,849 | - |
| Vehicles, trucks and accessories | 1,079 | 1,019 | 60 |
| Water systems | 22,266 | 22,207 | 59 |
| Sewer systems | 42,634 | 42,575 | 59 |
| Development lines | <u>43,047</u> | <u>43,047</u> | <u>-</u> |
| Total | 123,470 | 123,292 | 178 |
| Less accumulated depreciation | <u>(49,132)</u> | <u>(46,549)</u> | <u>(2,583)</u> |
| Net property, plant and equipment | <u>\$ 74,338</u> | <u>\$ 76,743</u> | <u>\$ (2,405)</u> |

Capital assets increased by only \$178 thousand during the fiscal year ended October 31, 2013, which were all expenditures that had been budgeted for in the fiscal year ended October 31, 2012, but delivery of such assets was not until fiscal 2013. There was no capital expenditures budgeted for the fiscal year ended October 31, 2013 due the Authority's desire to build capital reserves in accordance with its five-year plan.

LONG-TERM DEBT

At the end of the current fiscal year, the Authority had total long-term debt of \$22.6 million, of which \$21.8 million is the principal maturity and \$788 thousand is accrued interest. The remaining balance of Series 1990 is \$121 thousand 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.

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

LONG-TERM DEBT (Continued)

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. In July 2013 the Authority refinanced this loan facility (principal balance of \$5.0 million at date of refinance and October 31, 2013), reducing the interest rate to 2.65% with no other amendment to any existing terms and conditions.

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 2014 fiscal year, subject to unknown weather impacts and the economy.

In September 2013 the Authority received a letter from BCWSA advising of a new 5.05% sanitary sewer rate increase effective January 1, 2014. Historically, the authority has absorbed most of the increased rates imposed by BCWSA, however in November 2012 the Authority adopted a 25% sewer rate increase. In the event that BCWSA's new rate increase is determined to be justified and supported by sound economics, the Authority may take action to again increase its sanitary sewer rates to insure compliance with the trust indenture covenants of our Bond holders.

The Authority continues to reduce operational costs through broad-based cost reduction programs such as reducing engineering expenses and changing to a high deductible administrative healthcare plan which resulted in significant cost savings to the Authority.

NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY

STATEMENT OF NET POSITION

FOR THE YEARS ENDED OCTOBER 31, 2013 AND 2012

ASSETS

| | <u>2013</u> | <u>2012</u> |
|---|----------------------|----------------------|
| Current Assets | | |
| Unrestricted: | | |
| Cash and cash equivalents | \$ 681,498 | \$ 462,963 |
| Cash escrow | 123,247 | 440,671 |
| Accounts receivable, billed | 506,035 | 470,217 |
| Accounts receivable, unbilled | 2,227,766 | 1,976,644 |
| Current tapping fees receivable | 296,056 | 343,959 |
| Current assessment fees receivable | 233,530 | 264,734 |
| Developer and other receivables | 440,081 | 452,394 |
| Inventories | 15,287 | 12,499 |
| Prepaid expenses | 49,531 | 56,347 |
| Total Unrestricted Assets | <u>4,573,031</u> | <u>4,480,428</u> |
| Restricted: | | |
| Revenue fund: | | |
| Cash and money market accounts | 903,925 | 1,608,885 |
| Bond fund: | | |
| Cash and money market accounts | 104,458 | 104,445 |
| Bond reserve fund: | | |
| Cash and money market accounts | 1,547,914 | 1,548,054 |
| Investments | - | - |
| Bond redemption and improvement fund: | | |
| Cash and money market accounts | 3,707,715 | 3,042,103 |
| 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 | 22,566 | 22,559 |
| Total Restricted Assets | <u>6,287,240</u> | <u>6,326,708</u> |
| Total Current Assets | <u>10,860,271</u> | <u>10,807,136</u> |
| Long Term Assets | | |
| Notes receivable - assessment & tapping fees | 1,244,136 | 1,790,690 |
| Property, Plant and Equipment | | |
| BCWSA Infrastructure Improvement (Construction in Progress) | 7,849,380 | 7,849,380 |
| Land | 6,594,803 | 6,594,803 |
| Other Capital Assets, net of Accumulated Depreciation | 59,894,001 | 62,298,872 |
| Total Property, Plant and Equipment, net | <u>74,338,184</u> | <u>76,743,055</u> |
| TOTAL ASSETS | <u>\$ 86,442,591</u> | <u>\$ 89,340,881</u> |

