

**WARWICK TOWNSHIP WATER
AND SEWER AUTHORITY
COMPONENT UNIT OF THE
TOWNSHIP OF WARWICK
FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
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DECEMBER 31, 2016 AND 2015**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Warwick Township Water and Sewer Authority

We have audited the accompanying financial statements of the business-type activities of Warwick Township Water and Sewer Authority (the Authority), Component Unit of the Township of Warwick, Pennsylvania, as of and for the years ended December 31, 2016 and 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Warwick Township Water and Sewer Authority, Component Unit of the Township of Warwick, Pennsylvania, as of December 31, 2016 and 2015, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

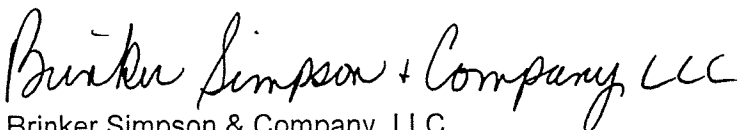
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 11 and 30 through 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits 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 Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements as a whole. The Schedules of Operating Expenses are presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedules of Operating Expenses are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

 Brinker Simpson + Company, LLC

Brinker Simpson & Company, LLC

Springfield, Pennsylvania

April 24, 2017

Warwick Township Water & Sewer Authority
Component Unit of the Township of Warwick
Management's Discussion and Analysis
December 31, 2016 and 2015

This section of Warwick Township Water & Sewer Authority's, hereafter referred to as "Authority"; annual financial report presents management's analysis of the Authority's financial condition for the years ended December 31, 2016 and 2015.

Financial Highlights

- A rate schedule projected to satisfy the Rate Covenant of the 2012 Bond Indenture and future capital reserve requirements was adopted on November 18, 2013 and was effective January 1, 2014. The Authority periodically reviews the annual budget and rate structure to meet the terms of the covenant and address financial planning for the Authority. The Authority approved a 2% Water and Sewer rate increase effective January 1, 2017.
- For fiscal year 2016, the Authority delivered 252.5 million gallons of water and treated 299.0 million gallons of wastewater, compared to 249.17 million gallons of water and 297.8 million gallons of wastewater in the previous year. The Authority purchased 280.2 million gallons of water in 2016, which represented a daily average of 767,759 gallons, while 2015 purchases totaled 277.2 million gallons, an average of 759,534 gallons per day. Unaccounted for water decreased to 5.63% in 2016 from 10.12% in 2015 mainly due to construction activities.
- Total assets at year-end were \$42 million and exceeded liabilities in the amount of \$35 million (i.e. net position). Both, assets and net position, remained roughly unchanged from 2015 to 2016. 2016 deferred outflows of resources were \$185,030 in 2016 compared to \$194,768 in 2015.
- Operating revenues increased by 6.13% from \$3,324,340 in 2015 to \$3,528,110 in 2016, and were over budget projections by \$79,025. Water and sewer revenues by existing customers increased from 2015 to 2016 by approximately 5.48% and 5.43% respectively. Non-operating revenue decreased over 2015 by \$380,171 mainly due to the reduction of new construction in 2016.
- Operating expenses before depreciation for 2016 were \$2,914,442 and were \$49,942 over the budget projection. Operating expenses increased \$170,446 or 6.2%, from the previous calendar year. Operating expenses including depreciation and amortization, increased \$211,537 from 2015.
- The operating income before depreciation for the year totaled \$613,668, a favorable variance from the budget of \$29,083. Operating income before depreciation increased from 2015 by \$33,324 or 5.74%.
- There were \$1,005,824 of developer contributions of infrastructure for 2016. These contributions are comprised of the Kruse Water Service Extension, Heritage Creek II PH2, Jamison Pour House Sewer, Warwick Commons Low Pressure System Extension and the Estates and Valley View Subdivision. These contributions vary from year-to-year with fluctuations in completed and dedicated developer projects.

Warwick Township Water & Sewer Authority
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December 31, 2016 and 2015

Overview of Annual Financial Statements

Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with the independent auditor's report at the front of this report and the Authority's audited financial statements and supplementary information, which follow this section.

This annual report consists of four parts – management's discussion and analysis, the basic financial statements, notes explaining some of the information in the financial statements and supplementary information.

The financial statements report information about the Authority using full accrual accounting methods similar to those used by the private sector. However, rate-regulated accounting principles applicable to private sector utilities are not used by government utilities.

The financial statements include the statements of net assets; statements of revenues, expenses and changes in net position; statements of cash flows; notes to the financial statements; and supplementary information.

The **statements of net position** present the financial position of the Authority on a full accrual historical cost basis. The statements of net position present information on all the Authority's assets and liabilities, with the difference reported as net position.

While the statement of net position provides information about the nature and amount of resources and obligations at year-end, the **statements of revenues, expenses and changes in net position** presents the results of the business activities over the course of the fiscal year and the amount by which the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the Authority's recovery of its costs. Rate setting policies use different methods of cost recovery not fully provided for by generally accepted accounting principles. The primary objective of a rate model is to improve financial position among customer classes and to ensure that capital costs are allocated on the basis of long-term capacity needs, ensuring that growth pays for growth.

The **statements of cash flows** reports changes in cash and cash equivalents resulting from operating, capital, financing, and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The **notes to the financial statements** provide required disclosures and other information that are essential to a full understanding of the financial data provided in the statements. The notes present information about the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

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Supplementary information includes schedules of operating expenses and also provides statements of revenues and expenses compared to budget.

The financial statements were prepared by the Authority's staff from detailed books and records of the Authority and audited during the annual independent external audit.

Summary of Organization and Business

The Authority is a body created pursuant to an ordinance of the Board of Supervisors of Warwick Township, Bucks County, Pennsylvania under an Act of the General Assembly of the State, approved May 2, 1945, P.L. 382, as amended and supplemented, known as the Municipal Authorities Act of 1945, as amended. The Secretary of the Commonwealth of Pennsylvania issued the certificate to incorporation of the Authority on May 1, 1969. The charter was amended on July 3, 1991 to extend the term of existence of the Authority to fifty (50) years from such date.

The governing body of the Authority is a Board consisting of five members appointed by the Township Board of Supervisors. It has been determined that the Authority is a component unit of Warwick Township. The terms of the members of the Board are five years and have been staggered so that the term of one member expires annually. The Authority has broad powers under the Act, including among others, the following: to acquire, hold, construct, improve, maintain and operate, own, lease, either in the capacity of lessor or lessee, sewers, sewer systems or parts thereof, sewage treatment works, including works of treating and disposing of industrial waste, water works, water supply works, water distribution systems, and all facilities necessary and incidental thereto.

The Authority employs eight (8) full time staff.

The Authority does not have taxing power; ongoing operations are funded from customer revenues. The Authority's customer connection base as of December 31, 2016 consisted of approximately 4,023 single-family residential, 7 multi-family residential and 126 commercial customer connections.

The Authority's Water and Sewer Systems

The Sewer System

The Authority currently operates two (2) separate sewage collection, conveyance and treatment systems within the Township serving two distinct watershed areas. The Fish Creek Wastewater Treatment Facility and Sewage Collection and Conveyance System (the "Fish Creek System"), located in the northern portion of the Township, discharges into Fish Creek, a small tributary of Neshaminy Creek. The Country Crossing Wastewater Treatment Facility and Sewage Collection and Conveyance System (the "Country Crossing System"), located in the southern portion of the Township, discharges into an unnamed tributary of the Little Neshaminy Creek.

