

**NORTHAMPTON, BUCKS COUNTY,
MUNICIPAL AUTHORITY**

FINANCIAL STATEMENTS

OCTOBER 31, 2015

(See Independent Auditors' Report)

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INDEPENDENT AUDITORS' 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, 2015, 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Northampton, Bucks County, Municipal Authority, as of October 31, 2015, 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 8 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 Operating Revenues Schedule and the Operating and Administrative Expenses Schedule are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Operating Revenues Schedule and the Operating and Administrative Expenses Schedule 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 Operating Revenues Schedule and the Operating and Administrative Expenses Schedule 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 15, 2016

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, 2015.

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 1990 and 2006 Bond Indentures, the Board and management.

In September 2014 the Authority accepted dedication from Northampton Township of the public water facilities in the west end of the township with a value of \$1.8 million.

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.

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

NET POSITION

A summary of the Authority's Statements of net position as of October 31, 2015 and 2014 is presented in Table A-1.

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

	<u>2015</u>	<u>2014</u>	<u>Dollar Change</u>	<u>Total % Change</u>
Current and other assets	\$ 11,906	\$ 11,585	\$ 321	2.8
Long term assets	-	659	(659)	(100.0)
Capital assets	<u>72,147</u>	<u>73,981</u>	<u>(1,834)</u>	<u>(2.5)</u>
Total assets	<u>84,053</u>	<u>86,225</u>	<u>(2,172)</u>	<u>(2.5)</u>
Long-term debt outstanding	19,278	20,654	(1,376)	(6.7)
Other liabilities	<u>3,718</u>	<u>3,166</u>	<u>552</u>	<u>17.4</u>
Total liabilities	<u>22,996</u>	<u>23,820</u>	<u>(824)</u>	<u>(3.5)</u>
Deferred Inflows of Resources	<u>202</u>	<u>219</u>	<u>(17)</u>	<u>(7.8)</u>
Invested in capital assets, net of related debt	52,891	53,348	(457)	(0.9)
Restricted	4,861	6,058	(1,197)	(19.8)
Unrestricted	<u>3,103</u>	<u>2,780</u>	<u>323</u>	<u>11.6</u>
Total net position	<u>\$ 60,855</u>	<u>\$ 62,186</u>	<u>\$ (1,331)</u>	<u>(2.1)</u>

Table A-1 above shows that net position decreased by \$1.3 million from fiscal 2014 to fiscal 2015.

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

	<u>2015</u>	<u>2014</u>	<u>Dollar Change</u>	<u>Total % Change</u>
Operating revenues	\$ 13,648	\$ 13,355	\$ 293	2.2
Nonoperating revenues	<u>75</u>	<u>36</u>	<u>39</u>	<u>108.3</u>
Total revenue	<u>13,723</u>	<u>13,391</u>	<u>332</u>	<u>2.5</u>
Operating and administrative expenses	11,571	11,548	23	0.2
Depreciation expense	2,623	2,564	59	2.3
Nonoperating expense	<u>860</u>	<u>907</u>	<u>(47)</u>	<u>(5.2)</u>
Total expenses	<u>15,054</u>	<u>15,019</u>	<u>35</u>	<u>0.2</u>
Net income (loss) before capital contributions	(1,331)	(1,628)	297	18.2
Capital contributions	<u>-</u>	<u>1,824</u>	<u>(1,824)</u>	<u>-</u>
Increase (decrease) in net position	(1,331)	196	(1,527)	779.1
Net Position, beginning of year	<u>62,186</u>	<u>61,990</u>	<u>196</u>	<u>0.3</u>
Net Position, end of year	<u>\$ 60,855</u>	<u>\$ 62,186</u>	<u>\$ (1,331)</u>	<u>(2.1)</u>

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

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 net position decreased by \$1.3 million from 2014 to 2015 as a result of the acceptance, in fiscal 2014, of the dedication of the public water system in the west end of the township of \$1.82 million, partially offset by a decrease in net loss from operations (after depreciation expense) of \$297 thousand from fiscal 2014 to fiscal 2015. The increase (decrease) in net position decreased by \$1.5 million from fiscal 2014 to fiscal 2015.

The Authority's total revenues increased by \$332 thousand, or 2.5% primarily due to the unbudgeted collection, in December 2014, of assessment fees of \$190 thousand.

