

**WARWICK TOWNSHIP WATER  
AND SEWER AUTHORITY**

**COMPONENT UNIT OF THE  
TOWNSHIP OF WARWICK**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2017 AND 2016**

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY  
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK  
TABLE OF CONTENTS  
DECEMBER 31, 2017 AND 2016**

	<u>PAGE</u>
<b>INDEPENDENT AUDITOR'S REPORT</b>	1
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	3
<b>FINANCIAL STATEMENTS</b>	
Statements of Net Position	12
Statements of Revenues, Expenses and Changes in Net Position	13
Statements of Cash Flows	14
Notes to Financial Statements	15
<b>SUPPLEMENTARY INFORMATION</b>	
Operating Expenses	28
Revenues and Expenses – Budget (GAAP Budgetary Basis) and Actual - 2017	29
Revenues and Expenses – Budget (GAAP Budgetary Basis) and Actual – 2016	30



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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, 2017 and 2016, 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, 2017 and 2016, 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 28 through 30 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 are not a required part of the basic financial statements. The Schedules of Operating Expenses 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 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  
Springfield, Pennsylvania  
April 23, 2018

**Warwick Township Water & Sewer Authority**  
**Component Unit of the Township of Warwick**  
**Management's Discussion and Analysis**  
**December 31, 2017 and 2016**

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, 2017 and 2016.

**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. Authority approved a 2% Water and Sewer rate increase effective January 1, 2017.
- For fiscal year 2017, the Authority delivered 249.3 million gallons of water and treated 311.0 million gallons of wastewater, compared to 252.5 million gallons of water and 299.0 million gallons of wastewater in the previous year. The Authority purchased 288.8 million gallons of water in 2017, which represented a daily average of 791,233 gallons, while 2016 purchases totaled 280.2 million gallons, an average of 767,759 gallons per day. Unaccounted for water increased to 13.71% in 2017 from 5.63% in 2016 mainly due to two major water main breaks.
- 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 2016 to 2017. 2017 deferred outflows of resources were \$175,292 in 2017 compared to \$185,030 in 2016.
- Operating revenues decreased by .87% from \$3,528,110 in 2016 to \$3,497,487 in 2017, and were under budget projections by \$73,013. While water revenues by existing customers decreased from 2016 to 2017 by approximately .41%, sewer revenues increased by .52%. Non-operating revenue increased over 2016 by \$74,030 primarily due to recording the Warwick Ice Rink tapping fees.
- Operating expenses before depreciation for 2017 were \$2,909,794 and were \$26,294 over the budget projection. Operating expenses decreased \$4,648 or .16%, from the previous calendar year. Operating expenses including depreciation and amortization, increased \$29,663 from 2016.
- The operating income before depreciation for the year totaled \$587,693. Operating income before depreciation decreased from 2016 by \$25,975 or 4.23%.
- There was \$1,061,709 of developer contributions of infrastructure for 2017. These contributions are comprised of the Warwick Mill Subdivision and the Creek Road Water Main Extension. These contributions vary from year-to-year with fluctuations in completed and dedicated developer projects.

**Warwick Township Water & Sewer Authority**  
**Component Unit of the Township of Warwick**  
**Management's Discussion and Analysis**  
**December 31, 2017 and 2016**

**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.

**Warwick Township Water & Sewer Authority**  
**Component Unit of the Township of Warwick**  
**Management's Discussion and Analysis**  
**December 31, 2017 and 2016**

**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, 2017 consisted of approximately 4,027 single-family residential, 7 multi-family residential and 136 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**  
**Component Unit of the Township of Warwick**  
**Management's Discussion and Analysis**  
**December 31, 2017 and 2016**

**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 back-up 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. The contractor has reached substantial completion and the contract is expected to be closed out in 2018.

**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.



**Warwick Township Water & Sewer Authority**  
**Component Unit of the Township of Warwick**  
**Management's Discussion and Analysis**  
**December 31, 2017 and 2016**

**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>2017 Charges</u>
LIBERTY VILLAGE	Apartments	\$15,888
BRIDGES OF WARWICK	Senior Living	\$14,094
BRIDGE VALLEY ELEMENTARY	School	\$6,808
RINK AT WARWICK	Ice Skating Rink	\$6,647
OUTBACK STEAKHOUSE	Restaurant	\$5,775
HERITAGE CREEK BLDG 4	Apartments	\$5,516
CAR WASH GROUP LLC	Car Wash	\$5,364
HERITAGE CREEK BLDG 1	Apartments	\$5,095
HERITAGE CREEK BLDG 5	Apartments	\$4,183
MIDDLE BUCKS VO TECH	School	\$4,148