Warwick Township Water & Sewer Authority
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Fish Creek Watershed Area

The Fish Creek System collects sanitary sewage from the northern portion of the Township and in the area surrounding the village of Jamison and transmits it to the Fish Creek Wastewater Treatment Facility (the "Fish Creek Plant"). The Fish Creek System collects sanitary sewage through approximately 300,000 lineal feet of eight (8) inch, ten (10) inch, and eighteen (18) inch polyvinyl chloride (PVC) and ductile iron pipe with precast concrete manhole structures. The Authority operates eight (8) raw sewage pumping stations where gravity flow to the Fish Creek plant is not possible. All of these pumping stations contain emergency generators or diesel pumps.

The Fish Creek Plant was designed to treat an average flow of 0.85 million gallons per day (mgd) using a sequencing batch reactor activated sludge wastewater treatment facility. The plant uses two concrete reactors which alternately treat batches of wastewater. Disinfection is provided by an ultraviolet light system with a capacity of 5.0 mgd. A cascade aerations outfall is provided immediately prior to discharge of the treated effluent into Fish Creek, providing increased dissolved oxygen in the effluent.

The Board of Directors commissioned Cardno BCM Engineers to prepare design plans and specifications for upgrades to the Fish Creek Plant in 2015. Authorization to bid the project was given by the Board and bids were received in November 2015. The Authority Board awarded the contract to the low bidder, LB Industries, Inc., for a total of \$1,917,269 and to Phillips Brothers Electric for a total of \$228,988.

Little Neshaminy Creek Watershed Area

The Country Crossing System collects sanitary sewage primarily from the Country Crossing and Heritage Creek residential developments, located in the southern portion of the Township. This system was originally constructed in 1996 and 1997 by a private developer under Authority supervision, and ownership was subsequently transferred to the Authority. The Country Crossing System collects sanitary sewage through approximately 60,000 lineal feet of eight (8) inch diameter PVC and ductile iron pipe with precast concrete manhole structures. Three (3) pumping stations are operated within the service area where gravity flow to the Country Crossing Wastewater Treatment Facility (the "Country Crossing Plant") is not possible.

The Country Crossing Plant uses a sequencing batch reactor secondary and tertiary treatment system consisting of four rectangular reinforced concrete reactors and an ultraviolet light disinfection system to treat up to 0.32 mgd of municipal wastewater. An on-site equalization basin is used to provide the treatment system with a steady flow of waste. Treated effluent from the Country Crossing Wastewater Treatment Facility is processed through a sand filter and discharged into an unnamed tributary of the Little Neshaminy Creek.

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The Water System

The Authority purchases water in bulk from Aqua Pennsylvania Inc. and the North Wales Water Authority, and distributes it to residents of Warwick Township. The distribution system consists of ductile iron water mains ranging in size from four (4) to twelve (12) inch in diameter. The Authority maintains various booster stations, storage tanks and wells throughout the Township. The Authority has terminated its docket with the DRBC and no longer utilizes the ground water sources within the Township.

The Authority provides reliable high quality potable water used for drinking, fire protection and other purposes to residential and commercial customers. The Authority has a long-term agreement with Aqua PA and North Wales Water Authority to purchase 100 percent of the Townships' current and future water needs at a very reasonable price. These guaranteed supply agreements insure an adequate supply of water for our customers. Rate increases from Aqua PA are generally tied to the Consumer Price Index.

The interconnection with NWWA provides a redundant supply of water for WTWSA with approximately 100,000 gallons per day on an annual average with peak demands of up to 800,000 gallons per day.

Operations of the Water and Sewer Systems

Ten Largest Water Users

<u>System User</u>	<u>Property Description</u>	<u>2016 Charges</u>
BRIGHTVIEW YORKTOWN	Apartments	\$10,600
BRIDGES AT WARWICK	Senior Living	\$5,484
BRIDGE VALLEY ELEMENTARY	School	\$5,472
OUTBACK STEAKHOUSE	Restaurant	\$4,679
BUCKS CLUB, THE	Country Club	\$4,284
CAR WASH GROUP LLC	Car Wash	\$4,125
HERITAGE CREEK	Apartments	\$3,748
GIANT	Grocery Store	\$3,417
WARWICK ELEMENTARY	School	\$3,166
MIDDLE BUCKS VO TECH	School	\$2,965

Ten Largest Sewer Users

<u>System User</u>	<u>Property Description</u>	<u>2016 Charges</u>
BRIGHTVIEW YORKTOWN	Apartments	\$13,841
DIAMOND RIDGE	Day Camp	\$12,543
BUCKS CLUB, THE	Country Club	\$8,174
BRIDGES AT WARWICK	Senior Living	\$7,246
BRIDGE VALLEY ELEMENTARY	School	\$7,232
OUTBACK STEAKHOUSE	Restaurant	\$6,209
RINK AT WARWICK	Ice Skating Rink	\$5,734
CAR WASH GROUP LLC	Car Wash	\$5,495
CAR WASH GROUP LLC	Car Wash	\$5,333
WAWA	Commercial	\$5,193

Current Rate Schedule

Warwick Township Water & Sewer Authority
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- The Authority's customers are charged a quarterly fixed fee of \$25.37 for water and \$38.89 for sewer plus a usage charge based on gallons of water consumed. Customers with unmetered private wells pay a flat sewerage rate of \$182 per quarter for single family residences, \$255.84 per EDU for commercial users, and \$372.32 per EDU for industrial users. The Authority estimates that the typical residential customer pays approximately \$330 per year for water and \$455 per year for sewer. The Authority's 2016 rates went into effect in January 2016. The Authority approved a 2% Water and Sewer rate increase effective January 1, 2017.

The Authority's current quarterly usage charges and tapping fees are shown below:

	<u>Water</u>	<u>Sewer</u>
Single Family Residential		
0 to 40,000 gallons (per 1,000 gallons)	\$3.81	\$6.24
Over 40,000 gallons (per 1,000 gallons)	\$5.71	\$0.00
Commercial, Industrial & Multi-Family Residential		
0 to 40,000 gallons (per 1,000 gallons)	\$3.81	\$6.24
Over 40,000 gallons (per 1,000 gallons)	\$5.71	\$7.36
Tapping Fee per EDU	\$4,500	\$6,300

Billing

Customers are invoiced on a quarterly basis. Full payment is due in thirty days after the billing date. A penalty of 15% is added to all bills not paid when due. Delinquent notices are mailed to delinquent accounts, and payment is required fourteen days after notices are mailed. Once a customer is past due for two or more quarters the following action is taken:

1. A letter is sent certified mail to the customer stating that a delinquent notice was mailed which provided the customer with an opportunity to pay the balance or to set up a payment schedule. The customer is further advised that (a) a lien will be filed on their property at the Prothonotary's Office at the Bucks County Courthouse in ten working days unless full payment is received, and that all costs related to the legal action will be added to their account and (b) service will be terminated if full payment is not received within ten working days after the lien is filed.
2. (a) If there is no response from the customer within the ten working days after the date of the certified letter, a lien is filed in the Prothonotary's Office at the Bucks County Courthouse. A letter is sent to the customer stating a lien was filed on their property, along with a time-stamped copy of the document. In order to have the lien satisfied of record, the customer must pay the entire outstanding balance including legal fees. (b) If there is no response from the customer ten working days after the lien has been filed, service is terminated.
3. When the amount of municipal liens filed against a property reaches or exceeds the sum of \$1,000, or when a municipal lien remains unpaid after one year from the date of filing, the Authority files a Writ of Scire Facias with the Court in order to enforce the lien(s). A Writ of Scire Facias is similar to a civil complaint which is filed to commence a

Warwick Township Water & Sewer Authority
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lawsuit. The purpose of the Writ is to reduce the lien(s) to judgment, so that, if it still remains unpaid, execution proceedings can be brought in Court to force the property to a sheriff sale in order to satisfy the debt. A property owner has a right to file an Answer to the Writ if they dispute some aspect of the lien(s); however, an Authority merely must prove that the debt is owed and unpaid.