The Authority's total expenses increased by \$35 thousand, or .2%, primarily due to budgeted increases in operating expenses such as payroll, water purchases and engineering fees offset by a significant decrease in sewer rental expenses from fiscal 2014 to fiscal 2015. Sanitary sewer flows are highly dependent upon natural groundwater levels. Increased flows in 2014, attributable to higher groundwater levels, resulted in increased sewer expense 2014 over the previous year. Groundwater levels were significantly lower in fiscal 2015, resulting in lower sewer rental expense.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The Authority's investment in capital assets, net of accumulated depreciation, decreased \$1.8 million from October 31, 2014 to October 31, 2015.

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

	<u>2015</u>	<u>2014</u>	<u>Variance</u>
Land	\$ 6,595	\$ 6,595	\$ -
BCWSA-Construction in Progress	7,849	7,849	-
Vehicles, trucks and accessories	1,270	1,222	48
Water systems	22,460	22,295	165
Sewer systems	43,289	42,845	444
Development lines	<u>44,871</u>	<u>44,871</u>	<u>-</u>
Total	126,334	125,677	657
Less accumulated depreciation	<u>(54,187)</u>	<u>(51,696)</u>	<u>(2,491)</u>
Net property, plant and equipment	<u>\$ 72,147</u>	<u>\$ 73,981</u>	<u>\$ (1,834)</u>

This decrease is due to depreciation expense of \$2.5 million partially offset by \$657 thousand of water and sewer system improvements made in fiscal 2015.

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 \$19.3 million, of which \$19.1 million is the principal maturity and \$224 thousand is accrued interest. The remaining balance of the Series 1990 Bonds was repaid in full in 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. 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 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.

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. 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 2016 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 overhead and operational costs.

NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY

Statements of Net Position

For The Years Ended October 31, 2015 and 2014

ASSETS

	<u>2015</u>	<u>2014</u>
Current Assets		
Unrestricted:		
Cash and cash equivalents	\$ 259,341	\$ -
Cash escrow	3,052,272	1,833,247
Accounts receivable, billed	487,669	492,618
Accounts receivable, unbilled	2,207,717	2,250,051
Current tapping & assessment fees receivable	619,872	507,191
Developer and other receivables	339,860	370,301
Grant receivable	-	-
Inventories	30,252	18,147
Prepaid expenses	48,147	56,079
Total Unrestricted Assets	<u>7,045,130</u>	<u>5,527,634</u>
Restricted:		
Revenue fund:		
Cash and money market accounts	430,370	2,464,227
Bond reserve fund:		
Cash and money market accounts	841,478	1,548,074
Bond redemption and improvement fund:		
Cash and money market accounts	3,565,528	2,022,448
Bond settlement - 2006 Series:		
Cash and money market accounts	543	543
Bond construction fund:		
Cash and money market accounts	121	119
2009 loan proceeds:		
Cash and money market accounts	22,575	22,569
Total Restricted Assets	<u>4,860,615</u>	<u>6,057,980</u>
Total Current Assets	<u>11,905,745</u>	<u>11,585,614</u>
Long Term Assets		
Notes receivable - assessment & tapping fees	-	658,917
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	57,703,246	59,536,439
Total Property, Plant and Equipment, net	<u>72,147,429</u>	<u>73,980,622</u>
 TOTAL ASSETS	 <u>\$ 84,053,174</u>	 <u>\$ 86,225,153</u>

<u>LIABILITIES</u>		
	<u>2015</u>	<u>2014</u>
Current Liabilities		
Payable from unrestricted assets and restricted revenue fund:		
Accounts payable and accrued expenses	\$ 666,045	\$ 1,333,398
Funds in escrow	<u>3,052,272</u>	<u>1,833,247</u>
Total from Unrestricted Assets and Restricted Revenue Fund	<u>3,718,317</u>	<u>3,166,645</u>
Payable from restricted assets:		
Current maturities of long-term debt	1,373,606	1,325,864
Accrued interest	<u>224,077</u>	<u>239,821</u>
Total from Restricted Assets	<u>1,597,683</u>	<u>1,565,685</u>
Total Current Liabilities	<u>5,316,000</u>	<u>4,732,330</u>
Bond Reserve Fund		
Long-term debt	<u>17,680,586</u>	<u>19,088,160</u>
Total Bond Reserve Fund	<u>17,680,586</u>	<u>19,088,160</u>
TOTAL LIABILITIES	<u>\$ 22,996,586</u>	<u>\$ 23,820,490</u>