DEFERRED OUTFLOWS OF RESOURCES

| | | |
|------------------------------------|------------------|------------------|
| Bond Discount, net of Amortization | \$ 16,223 | \$ 23,679 |
| TOTAL DEFERRED OUTFLOWS | <u>\$ 16,223</u> | <u>\$ 23,679</u> |

LIABILITIES

| | <u>2013</u> | <u>2012</u> |
|--|----------------------|----------------------|
| Current Liabilities | | |
| Payable from unrestricted assets and restricted revenue fund: | | |
| Accounts payable and accrued expenses | \$ 1,515,599 | \$ 1,284,534 |
| Funds in escrow | <u>123,247</u> | <u>440,671</u> |
| Total from Unrestricted Assets and Restricted Revenue Fund | <u>1,638,846</u> | <u>1,725,205</u> |
| Payable from restricted assets: | | |
| Current maturities of long-term debt | 1,420,124 | 1,353,212 |
| Accrued interest | <u>787,687</u> | <u>852,158</u> |
| Total from Restricted Assets | <u>2,207,811</u> | <u>2,205,370</u> |
| Total Current Liabilities | <u>3,846,657</u> | <u>3,930,575</u> |
| Bond Reserve Fund | | |
| Long-term debt | 20,386,613 | 21,814,864 |
| Accrued interest, long-term | <u>-</u> | <u>491,698</u> |
| Total Bond Reserve Fund | <u>20,386,613</u> | <u>22,306,562</u> |
| TOTAL LIABILITIES | <u>\$ 24,233,270</u> | <u>\$ 26,237,137</u> |

DEFERRED INFLOWS OF RESOURCES

| | | |
|-----------------------------------|-------------------|-------------------|
| Bond premium, net of amortization | \$ 235,878 | \$ 252,726 |
| TOTAL DEFERRED INFLOWS | <u>\$ 235,878</u> | <u>\$ 252,726</u> |

NET POSITION

| | | |
|--|----------------------|----------------------|
| Invested in capital assets, net of related debt | \$ 51,743,760 | \$ 52,231,123 |
| Restricted | 6,287,240 | 6,326,708 |
| Unrestricted | <u>3,958,666</u> | <u>4,316,866</u> |
| TOTAL NET POSITION | <u>\$ 61,989,666</u> | <u>\$ 62,874,697</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, 2013 AND 2012

| | <u>2013</u> | <u>2012</u> |
|--|----------------------|----------------------|
| Operating revenues (Schedule I) | \$ 13,416,240 | \$ 12,031,118 |
| Operating expenses (Schedule II) | 8,836,992 | 8,617,771 |
| Administrative expenses (Schedule II) | 2,095,644 | 2,217,382 |
| Depreciation and amortization | <u>2,573,071</u> | <u>2,574,622</u> |
| Income (loss) before nonoperating revenues (expenses) and capital contributions | <u>(89,467)</u> | <u>(1,378,657)</u> |
| Nonoperating revenues (expenses) | | |
| Investment income | 4,290 | 4,909 |
| Interest expense | (1,039,244) | (1,149,516) |
| Gain/(loss) on disposal of assets | - | - |
| Grant income | - | - |
| Other income | <u>239,390</u> | <u>2,065</u> |
| Total nonoperating revenues (expenses) | <u>(795,564)</u> | <u>(1,142,542)</u> |
| Net income (loss) before capital contributions | <u>(885,031)</u> | <u>(2,521,199)</u> |
| Contributed capital | | |
| Contribution of systems from developers | <u>-</u> | <u>75,653</u> |
| Total contributed capital | <u>-</u> | <u>75,653</u> |
| Increase (decrease) in net assets | (885,031) | (2,445,546) |
| Net Position, beginning of year (restated) | <u>62,874,697</u> | <u>65,320,243</u> |
| Net Position, end of year | <u>\$ 61,989,666</u> | <u>\$ 62,874,697</u> |

See accompanying notes to financial statements.

NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED OCTOBER 31, 2013 AND 2012

| | <u>2013</u> | <u>2012</u> |
|---|--------------------|--------------------|
| Cash flows from operating activities | | |
| Cash received from customers | \$ 13,767,274 | \$ 12,664,032 |
| Cash paid to employees | (1,255,712) | (1,465,867) |
| Cash paid for sewer rental charges | (6,169,487) | (5,324,060) |
| Cash paid for water purchases | (1,576,197) | (1,444,818) |
| Cash paid to other suppliers | <u>(2,013,571)</u> | <u>(2,036,877)</u> |
| Net cash provided by operating activities | <u>2,752,307</u> | <u>2,392,410</u> |
| Cash flows from non-capital financing activities | | |
| Grant receipts | - | 485,000 |
| Other income | <u>239,390</u> | <u>2,065</u> |
| Net cash provided by non-capital financing activities | <u>239,390</u> | <u>487,065</u> |
| Cash flows from capital and related financing activities: | | |
| New borrowing | - | - |
| Principal paid on long-term debt | (1,361,339) | (1,245,432) |
| Interest paid on long-term debt | (1,595,412) | (1,608,130) |
| Acquisition of property, plant and equipment | <u>(177,592)</u> | <u>(787,438)</u> |
| Net cash provided by (used in) capital and financing activities | <u>(3,134,343)</u> | <u>(3,641,000)</u> |
| Cash flows from investing activities: | | |
| Proceeds from sales and maturities of investment securities | 17,697,710 | 14,350,504 |
| Purchase of investment securities | (17,658,243) | (13,657,938) |
| Interest and other income received | <u>4,290</u> | <u>4,909</u> |
| Net cash provided by investing activities | <u>43,757</u> | <u>697,475</u> |
| Net increase (decrease) in cash and cash equivalents | (98,889) | (64,050) |
| Cash and cash equivalents, beginning of year | <u>903,634</u> | <u>967,684</u> |
| Cash and cash equivalents, end of year | <u>\$ 804,745</u> | <u>\$ 903,634</u> |

| | <u>2013</u> | <u>2012</u> |
|---|---------------------|---------------------|
| Reconciliation of net income (loss) to net cash provided by operating activities: | | |
| Net income /loss before nonoperating expenses | \$ (89,467) | \$ (1,378,657) |
| Adjustments to reconcile net income before non-operating expenses to net cash provided by operating activities: | | |
| Depreciation and amortization | 2,573,071 | 2,574,622 |
| Changes in assets and liabilities: | | |
| (Increase) decrease in: | | |
| Accounts receivable and other receivables | 351,034 | 632,914 |
| Inventories | (2,788) | (2,448) |
| Prepaid expenses | 6,816 | 115,211 |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | 231,065 | 374,630 |
| Developers escrow fund | <u>(317,424)</u> | <u>76,138</u> |
| Net cash provided by operating activities | <u>\$ 2,752,307</u> | <u>\$ 2,392,410</u> |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the year for interest | <u>\$ 1,595,412</u> | <u>\$ 1,608,130</u> |
| Supplemental disclosure of noncash capital and related financing activities: | | |
| Dedicated assets contributed by developers | <u>\$ -</u> | <u>\$ 75,653</u> |

See accompanying notes to financial statements.

NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED OCTOBER 31, 2013

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 Wilmington Trust.

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.

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 these standards do not conflict with or contradict GASB pronouncements.

NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED OCTOBER 31, 2013

NOTE 2. Summary of Significant Accounting Policies (Continued)

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

Comparative Information: The financial statements include certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with accounting policies generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Authority's financial statements for the year ended October 31, 2012, from which the summarized information was derived.

Reclassifications: Certain reclassifications have been made to the prior year financial statements in order for them to be in conformity with the current year presentation.

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: Bond issuance costs are written off in the year incurred.

NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED OCTOBER 31, 2013

NOTE 2. Summary of Significant Accounting Policies (Continued)

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. |

Long-term Obligations: In the financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized over the life of the bond using the straight-line method, when applicable. Bonds payable are reported net of the applicable bond premium or discount.

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 a 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.

NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED OCTOBER 31, 2013

NOTE 2. Summary of Significant Accounting Policies (Continued)

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.

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.

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 has one item that qualifies for reporting in this category. It is the bond discount, net of amortization reported in the statement of net position.

In addition to liabilities, the statement of financial position will sometimes report a separate section of deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenues) until that time. The Authority has one item that qualifies for reporting in this category. It is the bond premium, net of amortization reported in the statement of net position.

NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED OCTOBER 31, 2013

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 YEAR ENDED OCTOBER 31, 2013

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, 2013 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, 2013, there were no investments other than Money Market.

Credit Risk: As of October 31, 2013, 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, 2013, \$1,352,448 of the Authority's bank balance of \$1,602,448 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>1,352,448</u> |
| Total Bank Balance | <u>\$ 1,602,448</u> |

NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED OCTOBER 31, 2013

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, 2013, 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>2012</u> | <u>Additions</u> | <u>Deletions</u> | Balance October 31 <u>2013</u> |
|---|--------------------------------------|-----------------------|------------------|--------------------------------------|
| Capital assets, not being depreciated: | | | | |
| BCWSA infrastructure improvement | \$ 7,849,380 | \$ - | \$ - | \$ 7,849,380 |
| Land | 6,594,803 | - | - | 6,594,803 |
| Total capital assets, not being depreciated | <u>14,444,183</u> | <u>-</u> | <u>-</u> | <u>14,444,183</u> |
| Capital assets, being depreciated: | | | | |
| Water system, wells, mains, lines, structures & meters | 42,351,808 | 43,894 | - | 42,395,702 |
| Sewer system mains & meters | 64,235,690 | 49,508 | - | 64,285,198 |
| General office building | 694,935 | - | - | 694,935 |
| Equipment | 1,565,902 | 84,190 | - | 1,650,092 |
| Total | 108,848,335 | 177,592 | - | 109,025,927 |
| Accumulated depreciation | <u>(46,549,463)</u> | <u>(2,582,463)</u> | <u>-</u> | <u>(49,131,926)</u> |
| Total capital assets, being depreciated, net | <u>62,298,872</u> | <u>(2,404,871)</u> | <u>-</u> | <u>59,894,001</u> |
| All capital assets, net | <u>\$ 76,743,055</u> | <u>\$ (2,404,871)</u> | <u>\$ -</u> | <u>\$ 74,338,184</u> |

Depreciation expense was \$2,582,464 for the year ended October 31, 2013.

NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED OCTOBER 31, 2013

NOTE 4. Property, Plant and Equipment (Continued)

The Authority added 107 new water customers from the Western End Water Infrastructure Project which was completed by Northampton Township in fiscal 2013. The project was financed through a grant to Northampton Township administered by Pennsylvania Department of Environmental Protection. The Authority did not receive any tapping fees for this project as a condition of the grant. Acceptance by dedication of the public water infrastructure from Northampton Township to the Authority, which will increase the Authority's total assets by \$1.8 million, will likely occur in fiscal 2015.

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 was 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 were 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.

NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED OCTOBER 31, 2013

NOTE 5. Long Term Debt (Continued)

On October 9, 2009, the Authority entered into a loan agreement with The First National Bank and Trust Company of Newtown. The note was 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 was a non-revolving, "draw-down," line of credit. The note bears interest at a fixed rate of 3.8%.

The note was 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 permitted 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 were completed.

The Authority and the Bank agreed to modify, amend and supplement the 2009 Note to reduce the fixed rate of interest from 3.8% to 2.65% effective July 3, 2013.