Financial Condition

Total assets increased \$99,286 or .24% from 2015. Net position increased \$280,174 in 2016 from 2015. Unrestricted net position increased \$471,490 or 7.46% in 2016.

Customer accounts receivable at year-end was \$39,537 greater than year-end 2015 or approximately 3.97%. The Authority's billing department methodically pursues delinquent customer accounts; all accounts receivable are considered collectible since the Authority liens all customers' property for non-payment.

Results of Operations

Operating Revenue: Revenues from operations are comprised of three general categories: water service, sewer service and other charges. Other charges include meter charges, meter installation charges, administrative fees, rental income and charges for miscellaneous billed services. The Authority has three core classes of water and sewer customers: single-family residential, multi-family residential and commercial. In addition to these three classes, the Board has approved the sale of water to commercial bulk water haulers.

The Authority's water and sewer revenue increased 5.48% and 5.43% respectively from the previous year. Water revenue increased \$73,623 and sewer revenue increased \$104,185 from 2015.

Total 2015 operating revenue increased by \$203,770 from calendar year 2015. The majority of the water and sewer sales were from residential customers, approximately 91%.

Expenses: Total operating expenses of the Authority, before depreciation, increased \$170,446 from calendar year 2015 and were over budget by \$49,942. Operating income, before depreciation, is \$613,668 for 2016 compared to \$580,344 for 2015.

Water operating expenses increased 4.37%, sewer operating expense increased 7.32% and administrative expenses increased 7.13% from 2015 to 2016. The water operating cost per thousand gallons increased from \$3.87 to \$3.92 or approximately 1.29% and the sewer operating cost per thousand gallons increased from \$3.78 to \$3.792 or about 3.70%.

Depreciation and amortization expense for 2016 and 2015 was \$1,442,363 and \$1,401,272, respectively.

Warwick Township Water & Sewer Authority
Component Unit of the Township of Warwick
Management's Discussion and Analysis
December 31, 2016 and 2015

Summary of Annual Revenues and Expenses of the Water and Sewer System

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
<u>Operating Revenues</u>	<u>(Restated)</u>				
Water Revenue	\$ 1,272,316	\$ 1,302,095	\$1,344,285	\$1,344,285	\$1,417,908
Sewer Revenue	1,735,852	1,861,653	1,919,504	1,919,504	2,023,689
Connection Fees	-	79,707	-	-	-
Administrative Fees for Professional Services	5,630	5,891	11,438	13,879	13,570
Construction Usage and Certificate Fees	19,753	20,887	15,389	13,908	12,850
Meter Installation	22,932	29,124	14,168	3,291	29,008
Miscellaneous	31,650	30,394	32,313	29,473	31,085
Total Operating Revenue	3,088,133	3,329,751	3,337,097	3,324,340	3,528,110
<u>Operating Expenses (1)</u>					
Water Operating Costs	880,272	868,057	990,305	990,305	1,033,568
Sewer Operating Costs	1,048,961	1,068,573	1,126,038	1,126,038	1,208,446
General and Administrative	532,812	536,557	596,061	627,653	672,428
Total Operating Expenses	2,462,045	2,473,187	2,712,404	2,743,996	2,914,442
Operating Income (Loss) before Depreciation	626,088	856,564	624,693	580,344	613,668
Depreciation and Amortization Expense	1,386,683	1,398,558	1,367,285	1,401,272	1,442,363
Operating Income (Loss)	(760,595)	(541,994)	(742,592)	(820,928)	(828,695)
<u>Non-Operating Revenue (Expenses)</u>					
Tapping Fees	186,509	392,022	416,820	597,079	166,019
Interest Income	21,735	23,100	19,659	19,479	19,417
Interest Expense	(198,589)	(168,575)	(153,100)	(146,735)	(136,179)
Bond Issuance Expense	(150,497)	-	-	-	-
Miscellaneous Income (Expense)	85,933	8,065	12,026	2,837	53,788
Gain on disposal of property and equipment	0	0	249,223	0	0
Grant Income	21,697	328,094	-	-	-
Total Non-Operating Revenues (Expenses)	(33,212)	582,706	544,628	472,660	103,045
Net Income (Loss)	<u>\$ (793,807)</u>	<u>\$ 40,712</u>	<u>\$ (197,964)</u>	<u>\$ (348,268)</u>	<u>\$ (725,650)</u>
 <i>Calculation of Debt Service Coverage Ratio</i>					
Net Income (Loss)	\$ (793,807)	\$ 40,712	\$ (197,964)	\$ (348,268)	\$ (725,650)
Add Back					
Interest and Bond Issue Expenses	349,086	168,575	153,100	146,735	136,179
Depreciation and Amortization	1,386,683	1,398,558	1,367,285	1,401,272	1,442,363
Total Available for Debt Service	<u>\$ 941,962</u>	<u>\$ 1,607,845</u>	<u>\$ 1,322,421</u>	<u>\$ 1,199,739</u>	<u>\$ 852,892</u>
Maximum Annual Debt Service	<u>\$ 450,870</u>	<u>\$ 439,609</u>	<u>\$ 439,609</u>	<u>\$ 439,609</u>	<u>\$ 439,609</u>
Coverage Ratio	2.09	3.66	3.01	2.73	1.94

(1) Excludes depreciation and amortization

Capital Contributions: The Authority accepts additions to its collection and distribution systems from developers, commonly referred to as Developer Contributions. Prior to GASB 33 and 34 implementation, Developer Contributions were recorded as direct contributions to equity. GASB 33 and 34 define these Developer Contributions as non-operating revenues and requires reporting the amounts through the Statements of Revenues, Expenses, and Changes in Net Position.

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There were \$1,005,824 developer contributions of infrastructure for 2016. These contributions are comprised of the Kruse Water Service Extension, Heritage Creek II PH2, Jamison Pour House Sewer, Warwick Commons Low Pressure System Extension and the Estates and Valley View Subdivision. These contributions vary from year-to-year with fluctuations in completed and dedicated developer projects

Tapping Fees: The Authority charges all new customers a water and/or sewer tapping fee on an EDU basis for their pro-rata portion of the water and sewer facilities and report the tapping fees as non-operating income when a property goes to settlement. Residential and commercial real estate developers pay the majority of these fees in blocks upon the signing of a Developer Agreement.

Tapping fee revenues were \$166,019 for 2016 compared to \$597,079 for 2015, and for 2016 were \$430,981 under the budgeted amount of \$597,000. Tapping fees vary from year-to-year with fluctuations in development and therefore are difficult to predict.

Rate Covenant

The Authority covenants and agrees that it will, at all times, adopt a resolution fixing and charging water rates, sewer rates and other charges for the services and facilities furnished by the Authority, together with other income, excluding depreciation, amortization and interest expense that will yield annual change in net assets in the fiscal year equal to at least 1.1 times the sum of the maximum annual debt service payments. The rate covenant in the Bond Resolution obligates the Authority to review rates twice per year and to revise such rates and charges as necessary to meet the coverage test.

In August 2015, the Authority was contacted by Moody's to provide updated financial information for the purpose of updating the credit rating of the Authority. As a result of the review, Moody's removed the prior negative outlook on their report and confirmed their Aa3 rating for the Authority. It notes that the Authority Board and its management team has positioned the Authority well utilizing good fiscal planning, the willingness to raise rates when appropriate and proper operation and maintenance of its infrastructure.