DEFERRED INFLOWS OF RESOURCES

Bond premium, net of amortization	\$ 202,181	\$ 219,029
TOTAL DEFERRED INFLOWS	<u>\$ 202,181</u>	<u>\$ 219,029</u>

NET POSITION

Invested in capital assets, net of related debt	\$ 52,891,056	\$ 53,347,569
Restricted	4,860,615	6,057,980
Unrestricted	<u>3,102,736</u>	<u>2,780,085</u>
TOTAL NET POSITION	<u>\$ 60,854,407</u>	<u>\$ 62,185,634</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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating revenues	\$ 13,647,581	\$ 13,355,362
Operating and Administrative expenses	11,571,164	11,547,827
Depreciation and amortization	<u>2,623,378</u>	<u>2,563,715</u>
Income (loss) before nonoperating revenues (expenses) and capital contributions	<u>(546,961)</u>	<u>(756,180)</u>
Nonoperating revenues (expenses)		
Interest income	3,938	34,325
Interest expense	(860,092)	(907,556)
Gain/(loss) on disposal of assets	65,513	-
Other income	<u>6,375</u>	<u>1,596</u>
Total nonoperating revenues (expenses)	<u>(784,266)</u>	<u>(871,635)</u>
Net income (loss) before capital contributions	<u>(1,331,227)</u>	<u>(1,627,815)</u>
Contributed capital		
Contribution of systems from developers	<u>-</u>	<u>1,823,783</u>
Total contributed capital	<u>-</u>	<u>1,823,783</u>
Increase (decrease) in net assets	(1,331,227)	195,968
Net Position, beginning of year	<u>62,185,634</u>	<u>61,989,666</u>
Net Position, end of year	<u>\$ 60,854,407</u>	<u>\$ 62,185,634</u>

See accompanying notes to financial statements.

NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY

Statements of Cash Flows

For The Years Ended October 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities:		
Cash received from customers	\$ 14,271,541	\$ 14,023,888
Cash paid to employees	(1,456,226)	(1,303,063)
Cash paid for sewer rental charges	(5,831,145)	(6,473,185)
Cash paid for water purchases	(1,717,819)	(1,536,076)
Cash paid to other suppliers	<u>(2,018,475)</u>	<u>(717,112)</u>
Net Cash Provided by Operating Activities	<u>3,247,876</u>	<u>3,994,452</u>
Cash Flows from Non-Capital Financing Activities:		
Other income	<u>6,375</u>	<u>1,596</u>
Net Cash Provided by Non-Capital Financing Activities	<u>6,375</u>	<u>1,596</u>
Cash Flows from Capital and Related Financing Activities:		
Cash received from sale of assets	65,513	-
Principal paid on long-term debt	(1,359,832)	(1,392,712)
Interest paid on long-term debt	(875,836)	(1,455,787)
Acquisition of property, plant and equipment	<u>(807,033)</u>	<u>(382,995)</u>
Net Cash Provided by (Used in) Capital and Financing Activities	<u>(2,977,188)</u>	<u>(3,231,494)</u>
Cash Flows from Investing Activities:		
Proceeds from sales and maturities of investment securities	27,658,928	1,631,177
Purchase of investment securities	(26,461,563)	(1,401,554)
Interest and other income received	<u>3,938</u>	<u>34,325</u>
Net Cash Provided by Investing Activities	<u>1,201,303</u>	<u>263,948</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,478,366	1,028,502
Cash and Cash Equivalents, Beginning of Year	<u>1,833,247</u>	<u>804,745</u>
Cash and Cash Equivalents, End of Year	<u>\$ 3,311,613</u>	<u>\$ 1,833,247</u>

	<u>2015</u>	<u>2014</u>
Reconciliation of Net Income (Loss) to Net Cash Provided by		
Operating Activities:		
Net income /loss before nonoperating expenses	\$ (546,961)	\$ (756,180)
Adjustments to reconcile net income (loss) before non-operating		
expenses to net cash provided by operating activities:		
Depreciation and amortization	2,623,378	2,563,715
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable and other receivables	623,960	668,526
Inventories	(12,105)	(2,860)
Prepaid expenses	7,932	(6,548)
Increase (decrease) in:		
Accounts payable and accrued expenses	(667,353)	1,524,051
Escrow liability	<u>1,219,025</u>	<u>3,748</u>
Net Cash Provided by Operating Activities	<u>\$ 3,247,876</u>	<u>\$ 3,994,452</u>
Supplemental disclosure of noncash capital and		
related financing activities:		
Dedicated assets contributed by developers	<u>\$ -</u>	<u>\$ 1,823,783</u>

See accompanying notes to financial statements.

NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY

Notes To Financial Statements

For The Year Ended October 31, 2015

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.

NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY

Notes To Financial Statements

For The Year Ended October 31, 2015

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, 2014, 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.

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:

NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY

Notes To Financial Statements

For The Year Ended October 31, 2015

NOTE 2. Summary of Significant Accounting Policies (Continued)

Restricted Accounts: (continued)

<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	\$841,467	Transfers to meet 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.

Net Investment in Capital Assets:

	<u>2015</u>
Total Property, Plant & Equipment	\$ 72,147,429
less: Long-term debt outstanding	(19,054,192)
Less: Unamortized debt premium	<u>(202,181)</u>
	<u>\$ 52,891,056</u>

NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY

Notes to Financial Statements

For The Year Ended October 31, 2015

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.

NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY

Notes to Financial Statements

For The Year Ended October 31, 2015

NOTE 2. Summary of Significant Accounting Policies (Continued)

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.

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.

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.

NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY

Notes to Financial Statements

For The Year Ended October 31, 2015

NOTE 3. A. Deposits and Investments (Continued)

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.

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, 2015 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, 2015, there were no investments other than Money Market.

Credit Risk: As of October 31, 2015, 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.

NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY

Notes to Financial Statements

For The Year Ended October 31, 2015

NOTE 3. A. Deposits and Investments (Continued)

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, 2015, \$3,857,366 of the Authority’s bank balance of \$4,107,366 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>3,857,366</u>
Total Bank Balance	<u>\$ 4,107,366</u>

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, 2015, 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.

NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY

Notes to Financial Statements

For The Year Ended October 31, 2015

NOTE 4. Property, Plant and Equipment

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

	Balance November 1 <u>2014</u>	<u>Additions</u>	<u>Deletions</u>	Balance October 31 <u>2015</u>
Capital assets, not being depreciated:				
BCWSA infrastructure improvement	\$ 7,849,380	\$ -	\$ -	\$ 7,849,380
Land	<u>6,594,803</u>	<u>-</u>	<u>-</u>	<u>6,594,803</u>
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	44,226,420	189,552	-	44,415,972
Sewer system mains & meters	64,491,551	462,716	-	64,954,267
General office building	694,935	-	-	694,935
Equipment	<u>1,819,799</u>	<u>154,765</u>	<u>(149,529)</u>	<u>1,825,035</u>
Total	111,232,705	807,033	(149,529)	111,890,209
Accumulated depreciation	<u>(51,696,266)</u>	<u>(2,640,226)</u>	<u>149,529</u>	<u>(54,186,963)</u>
Total capital assets, being depreciated, net	<u>59,536,439</u>	<u>(1,833,193)</u>	<u>-</u>	<u>57,703,246</u>
All capital assets, net	<u>\$ 73,980,622</u>	<u>\$ (1,833,193)</u>	<u>\$ -</u>	<u>\$ 72,147,429</u>

Depreciation expense was \$2,640,226 for the year ended October 31, 2015.

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 increased the Authority's total assets by \$1.8 million in fiscal year 2014.

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

NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY

Notes to Financial Statements

For The Year Ended October 31, 2015

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 remaining balance of the Series 1990 Bonds was repaid in full in October, 2014.

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.

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.

NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY

Notes to Financial Statements

For The Year Ended October 31, 2015

NOTE 5. Long Term Debt (Continued)

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 2015 were as follows:

	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, 2014	\$ 8,565,000	\$ 4,290,042	\$ 7,558,982	\$ 20,414,024
Principal Payments	<u>(465,000)</u>	<u>(734,698)</u>	<u>(160,134)</u>	<u>(1,359,832)</u>
Balance, October 31, 2015	8,100,000	3,555,344	7,398,848	19,054,192
Current Portion	<u>(485,000)</u>	<u>(753,695)</u>	<u>(134,911)</u>	<u>(1,373,606)</u>
Long-Term Portion	<u>\$ 7,615,000</u>	<u>\$ 2,801,649</u>	<u>\$ 7,263,937</u>	<u>\$ 17,680,586</u>

NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY

Notes to Financial Statements

For The Year Ended October 31, 2015

NOTE 5. Long Term Debt (Continued)

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

<u>October 31</u>	<u>2006 Bonds</u>	<u>2009 Note</u>	<u>BCWSA Share of Capital Improvement Anticipated</u>	<u>Total</u>
2016	\$ 485,000	\$ 753,695	\$ 134,911	\$ 1,373,606
2017	500,000	783,031	142,167	1,425,198
2018	520,000	794,678	149,813	1,464,491
2019	540,000	815,878	157,870	1,513,748
2020	560,000	408,062	166,360	1,134,422
2021-2025	3,190,000	-	976,029	4,166,029
2026-2030	2,305,000	-	1,268,284	3,573,284
2030-2035	-	-	1,648,049	1,648,049
2036-2040	-	-	2,141,528	2,141,528
2041-2042	-	-	613,837	613,837
Total	<u>\$ 8,100,000</u>	<u>\$ 3,555,344</u>	<u>\$ 7,398,848</u>	<u>\$ 19,054,192</u>

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

<u>October 31</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 1,373,606	\$ 841,366
2017	1,425,198	796,254
2018	1,464,491	748,162
2019	1,513,748	698,173
2020	1,134,422	644,149
2021-2025	4,166,029	2,670,254
2026-2030	3,573,284	1,579,139
2031-2035	1,648,049	952,625
2036-2040	2,141,528	459,145
2041-2042	<u>613,837</u>	<u>21,247</u>
Total	<u>\$ 19,054,192</u>	<u>\$ 9,410,514</u>

NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY

Notes to Financial Statements

For The Year Ended October 31, 2015

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, 2015, 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, 2015 totaled \$177,865.

NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY

Notes to Financial Statements

For The Year Ended October 31, 2015

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.

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.

The Authority has an ongoing investigation regarding the appropriate wholesale sanitary sewer rates charged by Bucks County Water and Sewer Authority based upon the agreement with the Authority dated February 23, 1965. As a result, since January 2012 when Bucks County Water and Sewer Authority raised its sewer rates, the Authority has not paid a portion of the increase but has accrued the full amount charged in its financial statements and has set aside funds in the amount of \$2.4 million at October 31, 2015 in a separate bank account.

In 2015, Upper Southampton Municipal Authority (USMA) increased the Authority's sewer rate by approximately 235%. This matter is not currently in litigation but the Authority disputes the unilateral increase in sewer rates and sewer rate calculations imposed by USMA. By Board of Director action and authorization, the Authority is placing the monies which are alleged to be owed by the Authority to USMA in a segregated account and has authorized the Authority's engineer for this issue to install sanitary sewer meters to investigate and provide an opinion in this matter. The Authority has set aside funds in the amount of \$225,894 at October 31, 2015 in a separate account.

NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY

Notes to Financial Statements

For The Year Ended October 31, 2015

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 15, 2016, which is the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY

Supplemental Information Operating Revenues

For The Years Ended October 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating Revenues		
Usage and Rental Charges	\$ 12,889,528	\$ 12,701,094
Penalties	236,298	251,684
Certification Fees	16,941	17,140
Connection Charges	21,817	9,875
Tapping Fees	55,524	166,359
Special Maintenance	12,617	18,106
Fire Hydrant	39,411	40,647
Assessment Fees	193,709	-
Cell Tower Rental	29,972	31,520
Other Services and Miscellaneous	151,764	118,937
Total Operating Revenues	<u>\$ 13,647,581</u>	<u>\$ 13,355,362</u>

NORTHAMPTON, BUCKS COUNTY, MUNICIPAL AUTHORITY

Supplemental Information
Operating and Administrative Expenses

For The Years Ended October 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating and Administrative expenses:		
Administrative Salaries	\$ 711,259	\$ 610,610
Board Salaries	16,500	16,500
Maintenance Salaries	730,268	692,958
Taxes and Benefits	731,054	649,800
Administrative Expenses	1,136,406	891,372
Maintenance Expenses	349,745	345,595
Water Purchases	1,717,819	1,534,311
Water Analysis	33,221	17,008
Water & Sewer System Electric	188,363	230,686
Sewer Rental	5,886,408	6,471,420
Equipment Rental	62,513	62,350
Chemicals	7,608	25,217
Total Operating and Administrative Expenses	<u>\$ 11,571,164</u>	<u>\$ 11,547,827</u>