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 2013 were as follows:

| | 1990 <u>Bonds</u> | 2006 <u>Bonds</u> | 2009 <u>Note</u> | Share of Capital <u>Improvement</u> | <u>Total</u> |
|---|----------------------|----------------------|---------------------|---|----------------------|
| | Principal only | Principal only | Principal only | Principal only | |
| Balance, October 31, 2012 | \$ 257,149 | \$ 9,465,000 | \$ 5,686,452 | \$ 7,759,475 | \$ 23,168,076 |
| Principal Payments (1990 bond-Principal & interest paid) | <u>(135,752)</u> | <u>(450,000)</u> | <u>(668,783)</u> | <u>(106,804)</u> | <u>(1,361,339)</u> |
| Balance, October 31, 2013 | 121,397 | 9,015,000 | 5,017,669 | 7,652,671 | 21,806,737 |
| Current Portion | <u>(121,397)</u> | <u>(450,000)</u> | <u>(727,467)</u> | <u>(121,260)</u> | <u>(1,420,124)</u> |
| Long-Term Portion | <u>\$ -</u> | <u>\$ 8,565,000</u> | <u>\$ 4,290,202</u> | <u>\$ 7,531,411</u> | <u>\$ 20,386,613</u> |

NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED OCTOBER 31, 2013

NOTE 5. Long Term Debt (Continued)

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

| <u>October 31</u> | <u>1990 Bonds</u> | <u>2006 Bonds</u> | <u>2009 Note</u> | <u>BCWSA Share of Capital Improvement Anticipated</u> | <u>Total</u> |
|-------------------|-----------------------|-----------------------|----------------------|---|----------------------|
| 2014 | \$ 121,397 | \$ 450,000 | \$ 727,467 | \$ 121,260 | \$ 1,420,124 |
| 2015 | - | 465,000 | 734,323 | 127,781 | 1,327,104 |
| 2016 | - | 485,000 | 753,680 | 134,654 | 1,373,334 |
| 2017 | - | 500,000 | 774,016 | 141,896 | 1,415,912 |
| 2018 | - | 520,000 | 794,664 | 149,527 | 1,464,191 |
| 2019-2023 | - | 2,930,000 | 1,233,519 | 877,269 | 5,040,788 |
| 2024-2028 | - | 3,665,000 | - | 1,139,952 | 4,804,952 |
| 2029-2033 | - | - | - | 1,481,291 | 1,481,291 |
| 2034-2038 | - | - | - | 1,924,837 | 1,924,837 |
| 2039-2042 | - | - | - | 1,554,204 | 1,554,204 |
| Total | <u>\$ 121,397</u> | <u>\$ 9,015,000</u> | <u>\$ 5,017,669</u> | <u>\$ 7,652,671</u> | <u>\$ 21,806,737</u> |

Future principal & interest payments on the notes are as follows:

| <u>October 31</u> | <u>Principal</u> | <u>Interest</u> |
|-------------------|----------------------|----------------------|
| 2014 | \$ 1,420,124 | \$ 1,449,752 |
| 2015 | 1,327,104 | 874,892 |
| 2016 | 1,373,334 | 831,443 |
| 2017 | 1,415,912 | 785,074 |
| 2018 | 1,464,191 | 736,396 |
| 2019-2023 | 5,040,788 | 2,987,122 |
| 2024-2028 | 4,804,952 | 1,934,936 |
| 2029-2033 | 1,481,291 | 1,119,383 |
| 2034-2038 | 1,924,837 | 675,837 |
| 2039-2042 | <u>1,554,204</u> | <u>151,359</u> |
| Total | <u>\$ 21,806,737</u> | <u>\$ 11,546,194</u> |

NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED OCTOBER 31, 2013

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 year ended October 31, 2013, the Authority did not receive dedicated property, plant and equipment.

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 year ended October 31, 2013 totaled \$142,092.

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.

NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED OCTOBER 31, 2013

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.

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 February 7, 2014, which is the date the financial statements were available to be issued.

On November 6, 2013, the Authority board approved the payment of \$61,000 to the Bucks County Conservation District for stream bank improvements along the Pine Run Creek near Stevens Lane. This payment was approved to comply with the Consent Order & Settlement Agreement between the Authority & the DEP.