On November 21, 2016 the Board adopted a new rate schedule effective January 1, 2017, projected to meet the requirements of the 2012 Bond Indenture and future capital reserve requirements. The Authority's debt service coverage ratio, for 2016 and 2015 was 1.94 and 2.73 respectively.

Final Comments

This financial report is designed to provide a general overview of the Authority's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Warwick Township Water and Sewer Authority, Finance Department, P.O. Box 315, Jamison, Pennsylvania 18929.

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
STATEMENTS OF NET POSITION
DECEMBER 31**

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>2016</u>	<u>2015</u>
Current		
Cash and cash equivalents	\$ 3,750,594	\$ 3,266,083
Accounts receivable, customers and developers	1,036,415	996,878
Notes receivable, current maturities	47,034	49,072
Inventory	39,254	28,424
Prepaid expenses	77,617	81,285
Total current assets	<u>4,950,914</u>	<u>4,421,742</u>
Restricted assets		
Cash, escrow funds - developers	241,609	288,671
Cash, Series 2012 Bonds - trust accounts	4,040,665	4,954,077
Total restricted assets	<u>4,282,274</u>	<u>5,242,748</u>
Capital assets		
Land and construction in progress	1,783,671	967,506
Plant and equipment, net of accumulated depreciation	31,188,211	31,430,167
Total capital assets	<u>32,971,882</u>	<u>32,397,673</u>
Notes receivable, net of current maturities	<u>132,924</u>	<u>176,545</u>
TOTAL ASSETS	<u>\$ 42,337,994</u>	<u>\$ 42,238,708</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on bond refundings	<u>\$ 185,030</u>	<u>\$ 194,768</u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

Current		
Current maturities of bonds payable	\$ 300,000	\$ 280,000
Accounts payable, vendors and developers	179,361	177,251
Accrued interest payable	69,804	72,604
Accrued payroll and payroll withholdings	17,651	14,743
Accrued compensated absences	15,544	14,178
Total current liabilities	<u>582,360</u>	<u>558,776</u>
Restricted liabilities		
Escrow deposits, developers	<u>241,609</u>	<u>288,671</u>
Long-term liabilities		
Deferred income	896,100	768,600
Bonds payable, net of unamortized discount	5,487,337	5,781,985
Total long-term liabilities	<u>6,383,437</u>	<u>6,550,585</u>
TOTAL LIABILITIES	<u>\$ 7,207,406</u>	<u>\$ 7,398,032</u>
DEFERRED INFLOWS OF RESOURCES	<u>\$ -</u>	<u>\$ -</u>
Net position		
Invested in capital assets, net of related debt	27,184,545	26,335,690
Restricted for capital activity	895,557	1,935,727
Restricted for debt service	440,159	440,160
Unrestricted	6,795,357	6,323,867
Total net position	<u>35,315,618</u>	<u>35,035,444</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 42,523,024</u>	<u>\$ 42,433,476</u>

See notes to financial statements.

WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31

	<u>2016</u>	<u>2015</u>
Operating revenues		
Water revenue	\$ 1,417,908	\$ 1,344,285
Sewer revenue	2,023,689	1,919,504
Administrative fees	13,570	13,879
Construction usage and certificate fees	12,850	13,908
Meter installations	29,008	3,291
Rental income	25,927	25,172
Miscellaneous operating revenues	5,158	4,301
Total operating revenues	<u>3,528,110</u>	<u>3,324,340</u>
Operating expenses		
Water plant operating expenses	1,033,568	990,305
Wastewater plant operating expenses	1,208,446	1,126,038
General and administrative expenses	672,428	627,653
Total operating expenses	<u>2,914,442</u>	<u>2,743,996</u>
Operating income before depreciation and amortization	613,668	580,344
Depreciation and amortization	<u>1,442,363</u>	<u>1,401,272</u>
Operating loss	<u>(828,695)</u>	<u>(820,928)</u>
Nonoperating revenues		
Water tapping fees	70,500	234,500
Sewer tapping fees	95,519	362,579
Interest income	19,417	19,479
Miscellaneous income	53,788	2,837
Total nonoperating revenues	<u>239,224</u>	<u>619,395</u>
Nonoperating expense		
Interest expense	<u>136,179</u>	<u>146,735</u>
Net nonoperating revenues (expense)	<u>103,045</u>	<u>472,660</u>
Loss before capital contributions	(725,650)	(348,268)
Capital contributions	<u>1,005,824</u>	<u>-</u>
Increase (decrease) in net position	280,174	(348,268)
Net position, beginning	<u>35,035,444</u>	<u>35,383,712</u>
Net position, ending	<u>\$ 35,315,618</u>	<u>\$ 35,035,444</u>

See notes to financial statements.

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31**

Increase (Decrease) in Cash and Cash Equivalents

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Cash received from customers and developers	\$ 3,488,563	\$ 3,464,989
Cash paid to suppliers and developers	(2,087,967)	(1,951,925)
Cash paid to employees	(820,517)	(792,419)
Net cash and cash equivalents provided by operating activities	<u>580,079</u>	<u>720,645</u>
Cash flows from capital and related financing activities		
Tapping fees received	293,519	275,779
Acquisition of capital assets	(995,659)	(555,581)
Interest paid on Series 2012 Bonds	(138,978)	(149,485)
Principal paid on Series 2012 Bonds	(280,000)	(275,000)
Net cash and cash equivalents (used in) capital and related financing activities	<u>(1,121,118)</u>	<u>(704,287)</u>
Cash flows from investing activities		
Interest income received	19,417	19,479
Payments received on notes receivable	45,659	42,673
Net cash and cash equivalents provided by investing activities	<u>65,076</u>	<u>62,152</u>
Net increase (decrease) in cash and cash equivalents	(475,963)	78,510
Cash and cash equivalents, beginning	<u>8,508,831</u>	<u>8,430,321</u>
Cash and cash equivalents, ending	<u>\$ 8,032,868</u>	<u>\$ 8,508,831</u>
Reconciliation of operating loss to net cash and cash equivalents provided by operating activities		
Operating loss	\$ (828,695)	\$ (820,928)
Adjustments to reconcile operating loss to net cash and cash equivalents provided by operating activities		
Depreciation and amortization	1,442,363	1,401,272
Miscellaneous income	53,788	2,837
Change in:		
Accounts receivable	(39,537)	137,812
Inventory	(10,830)	(9,230)
Prepaid expenses	3,668	(4,168)
Accounts payable	2,110	(95,321)
Escrow deposits, developers	(47,062)	98,878
Accrued payroll and payroll withholdings	2,908	2,725
Accrued compensated absences	1,366	6,768
Net cash and cash equivalents provided by operating activities	<u>\$ 580,079</u>	<u>\$ 720,645</u>
Supplemental disclosure of noncash capital and related financing activities:		
Assets acquired through capital contributions	\$ 1,005,824	\$ -
Issuance of notes receivable for tapping fees	-	40,000

See notes to financial statements.

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015**

Note 1: Nature of operations and summary of significant accounting policies

Reporting Entity

The Warwick Township Water and Sewer Authority (the Authority) is located in the County of Bucks, Pennsylvania, and was incorporated on May 1, 1969 under the Municipal Authorities Act of 1945. The Authority is a municipal corporation with a five-member board of directors. The Authority supplies water and sewer services to certain residents of the Township of Warwick (the Township).

The criteria used in determining the scope of the reporting entity for financial reporting purposes is consistent with the guidance contained in Governmental Accounting Standards Board (GASB) Statement No. 39, Determining Whether Certain Organizations are Component Units. These criteria are:

- *Selection of the governing authority:*

The members of the Authority's Board of Directors are appointed to five-year terms by the Township supervisors. While there is continuing communication with the Township, there is little linkage to elected Township officials after appointment.