*Ten Largest Sewer Users*

<u>System User</u>	<u>Property Description</u>	<u>2017 Charges</u>
DIAMOND RIDGE	Day Camp	\$23,300
LIBERTY VILLAGE	Apartments	\$20,801
BRIDGES OF WARWICK	Senior Living	\$18,427
BRIDGE VALLEY ELEMENTARY	School	\$9,024
RINK AT WARWICK	Ice Skating Rink	\$8,843
OUTBACK STEAKHOUSE	Restaurant	\$7,700
HERITAGE CREEK BLDG 4	Apartments	\$7,366
CAR WASH GROUP LLC	Car Wash	\$7,162
HERITAGE CREEK BLDG 1	Apartments	\$6,822
CAR WASH GROUP LLC - WELL	Car Wash	\$6,358

**Warwick Township Water & Sewer Authority**  
**Component Unit of the Township of Warwick**  
**Management's Discussion and Analysis**  
**December 31, 2017 and 2016**

*Current Rate Schedule*

- The Authority's customers are charged a quarterly fixed fee of \$25.88 for water and \$39.67 for sewer plus a usage charge based on gallons of water consumed. Customers with unmetered private wells pay a flat sewerage rate of \$185.64 per quarter for single family residences, \$260.96 per EDU for commercial users, and \$379.77 per EDU for industrial users. The Authority estimates that the typical residential customer pays approximately \$337 per year for water and \$464 per year for sewer. The Authority's 2017 rates went into effect in January 2017. The Authority approved a 2% Water and Sewer rate increase effective January 1, 2017. No rate increase is expected for 2018.

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)	\$3.89	\$6.36
Over 40,000 gallons (per 1,000 gallons)	\$5.82	\$0.00
Commercial, Industrial & Multi-Family Residential		
0 to 40,000 gallons (per 1,000 gallons)	\$3.89	\$6.36
Over 40,000 gallons (per 1,000 gallons)	\$5.82	\$7.51
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, water service is terminated. Sewer only customers continue to have their property lien.

**Warwick Township Water & Sewer Authority**  
**Component Unit of the Township of Warwick**  
**Management's Discussion and Analysis**  
**December 31, 2017 and 2016**

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 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 decreased \$228,885 or .54% from 2016. Net position increased \$372,261 in 2017 from 2016. Unrestricted net position decreased \$574,465 or 8.45% in 2017.

Customer accounts receivable at year-end was \$5,562 less than year-end 2016 or approximately .54%. 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 revenue decreased .41% and sewer revenues increased .52% from the previous year. Water revenue decreased \$5,834 and sewer revenue increased \$10,586 from 2016.

Total 2017 operating revenue decreased by \$30,623 from the calendar year 2016. The majority of the water and sewer sales were from residential customers, approximately 91%.

**Expenses:** Total operating expenses of the Authority, before depreciation, decreased \$4,648 from calendar year 2016 and were over budget by \$26,294. Operating income, before depreciation, is \$587,693 for 2017 compared to \$613,668 for 2016.

Water operating expenses decreased 1.96%, sewer operating expense increased .88% and administrative expenses increased .74% from 2016 to 2017.

Depreciation and amortization expense for 2017 and 2016 was \$1,476,674 and \$1,442,363, respectively.

**Warwick Township Water & Sewer Authority**  
**Component Unit of the Township of Warwick**  
**Management's Discussion and Analysis**  
**December 31, 2017 and 2016**