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, 2013 AND 2012

| | 2013 | | |
|---|---------------------|-------------------------|-------------------------|
| | <u>Combined</u> | <u>Water System</u> | <u>Sewer System</u> |
| Operating revenues | | | |
| Usage and rental charges | \$ 12,732,876 | \$ 4,121,362 | \$ 8,611,514 |
| Overhead charges to developers | 39,273 | 45,631 | (6,358) |
| Tapping fees | 113,213 | 34,619 | 78,594 |
| Connection charges | 5,560 | 5,460 | 100 |
| Penalties | 276,242 | 69,152 | 207,090 |
| Fire hydrant service | 36,510 | 36,510 | - |
| Assessment fees | 17,379 | 6,502 | 10,877 |
| Other services and miscellaneous | 195,187 | 138,276 | 56,911 |
| Total operating revenues | <u>13,416,240</u> | <u>4,457,512</u> | <u>8,958,728</u> |
| Operating expenses (Schedule II) | <u>8,836,992</u> | <u>2,378,514</u> | <u>6,458,478</u> |
| Operating income before administrative & depreciation expenses | <u>4,579,248</u> | <u>2,078,998</u> | <u>2,500,250</u> |
| Administrative expenses (Schedule II) | 2,095,644 | 1,018,928 | 1,076,716 |
| Depreciation | <u>2,582,464</u> | <u>1,030,619</u> | <u>1,551,845</u> |
| Income (loss) before nonoperating revenues (expenses) | <u>(98,860)</u> | <u>29,451</u> | <u>(128,311)</u> |
| Nonoperating revenues (expenses) | | | |
| Investment income | 4,290 | 4,290 | - |
| Interest expense | (1,039,244) | (722,375) | (316,869) |
| Amortization of bond costs | 9,393 | 16,848 | (7,455) |
| Other income | 239,390 | 239,390 | - |
| Total nonoperating revenues (expenses) | <u>(786,171)</u> | <u>(461,847)</u> | <u>(324,324)</u> |
| Net income (loss) before capital contributions | <u>\$ (885,031)</u> | <u>\$ (432,396)</u> | <u>\$ (452,635)</u> |

| 2012 | | |
|-----------------------|-------------------------|-------------------------|
| <u>Combined</u> | <u>Water System</u> | <u>Sewer System</u> |
| \$ 11,281,120 | \$ 4,184,964 | \$ 7,096,156 |
| 192,659 | 64,285 | 128,374 |
| 86,553 | 19,973 | 66,580 |
| 3,880 | 3,780 | 100 |
| 269,164 | 66,308 | 202,856 |
| 34,708 | 34,708 | - |
| 1,879 | - | 1,879 |
| <u>161,155</u> | <u>112,522</u> | <u>48,633</u> |
| 12,031,118 | 4,486,540 | 7,544,578 |
| <u>8,617,771</u> | <u>2,335,714</u> | <u>6,282,057</u> |
| <u>3,413,347</u> | <u>2,150,826</u> | <u>1,262,521</u> |
| 2,217,382 | 1,090,270 | 1,127,112 |
| <u>2,574,682</u> | <u>1,042,989</u> | <u>1,531,693</u> |
| <u>(1,378,717)</u> | <u>17,567</u> | <u>(1,396,284)</u> |
| 4,909 | 4,909 | - |
| (1,149,516) | (779,116) | (370,400) |
| 60 | 7,516 | (7,456) |
| <u>2,065</u> | <u>2,315</u> | <u>(250)</u> |
| <u>(1,142,482)</u> | <u>(764,376)</u> | <u>(378,106)</u> |
| <u>\$ (2,521,199)</u> | <u>\$ (746,809)</u> | <u>\$ (1,774,390)</u> |

NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY

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

FOR THE YEARS ENDED OCTOBER 31, 2013 AND 2012

| | <u>2013</u> | | |
|------------------------------------|---------------------|-------------------------|-------------------------|
| | <u>Combined</u> | <u>Water System</u> | <u>Sewer System</u> |
| Operating expenses: | | | |
| Maintenance salaries | \$ 636,598 | \$ 318,872 | \$ 317,726 |
| Rental charges | 5,867,431 | - | 5,867,431 |
| Water purchases | 1,576,042 | 1,576,042 | - |
| Power | 258,045 | 216,867 | 41,178 |
| Other maintenance | 128,741 | 79,599 | 49,142 |
| Testing | 22,693 | 22,693 | - |
| Building maintenance | 42,948 | 42,948 | - |
| Chemicals | 17,482 | 12,035 | 5,447 |
| Contract engineering fees | 216,645 | 102,774 | 113,871 |
| Other | 70,367 | 6,684 | 63,683 |
| Total operating expenses | <u>\$ 8,836,992</u> | <u>\$ 2,378,514</u> | <u>\$ 6,458,478</u> |
| Administrative expenses: | | | |
| Salaries | | | |
| Administration | \$ 614,008 | \$ 316,822 | \$ 297,186 |
| Board members | 16,776 | 8,388 | 8,388 |
| Total salaries expense | 630,784 | 325,210 | 305,574 |
| Insurance | 508,820 | 252,968 | 255,852 |
| Legal and accounting | 437,957 | 170,999 | 266,958 |
| Pension | 142,092 | 71,046 | 71,046 |
| Payroll taxes | 98,052 | 49,026 | 49,026 |
| Telephone | 24,720 | 12,365 | 12,355 |
| Bank service fees | 24,986 | 12,618 | 12,368 |
| Motor vehicle expenses | 66,726 | 33,545 | 33,181 |
| Contracted administrative services | 13,666 | 7,975 | 5,691 |
| Office building utilities | 13,406 | 6,703 | 6,703 |
| Office supplies | 12,024 | 6,505 | 5,519 |
| Postage and box rental | 33,504 | 19,511 | 13,993 |
| Computer service | 21,080 | 10,530 | 10,550 |
| Association dues | 5,189 | 3,091 | 2,098 |
| Legal advertising | 40,483 | 30,415 | 10,068 |
| Mileage | - | - | - |
| Office maintenance | 1,981 | 232 | 1,749 |
| Other | 20,174 | 6,189 | 13,985 |
| Total administrative expenses | <u>\$ 2,095,644</u> | <u>\$ 1,018,928</u> | <u>\$ 1,076,716</u> |

| 2012 | | |
|---------------------|---------------------|---------------------|
| <u>Combined</u> | <u>Water System</u> | <u>Sewer System</u> |
| \$ 749,848 | \$ 374,710 | \$ 375,138 |
| 5,618,793 | - | 5,618,793 |
| 1,437,457 | 1,437,457 | - |
| 282,457 | 245,509 | 36,948 |
| 141,616 | 77,813 | 63,803 |
| 14,662 | 14,662 | - |
| 30,011 | 30,011 | - |
| 31,901 | 26,502 | 5,399 |
| 237,085 | 119,771 | 117,314 |
| 73,941 | 9,279 | 64,662 |
| <u>\$ 8,617,771</u> | <u>\$ 2,335,714</u> | <u>\$ 6,282,057</u> |
| | | |
| \$ 654,766 | \$ 326,136 | \$ 328,630 |
| <u>15,400</u> | <u>7,700</u> | <u>7,700</u> |
| 670,166 | 333,836 | 336,330 |
| | | |
| 600,781 | 307,965 | 292,816 |
| 400,532 | 172,443 | 228,089 |
| 167,198 | 83,599 | 83,599 |
| 114,591 | 57,265 | 57,326 |
| 24,076 | 12,038 | 12,038 |
| 25,618 | 12,803 | 12,815 |
| 78,957 | 37,704 | 41,253 |
| 15,543 | 8,908 | 6,635 |
| 13,280 | 6,240 | 7,040 |
| 19,684 | 10,177 | 9,507 |
| 26,229 | 13,793 | 12,436 |
| 17,298 | 8,649 | 8,649 |
| 9,818 | 7,506 | 2,312 |
| 18,631 | 13,521 | 5,110 |
| 305 | 261 | 44 |
| 1,436 | 329 | 1,107 |
| <u>13,239</u> | <u>3,233</u> | <u>10,006</u> |
| <u>\$ 2,217,382</u> | <u>\$ 1,090,270</u> | <u>\$ 1,127,112</u> |