- *Designation of management:*

The Authority's management and employees, who are responsible for the Authority's operations, are appointed by, and are held accountable to, the Authority's Board of Directors.

- *Ability to significantly influence operations:*

The Authority reviews and approves all budgetary actions, signs contracts as the contracting agency, hires and controls key management personnel, and exercises control over facilities, property, and policies relating to the services provided by the Authority. The Township assumes no responsibility for the Authority's day-to-day operations.

- *Accountability for fiscal matters:*

Budgetary authority and control over collection and disbursement of funds, fiscal management, and funding deficits rests with the Authority.

Based on these criteria, the Authority is a Component Unit of the Township of Warwick. The Authority's relationship with the Township is so significant that its exclusion would render the Township's financial statements misleading, even though financial accountability to the Township is absent.

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015**

Note 1: Nature of operations and summary of significant accounting policies (continued)

Basis of Accounting

The Authority's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Accounting policies are based on generally accepted accounting principles for self-supporting governmental enterprise funds, a proprietary fund-type. Accordingly, revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows.

New accounting pronouncements

GASB No. 67 replaces the requirements of Statements No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and No. 50, Pension Disclosures, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of the statement and to defined contribution plans that provide postemployment benefits other than pensions. This pronouncement was determined to not have an impact to the Authority.

GASB No. 68, Accounting and Financial Reporting for Pensions is an amendment of GASB Statement No. 27, effective for reporting periods beginning after June 15, 2014, requires reporting deferred outflows of resources related to pensions for, among other items, employer contributions made directly by the employer to a defined benefit pension plan between the measurement date of the net pension liability and the employer's fiscal year end, actual plan investment earnings being less than projected for a particular year, and increases in total pension liabilities resulting from either changes in assumptions, or differences between expected and actual experience that result in experience losses. This pronouncement was determined to not have an impact to the Authority.

Budgetary data

The Authority's management prepares the Authority's operating budget with input from the Finance Committee. The Authority follows these procedures in establishing the budgetary data included in the financial statements:

- A preliminary budget is presented to the Board of Directors in an October public meeting
- The operating budget includes proposed expenditures and the means of financing them
- At the November public meeting, the Board of Directors reviews the budget
- Prior to December 31st, the Authority holds a public meeting, after which the budget is legally adopted through passage of a resolution

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015**

Note 1: Nature of operations and summary of significant accounting policies (continued)

Budgetary data (continued)

- The budget is certified by the Authority's Engineer that proposed rates for water and sewer services will achieve the 110% (or 1.1 times) debt service coverage requirement
- All budget revisions require the approval of the Board of Directors

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 assets and 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.

Cash and cash equivalents

The Authority considers all highly liquid investments (including restricted assets separately held) with a maturity of three months or less when purchased 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 principles 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 December 31, 2015, from which the summarized information was derived.

Accounts receivable

Customer billings are computed from meter readings and billed quarterly based on the amount consumed in the previous quarter. All bills are due and payable within thirty days after the end of the service period covered. If not paid by the due date, the bills are considered delinquent.

No allowance for uncollectible accounts has been provided since management considers all accounts to be collectible. The Authority is permitted to lien the customer's property if the customer does not remit payment timely.

Inventory

Inventory held by the Authority consists of materials, supplies, chemicals and water meters. Inventory is stated at cost, which is determined using the first-in, first-out method.

WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

Note 1: Nature of operations and summary of significant accounting policies (continued)

Capital assets

Capital assets are stated at cost or fair market value at time of contribution to the Authority. Land and construction in progress is not depreciated. When construction projects are complete, the cost is transferred to the plant and equipment accounts. Plant additions and improvements are capitalized and depreciated. Replacements, maintenance and repairs, which do not improve or extend the life of the asset are expensed currently. Depreciation is provided for on a straight-line basis. Depreciation expense for 2016 and 2015 totaled \$1,427,274 and \$1,385,979, respectively.

Depreciable lives of plant and equipment are estimated as follows:

<u>Asset</u>	<u>Years</u>
Plant and improvements	20 - 50
Collection lines	50
Machinery and equipment	10
Vehicles	5

The minimum capitalization threshold is an individual item with a cost of more than \$500 and a useful life exceeding one year.

Restricted assets

Restricted assets include amounts held in trust accounts for the Series 2012 Bonds, which are to be used for repayment of the bonds and the construction of capital assets. The Authority's "net position restricted for debt service" includes the excess of assets over certain liabilities restricted for debt service on the bonds outstanding.

Restricted assets also include developer escrows. Developer deposits held by the Authority are to be used to pay for engineering, legal, inspection costs and administrative fees associated with the respective developers' projects. Upon receipt of the funds, the Authority records the cash and corresponding liability, and when the Authority receives invoices for expenses on behalf of the developer, it disburses the funds and reduces the liability.

Capitalization of interest

Interest expense that relates to the cost of acquiring or constructing capital assets is capitalized. Because the Authority's debt proceeds are not restricted to specified assets, interest expense incurred in connection with construction of capital assets is not reduced by interest earned on the investment of funds borrowed for construction. During 2016 and 2015, respectively, \$6,230 and \$1,225 of interest expense was capitalized.

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015**

Note 1: Nature of operations and summary of significant accounting policies (continued)

Deferred financing costs

Bond issuance costs are written off in the year incurred.

Capital contributions

Distribution and collection lines, pumping stations, wells and storage and treatment facilities constructed and installed by developers and dedicated to the Authority are recorded as capital contributions and depreciated over their estimated useful lives upon acceptance of the dedication. Capital contributions totaled \$1,005,824 during the year ended December 31, 2016. There were no contributions of capital during the year ended December 31, 2015. Contributed capital is recorded as income in the year of dedication to the Authority.

Unamortized bond discounts

Bond discounts are deferred and amortized over the term of the related bonds using the bonds outstanding method, which approximates the interest method. For financial reporting purposes, bond discounts are offset against bonds payable.

Deferred loss on bond refunding

Unamortized original issue discount and bond discounts on refunded bonds are deferred and amortized, using the bonds outstanding method, over the original maturity of the refunded bonds. For financial reporting purposes, these deferred refunding costs are reported as deferred outflows of resources.

Unearned revenue

Developers pay the Authority for tapping fees prior to the construction of distribution and collection lines. The fees are recorded as unearned revenue when received and recognized as nonoperating revenues when the developer connects the water and sewer lines to the Authority's system.

Net position

Net position comprises the various net earnings from operating and nonoperating revenues, expenses and contributions of capital. Net position is classified in the following four components: invested in capital assets, net of related debt; restricted for capital activity; restricted for debt service; 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.

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015**

Note 1: Nature of operations and summary of significant accounting policies (continued)

Net position (continued)

Net position restricted for capital activity consists of cash and cash equivalents restricted to fund capital improvements, reduced by deferred income (tapping fees).

Net position restricted for debt service consists of net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates, less any related liabilities.

Unrestricted net position consists of all other assets not included in the above categories.

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 or periods and so will not be recognized as an outflow of resources (expense/expenditure) until that time.

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 a future period or periods and so will not be recognized as an inflow of resources (revenues) until that time.

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 operations. All revenues 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 revenues 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.

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015**

Note 1: Nature of operations and summary of significant accounting policies (continued)

Deferred compensation plan

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits Authority employees to defer a portion of their salary until future years. Compensation deferred is not available to employees until termination, retirement, death, or unforeseeable emergency. The Authority's contributions are made each pay.

Compensated absences

Unpaid vacation and sick time is recorded as an expense in the period it is earned and considered payable from current financial resources. The Authority does not compensate unpaid sick time upon employees' termination or retirement. The estimated value of vacation time owed to employees who may be paid in subsequent years or upon termination or retirement and, therefore, payable from future resources is recorded in the current year.