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

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
<u>Operating Revenues</u>					
Water Revenue	\$ 1,302,095	\$1,344,285	\$1,344,285	\$1,417,908	\$1,412,074
Sewer Revenue	1,861,653	1,919,504	1,919,504	2,023,689	2,034,275
Connection Fees	79,707	-	-	-	-
Administrative Fees for Professional Services	5,891	11,438	13,879	13,570	6,799
Construction Usage and Certificate Fees	20,887	15,389	13,908	12,850	13,100
Meter Installation	29,124	14,168	3,291	29,008	27,325
Miscellaneous	30,394	32,313	29,473	31,085	3,914
Total Operating Revenue	3,329,751	3,337,097	3,324,340	3,528,110	3,497,487
<u>Operating Expenses (1)</u>					
Water Operating Costs	868,057	990,305	990,305	1,033,568	1,013,326
Sewer Operating Costs	1,068,573	1,126,038	1,126,038	1,208,446	1,219,089
General and Administrative	536,557	596,061	627,653	672,428	677,379
Total Operating Expenses	2,473,187	2,712,404	2,743,996	2,914,442	2,909,794
Operating Income (Loss) before Depreciation	856,564	624,693	580,344	613,668	587,693
Depreciation and Amortization Expense	1,398,558	1,367,285	1,401,272	1,442,363	1,476,674
Operating Income (Loss)	(541,994)	(742,592)	(820,928)	(828,695)	(888,981)
<u>Non-Operating Revenue (Expenses)</u>					
Tapping Fees	392,022	416,820	597,079	166,019	283,599
Interest Income	23,100	19,659	19,479	19,417	29,574
Interest Expense	(168,575)	(153,100)	(146,735)	(136,179)	(113,721)
Bond Issuance Expense	-	-	-	-	-
Miscellaneous Income (Expense)	8,065	12,026	2,837	53,788	81
Gain on disposal of property and equipment	0	249,223	0	0	0
Grant Income	328,094	-	-	-	-
Total Non-Operating Revenues (Expenses)	582,706	544,628	472,660	103,045	199,533
Net Income (Loss)	\$ 40,712	\$ (197,964)	\$ (348,268)	\$ (725,650)	\$ (689,448)
 <i>Calculation of Debt Service Coverage Ratio</i>					
Net Income (Loss)	\$ 40,712	\$ (197,964)	\$ (348,268)	\$ (725,650)	\$ (689,448)
Add Back					
Interest and Bond Issue Expenses	168,575	153,100	146,735	136,179	113,721
Depreciation and Amortization	1,398,558	1,367,285	1,401,272	1,442,363	1,476,674
Total Available for Debt Service	\$ 1,607,845	\$ 1,322,421	\$ 1,199,739	\$ 852,892	\$ 900,947
Maximum Annual Debt Service	\$ 439,609	\$ 439,609	\$ 439,609	\$ 439,609	\$ 439,609
Coverage Ratio	3.66	3.01	2.73	1.94	2.05

(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.

**Warwick Township Water & Sewer Authority**  
**Component Unit of the Township of Warwick**  
**Management's Discussion and Analysis**  
**December 31, 2017 and 2016**

There were \$1,061,709 developer contributions of infrastructure for 2017. These contributions are comprised of the Warwick Mill Subdivision and the Creek Road Water Main Extension. 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 \$283,599 for 2017 compared to \$166,019 for 2016, and for 2017 were \$32,401 under the budgeted amount of \$316,000. Tapping fees vary from year-to-year with fluctuations in development and therefore are difficult to predict. In 2017 the Authority recorded the addition of twelve (12) EDU tapping fees for the Warwick Ice Rink.

#### **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 January 25, 2018, Moody's issued the Annual Issuer Comment Report for the Warwick Water and Sewer Authority, with no change to the positive Aa3 rating. The report reflects 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 2017 and 2016 was 2.05 and 1.94, 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 2017 AND 2016

	2017	2016
<b><u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u></b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 3,918,656	\$ 3,750,594
Accounts receivable, customers and developers	1,030,853	1,036,415
Notes receivable, current maturities	54,393	47,034
Inventory	54,809	39,254
Prepaid expenses	41,462	77,617
<b>Total Current Assets</b>	<b>5,100,173</b>	<b>4,950,914</b>
<b>Restricted Assets</b>		
Cash, escrow funds - developers	191,736	241,609
Cash, Series 2012 Bonds - trust accounts	2,351,325	4,040,665
<b>Total Restricted Assets</b>	<b>2,543,061</b>	<b>4,282,274</b>
<b>Capital Assets</b>		
Land and construction in progress	3,470,277	1,783,671
Plant and equipment, net of accumulated depreciation	30,908,498	31,188,211
<b>Total Capital Assets</b>	<b>34,378,775</b>	<b>32,971,882</b>
Notes receivable, net of current maturities	87,100	132,924
<b>Total Assets</b>	<b>\$ 42,109,109</b>	<b>\$ 42,337,994</b>
<b>Deferred Outflows of Resources</b>		
Deferred loss on bond refundings	\$ 175,292	\$ 185,030
<b><u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</u></b>		
<b>Current Liabilities</b>		
Current maturities of bonds payable	\$ 300,000	\$ 300,000
Accounts payable, vendors and developers	163,662	179,361
Accrued interest payable	65,304	69,804
Accrued payroll and payroll withholdings	24,332	17,651
Accrued compensated absences	14,105	15,544
<b>Total Current Liabilities</b>	<b>567,403</b>	<b>582,360</b>
<b>Restricted Liabilities</b>		
Escrow deposits, developers	191,736	241,609
<b>Long-Term Liabilities</b>		
Deferred income	644,900	896,100
Bonds payable, net of unamortized discount	5,192,483	5,487,337
<b>Total Long-Term Liabilities</b>	<b>5,837,383</b>	<b>6,383,437</b>
<b>Total Liabilities</b>	<b>\$ 6,596,522</b>	<b>\$ 7,207,406</b>
<b>Deferred Inflows of Resources</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Net Position</b>		
Invested in capital assets, net of related debt	28,896,589	27,184,545
Restricted for capital activity	-	895,557
Restricted for debt service	440,798	440,159
Unrestricted	6,350,492	6,795,357
<b>Total Net Position</b>	<b>35,687,879</b>	<b>35,315,618</b>
<b>Total Liabilities and Deferred Inflows of Resources and Net Position</b>	<b>\$ 42,284,401</b>	<b>\$ 42,523,024</b>