Note 2: Restricted assets

Bond trust accounts

In accordance with the terms of the Series 2012 Bond Trust Indenture, the Authority maintains funds in various trust accounts, segregated for specific use and security of the bondholders. The trust accounts are maintained by an independent trustee in accordance with the Trust Indenture.

Deposits in the trust accounts must be insured or secured as described in Note 3, and may be invested as provided by law and the Trust Indenture. Deposits in the trust accounts consist of cash and cash equivalents. Income received on amounts deposited, other than Construction Fund deposits, is transferred to the Revenue Fund and is available to pay operating costs.

	<u>2016</u>	<u>2015</u>
<u>Water and Sewer Revenue Bonds - Series 2012</u>		
Restricted Cash and Cash Equivalents:		
Revenue Account	\$ 58,476	\$ 32,940
Revenue Account - Electronic Deposits	7,590	4,312
Bond Revenue Fund	1,742,783	1,772,337
Debt Service Reserve	439,609	439,699
Bond Redemption and Improvement Fund	846,450	967,176
Construction Fund	945,207	1,737,151
Debt Service Fund	550	462
Total Restricted Trust Accounts - Series 2012	<u>\$ 4,040,665</u>	<u>\$ 4,954,077</u>

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015**

Note 2: Restricted assets (continued)

Developer escrow accounts

At December 31, 2016 and 2015, cash and cash equivalents include \$241,609 and \$288,671, respectively, held as developer escrow funds. These funds are held by the Authority to guarantee the completion of projects by developers as required by the development agreements and to pay professional fees related to the respective projects.

Note 3: Credit risk

Cash and cash equivalents

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. Balances exceeding federal depository insurance limits are exposed to custodial credit risk. However, under Pennsylvania Act 72, all amounts in excess of insurance limits are collateralized by securities held by the pledging financial institution, but not in the Authority's name. As of December 31, 2016 and 2015, \$7,350,081 and \$7,750,356, respectively, was exposed to custodial credit risk.

A reconciliation of amounts exposed to custodial credit risk to total cash and cash equivalents held by the Authority follows:

	<u>2016</u>	<u>2015</u>
Uninsured and collateral held by the pledging bank's trust department, but not in the Authority's name	\$ 7,350,081	\$ 7,750,356
Plus: Insured amounts	<u>717,492</u>	<u>880,165</u>
Carrying amounts - bank balances	8,067,573	8,630,521
Plus: Petty cash	100	200
Less: Outstanding checks	<u>(34,805)</u>	<u>(121,890)</u>
Total cash and cash equivalents per financial statements	<u>\$ 8,032,868</u>	<u>\$ 8,508,831</u>

Total cash and cash equivalents include:

	<u>2016</u>	<u>2015</u>
Operating accounts - unrestricted	\$ 3,750,594	\$ 3,266,083
Restricted accounts - bond trust accounts	4,040,665	4,954,077
Restricted accounts - developer escrow accounts	<u>241,609</u>	<u>288,671</u>
	<u>\$ 8,032,868</u>	<u>\$ 8,508,831</u>

WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

Note 4: Capital assets

2016					
	Balance at Jan. 1, 2016	Additions	Deletions	Transfers	Balance at Dec. 31, 2016
<u>Land and CIP</u>					
Land	\$ 551,571	\$ -	\$ -	\$ -	\$ 551,571
Construction in progress (CIP)	415,935	842,293	-	(26,128)	1,232,100
Total Land and CIP	<u>\$ 967,506</u>	<u>\$ 842,293</u>	<u>\$ -</u>	<u>\$ (26,128)</u>	<u>\$ 1,783,671</u>
<u>Plant and equipment</u>					
Plant facilities	\$ 51,012,909	\$ 1,114,695	\$ -	\$ -	\$ 52,127,604
Plant equipment	485,993	-	-	-	485,993
Leasehold improvements	321,627	-	-	-	321,627
Furniture and equipment	131,925	44,623	-	-	176,548
Vehicles	189,356	26,000	-	-	215,356
Total plant and equipment	52,141,810	1,185,318	-	-	53,327,128
Accumulated depreciation	(20,711,643)	(1,427,274)	-	-	(22,138,917)
Net plant and equipment	<u>\$ 31,430,167</u>	<u>\$ (241,956)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,188,211</u>
2015					
	Balance at Jan. 1, 2015	Additions	Deletions	Transfers	Balance at Dec. 31, 2015
<u>Land and CIP</u>					
Land	\$ 551,571	\$ -	\$ -	\$ -	\$ 551,571
Construction in progress (CIP)	969,267	349,384	-	(902,716)	415,935
Total Land and CIP	<u>\$ 1,520,838</u>	<u>\$ 349,384</u>	<u>\$ -</u>	<u>\$ (902,716)</u>	<u>\$ 967,506</u>
<u>Plant and equipment</u>					
Plant facilities	\$ 50,004,161	\$ 1,008,748	\$ -	\$ -	\$ 51,012,909
Plant equipment	527,442	98,799	(140,248)	-	485,993
Leasehold improvements	321,627	-	-	-	321,627
Furniture and equipment	178,402	1,365	(47,842)	-	131,925
Vehicles	189,356	-	-	-	189,356
Total plant and equipment	51,220,988	1,108,912	(188,090)	-	52,141,810
Accumulated depreciation	(19,513,754)	(1,385,979)	188,090	-	(20,711,643)
Net plant and equipment	<u>\$ 31,707,234</u>	<u>\$ (277,067)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,430,167</u>

WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

Note 5: Notes receivable

Notes receivable relate to tapping and connection fees billed to residential customers. The notes accrue interest at 6%.

Scheduled future maturities of notes receivable at December 31, 2016 are:

<u>Year Ending December 31</u>	<u>Amount</u>
2017	\$ 47,034
2018	39,124
2019	26,800
2020	26,800
2021	26,800
2022	13,400
	<u>\$ 179,958</u>

Note 6: Bonds Payable

On December 3, 2012, the Authority issued Water and Sewer Revenue Bonds, Series of 2012, in the principal amount of \$6,905,000. The proceeds of the Series 2012 Bonds were used (1) to provide funds for the Authority's capital improvement program, (2) to refund the Authority's Series 2007 Bonds, (3) to fund the Debt Service Reserve Fund in an amount equal to maximum annual debt service on the Series 2012 Bonds, and (4) to pay costs of issuance of the Series 2012 Bonds. The Series 2007 Bonds were defeased on December 3, 2012.

The Series 2012 Bonds are secured by the assignment and pledge of the Authority's water and sewer revenues, as defined in the 2012 Trust Indenture.

The Authority refunded the Series 2007 Bonds at no accounting loss, and to obtain an economic gain (the difference between the present values of the old and new debt service payments) of \$627,068. The Authority in effect reduced its aggregate debt service payments on the Series 2007 Bonds in the amount of \$741,793.

In accordance with the 2012 Trust Indenture, the Authority is required (1) to generate revenues to pay the operating expenses of the Authority, and (2) to provide an amount equal to at least 1.1 times the maximum annual debt service requirements (the rate covenant). For the years ended December 31, 2016 and 2015, the Authority's debt service coverage is 1.94 and 2.73 times, respectively, which exceeds the rate covenant requirement.

WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

Note 6: Bonds Payable (continued)

Interest is payable semi-annually on January 1st and July 1st of each year, beginning July 1, 2013, until maturity or earlier redemption. The annual requirements to amortize principal and interest are:

<u>Maturity Date (July 1)</u>	<u>Interest Rate</u>	<u>Principal Amount</u>	<u>Interest</u>	<u>Total Debt Service</u>
2017	3.000%	\$ 300,000	\$ 139,609	\$ 439,609
2018	1.200%	300,000	130,609	430,609
2019	1.450%	300,000	127,009	427,009
2020	2.000%	300,000	122,659	422,659
2021	2.000%	300,000	116,659	416,659
2022	2.000%	320,000	110,659	430,659
2023	2.125%	325,000	104,259	429,259
2024	2.250%	330,000	97,352	427,352
2025	2.375%	335,000	89,927	424,927
2026	2.500%	345,000	81,971	426,971
2027	2.500%	355,000	73,346	428,346
2028	2.625%	365,000	64,471	429,471
2029	2.700%	370,000	54,890	424,890
2030	2.750%	380,000	44,900	424,900
2031	2.750%	395,000	34,450	429,450
2032	2.750%	405,000	23,587	428,587
2033	3.000%	415,000	12,450	427,450
Total Debt Service		\$ 5,840,000	\$ 1,428,807	\$ 7,268,807
Less: Current Maturities		(300,000)		
Total Long-term Bonds Outstanding		5,540,000		
Less: Unamortized Discount		(52,663)		
Net Long-term Bonds Outstanding		\$ 5,487,337		

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015**

Note 6: Bonds Payable (continued)

The Series 2012 Bonds scheduled to mature on or after July 1, 2018, are subject to redemption prior to maturity at the Authority's option, in whole or in part, on January 1, 2018 or thereafter upon payment of principal plus accrued interest to redemption date.

Changes in bonds payable for the years ended December 31, 2016 and 2015 are:

	<u>Balance at Jan. 1, 2016</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance at Dec. 31, 2016</u>
Series 2012	<u>\$ 6,120,000</u>	<u>\$ -</u>	<u>\$ (280,000)</u>	<u>\$ 5,840,000</u>
	<u>Balance at Jan. 1, 2015</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance at Dec. 31, 2015</u>
Series 2012	<u>\$ 6,395,000</u>	<u>\$ -</u>	<u>\$ (275,000)</u>	<u>\$ 6,120,000</u>

Note 7: Commitments

Lease

The Authority leases office space from the Township under a lease extension that expires on December 31, 2018. The current monthly rent is \$4,000. Rent expense totaled \$48,000 for the years ending December 31, 2016 and 2015. Annual rent expense through December 31, 2018 will amount to \$48,000 with a total rent commitment of \$96,000. The Authority may elect to extend the lease for two additional five-year terms with rent to be increased based on the increase in the Consumer Price Index (CPI).

Construction in progress

WTWSA entered into an agreement with the CTL Group of Skokie, Illinois to perform a document review and structural analysis of the SBR reactor tanks for the Fish Creek Wastewater Treatment Plant. The information and recommendations obtained from the analysis have been used by the Authority Board to determine a course of action for future modifications at the treatment plant. In September 2012, the Authority Board engaged the services of BCM Engineers to design the modification of the plant to allow each existing SBR tank to be taken off line and inspected. The Authority Board entered into an agreement with LB Industries as the low bidder for the mechanical upgrade and Phillips Brothers Electric for the electrical upgrade of the Fish Creek Wastewater Treatment Plant in November 2015. The bid award for the project was \$2,146,257. The project is expected to be completed in the summer of 2017.

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015**

Note 7: Commitments (continued)

Construction in progress (continued)

During 2014, the Pennsylvania Department of Transportation (PennDot) began a major reconstruction of Route 263 in Warwick Township. The project requires the relocation of a significant portion of the water and sewer facilities within the proposed work area. The Authority entered into an agreement with PennDot to publically bid the Authority relocation work as part of the overall reconstruction project. The negotiated agreement with PennDot provides for a 75% reimbursement to the Authority of the \$1,175,000 expenses related to the facility relocation. Submissions are made by the Authority to PennDot periodically as expenses are accrued. The project is expected to be completed in 2017.

The Authority finalized the sale of an unused portion of a satellite water system originally constructed for the Country Crossing Development. The property known as Lot #27 was sold on August 4, 2014 for \$300,000 and netted a \$249,223 gain on the disposal of plant and equipment. The system was originally constructed to provide ground water to the Country Crossing Development. The operation of the facility became unnecessary upon the execution of the Aqua Pennsylvania agreement in 1998.

The Authority has completed the first phase of its Supervisory Control and Data Acquisition (SCADA) system to regulate and monitor various facilities in the Water and Wastewater systems. The SCADA system is primarily used to regulate the daily water intake from the independent suppliers to ensure compliance with the contractual obligations.

Water service contract

Effective November 1, 1998, the Authority signed a twenty-five year contract with Aqua Pennsylvania, Inc. to provide water to its service area.

For the period November 28, 2016 through November 27, 2017, the monthly charge was \$45,149 for up to 600,000 gallons per day, and \$2.19 for every thousand gallons in excess of 600,000 gallons per day up to 800,000 gallons per day, and \$2.13 for every thousand gallons in excess of 800,000 gallons per day.

For the period November 28, 2015 through November 27, 2016, the monthly charge was \$45,007 for up to 600,000 gallons per day, and \$2.18 for every thousand gallons in excess of 600,000 gallons per day up to 800,000 gallons per day, and \$2.12 for every thousand gallons in excess of 800,000 gallons per day.

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015**

Note 7: Commitments (continued)

North Wales Water Authority - Water Supply Agreement

In November 2011, the Authority signed a ten-year agreement (with a five-year renewal option) with the North Wales Water Authority for the supply of water to the Authority for sale to customers. The agreement has a minimum daily consumption rate of 100,000 gallons per day and a maximum of 800,000 gallons per day. In addition, the Authority is required to purchase on an annual basis an average of 200,000 gallons per day from North Wales Water Authority. The Authority is charged \$2.50 (the base rate) per thousand gallons up to 800,000 gallons per day, and 1.5 times the base rate per thousand gallons over 800,000 gallons per day for a period of 48 months, at which point the base rate will be adjusted.

In December 2012, a bid was awarded in the amount of \$126,905 for the construction of a water system interconnection which will allow the Authority to supply water to customers covered by the Water Supply Agreement. As noted previously, this project is complete and the Authority is now utilizing the interconnection.

Note 8: Subsequent events

Subsequent events have been evaluated by management through April 24, 2017, which is the date the financial statements were available to be issued. There were no significant subsequent events to report.

Note 9: Contingencies

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 disaster for which the Authority carries commercial insurance.

SUPPLEMENTARY INFORMATION

WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
OPERATING EXPENSES
YEAR ENDED DECEMBER 31, 2016
WITH SUMMARIZED FINANCIAL INFORMATION
FOR YEAR ENDED DECEMBER 31, 2015

	<u>Water</u>	<u>Sewer</u>	<u>Administrative</u>	<u>Total 2016 Expenses</u>	<u>Total 2015 Expenses</u>
Operating expenses					
Personnel expenses					
Payroll	\$ 114,856	\$ 165,370	\$ 330,354	\$ 610,580	\$ 598,007
Employee benefits	27,490	43,588	59,421	130,499	132,211
Payroll taxes	9,762	13,728	27,953	51,443	49,590
Pension	5,178	6,342	12,201	23,721	22,104
Total personnel expenses	<u>157,286</u>	<u>229,028</u>	<u>429,929</u>	<u>816,243</u>	<u>801,912</u>
Direct expenses					
Contract water purchases	742,947	-	-	742,947	747,310
Sludge transporation	-	475,087	-	475,087	364,714
Utilities	19,043	205,072	-	224,115	225,872
Chemicals	-	94,371	-	94,371	104,010
Meter expense	53,824	50,121	-	103,945	6,075
System repairs and maintenance	6,120	30,568	-	36,688	70,037
Plant repairs and maintenance	-	29,894	-	29,894	77,571
Testing	5,392	16,982	-	22,374	18,773
Truck expenses	7,183	9,730	-	16,913	14,744
Operating supplies	5,505	6,134	-	11,639	9,945
Monitoring and regulating	6,119	-	-	6,119	2,495
Ground maintenance	5,628	6,229	-	11,857	3,618
Uniforms	761	1,418	-	2,179	3,199
PA One Call	737	737	-	1,474	966
Permits and licenses	-	735	-	735	1,014
Total direct expenses	<u>853,259</u>	<u>927,078</u>	<u>-</u>	<u>1,780,337</u>	<u>1,650,343</u>
Administrative expenses					
Insurance	16,844	40,693	10,014	67,551	64,833
Legal	-	-	99,345	99,345	81,324
Auditing and accounting	-	-	12,500	12,500	12,000
Payroll service	-	-	5,156	5,156	5,002
Computer support	-	-	14,409	14,409	11,425
Trust and bank fees	-	-	4,500	4,500	4,500
Office rent	-	-	48,000	48,000	48,000
Office expenses	-	-	27,000	27,000	23,916
Postage	-	-	7,356	7,356	9,443
Telephone	-	-	6,599	6,599	6,284
Meetings, seminars and conferences	-	-	1,940	1,940	2,445
Dues and memberships	-	-	4,415	4,415	4,658
Education and training	-	-	1,265	1,265	1,349
Engineering	6,179	11,647	-	17,826	16,562
Total administrative expenses	<u>23,023</u>	<u>52,340</u>	<u>242,499</u>	<u>317,862</u>	<u>291,741</u>
Total operating expenses	<u>\$ 1,033,568</u>	<u>\$ 1,208,446</u>	<u>\$ 672,428</u>	<u>\$ 2,914,442</u>	<u>\$ 2,743,996</u>

WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
REVENUES AND EXPENSES
BUDGET (GAAP BUDGETARY BASIS) AND ACTUAL
YEAR ENDED DECEMBER 31, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating revenues			
Water revenue	\$ 1,410,229	\$ 1,417,908	\$ 7,679
Sewer revenue	1,965,856	2,023,689	57,833
Connection fees	1,500	-	(1,500)
Administrative fees	8,500	13,570	5,070
Construction usage and certificate fees	15,000	12,850	(2,150)
Meter installations	17,000	29,008	12,008
Rental income	25,500	25,927	427
Miscellaneous operating revenues	5,500	5,158	(342)
Total operating revenues	<u>3,449,085</u>	<u>3,528,110</u>	<u>79,025</u>
Operating expenses			
Water plant operating expenses			
Personnel expenses	160,000	157,286	2,714
Direct expenses	838,000	853,259	(15,259)
Administrative expenses	19,000	23,023	(4,023)
Total water plant operating expenses	<u>1,017,000</u>	<u>1,033,568</u>	<u>(16,568)</u>
Wastewater plant operating expenses			
Personnel expenses	226,000	229,028	(3,028)
Direct expenses	933,500	927,078	6,422
Administrative expenses	62,000	52,340	9,660
Total wastewater plant operating expenses	<u>1,221,500</u>	<u>1,208,446</u>	<u>13,054</u>
General and administrative expenses			
Personnel expenses	422,000	429,929	(7,929)
Other	204,000	242,499	(38,499)
Total general and administrative expenses	<u>626,000</u>	<u>672,428</u>	<u>(46,428)</u>
Total operating expenses	<u>2,864,500</u>	<u>2,914,442</u>	<u>(49,942)</u>
Operating income before depreciation and amortization	584,585	613,668	29,083
Depreciation and amortization	<u>1,431,000</u>	<u>1,442,363</u>	<u>(11,363)</u>
Operating loss	<u>(846,415)</u>	<u>(828,695)</u>	<u>17,720</u>
Nonoperating revenues			
Water tapping fees	250,500	70,500	(180,000)
Sewer tapping fees	346,500	95,519	(250,981)
Interest income	20,000	19,417	(583)
Miscellaneous income	5,000	53,788	48,788
Total nonoperating revenues	<u>622,000</u>	<u>239,224</u>	<u>(382,776)</u>
Nonoperating expenses			
Interest expense	142,300	136,179	6,121
Miscellaneous expense	1,000	-	1,000
Total nonoperating expenses	<u>143,300</u>	<u>136,179</u>	<u>7,121</u>
Net nonoperating revenues (expenses)	<u>478,700</u>	<u>103,045</u>	<u>(375,655)</u>
Loss before capital contributions	<u>\$ (367,715)</u>	<u>\$ (725,650)</u>	<u>\$ (357,935)</u>

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK
REVENUES AND EXPENSES
BUDGET (GAAP BUDGETARY BASIS) AND ACTUAL
YEAR ENDED DECEMBER 31, 2015**

	Budget	Actual	Variance Favorable (Unfavorable)
Operating revenues			
Water revenue	\$ 1,325,000	\$ 1,344,285	\$ 19,285
Sewer revenue	1,918,500	1,919,504	1,004
Connection fees	1,500	-	(1,500)
Administrative fees	7,500	13,879	6,379
Construction usage and certificate fees	13,500	13,908	408
Meter installations	17,000	3,291	(13,709)
Rental income	24,500	25,172	672
Miscellaneous operating revenues	5,500	4,301	(1,199)
Total operating revenues	<u>3,313,000</u>	<u>3,324,340</u>	<u>11,340</u>
Operating expenses			
Water plant operating expenses			
Personnel expenses	162,000	162,591	(591)
Direct expenses	836,500	810,134	26,366
Administrative expenses	17,000	17,580	(580)
Total water plant operating expenses	<u>1,015,500</u>	<u>990,305</u>	<u>25,195</u>
Wastewater plant operating expenses			
Personnel expenses	228,500	231,479	(2,979)
Direct expenses	921,500	840,209	81,291
Administrative expenses	52,500	54,350	(1,850)
Total wastewater plant operating expenses	<u>1,202,500</u>	<u>1,126,038</u>	<u>76,462</u>
General and administrative expenses			
Personnel expenses	407,500	407,842	(342)
Other	204,000	219,811	(15,811)
Total general and administrative expenses	<u>611,500</u>	<u>627,653</u>	<u>(16,153)</u>
Total operating expenses	<u>2,829,500</u>	<u>2,743,996</u>	<u>85,504</u>
Operating income before depreciation and amortization	483,500	580,344	96,844
Depreciation and amortization	<u>1,474,000</u>	<u>1,401,272</u>	<u>72,728</u>
Operating loss	<u>(990,500)</u>	<u>(820,928)</u>	<u>169,572</u>
Nonoperating revenues			
Water tapping fees	300,000	234,500	(65,500)
Sewer tapping fees	372,000	362,579	(9,421)
Interest income	15,000	19,479	4,479
Miscellaneous income	5,000	2,837	(2,163)
Total nonoperating revenues	<u>692,000</u>	<u>619,395</u>	<u>(72,605)</u>
Nonoperating expenses			
Interest expense	150,709	146,735	3,974
Miscellaneous expense	1,000	-	1,000
Total nonoperating expenses	<u>151,709</u>	<u>146,735</u>	<u>4,974</u>
Net nonoperating revenues (expenses)	<u>540,291</u>	<u>472,660</u>	<u>(67,631)</u>
Loss before capital contributions	<u>\$ (450,209)</u>	<u>\$ (348,268)</u>	<u>\$ 101,941</u>