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, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>Operating Revenues</b>		
Water revenue	\$ 1,412,074	\$ 1,417,908
Sewer revenue	2,034,275	2,023,689
Administrative fees	6,799	13,570
Construction usage and certificate fees	13,100	12,850
Meter installations	27,325	29,008
Rental income	2,214	25,927
Miscellaneous operating revenues	1,700	5,158
<b>Total Operating Revenues</b>	<u>3,497,487</u>	<u>3,528,110</u>
<b>Operating Expenses</b>		
Water plant operating expenses	1,013,326	1,033,568
Wastewater plant operating expenses	1,219,089	1,208,446
General and administrative expenses	677,379	672,428
<b>Total Operating Expenses</b>	<u>2,909,794</u>	<u>2,914,442</u>
<b>Operating Income Before Depreciation and Amortization</b>	587,693	613,668
Depreciation and amortization	<u>1,476,674</u>	<u>1,442,363</u>
<b>Operating Loss</b>	<u>(888,981)</u>	<u>(828,695)</u>
<b>Nonoperating Revenues</b>		
Water tapping fees	144,999	70,500
Sewer tapping fees	138,600	95,519
Interest income	29,574	19,417
Miscellaneous income	81	53,788
<b>Total Nonoperating Revenues</b>	<u>313,254</u>	<u>239,224</u>
<b>Nonoperating Expense</b>		
Interest expense	<u>113,721</u>	<u>136,179</u>
<b>Net Nonoperating Revenues</b>	<u>199,533</u>	<u>103,045</u>
<b>Loss Before Capital Contributions</b>	(689,448)	(725,650)
Capital contributions	<u>1,061,709</u>	<u>1,005,824</u>
<b>Increase in Net Position</b>	372,261	280,174
<b>Net position, Beginning</b>	<u>35,315,618</u>	<u>35,035,444</u>
<b>Net position, Ending</b>	<u>\$ 35,687,879</u>	<u>\$ 35,315,618</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, 2017 AND 2016**

Increase (Decrease) in Cash and Cash Equivalents

	2017	2016
<b>Cash Flows From Operating Activities</b>		
Cash received from customers and developers	\$ 3,503,049	\$ 3,488,563
Cash paid to suppliers and developers	(2,129,441)	(2,087,967)
Cash paid to employees	(820,002)	(820,517)
<b>Net Cash and Cash Equivalents Provided by Operating Activities</b>	<b>553,606</b>	<b>580,079</b>
<b>Cash Flows From Capital and Related Financing Activities</b>		
Tapping fees received	32,399	293,519
Acquisition of capital assets	(1,806,973)	(995,659)
Interest paid on Series 2012 Bonds	(118,222)	(138,978)
Principal paid on Series 2012 Bonds	(300,000)	(280,000)
<b>Net Cash and Cash Equivalents (Used in) Capital and Related Financing Activities</b>	<b>(2,192,796)</b>	<b>(1,121,118)</b>
<b>Cash Flows From Investing Activities</b>		
Interest income received	29,574	19,417
Payments received on notes receivable	38,465	45,659
<b>Net Cash and Cash Equivalents Provided by Investing Activities</b>	<b>68,039</b>	<b>65,076</b>
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(1,571,151)</b>	<b>(475,963)</b>
<b>Cash and Cash Equivalents, Beginning</b>	<b>8,032,868</b>	<b>8,508,831</b>
<b>Cash and Cash Equivalents, Ending</b>	<b>\$ 6,461,717</b>	<b>\$ 8,032,868</b>
<b>Reconciliation of Operating Loss to Net Cash and Cash Equivalents Provided by Operating Activities</b>		
Operating loss	\$ (888,981)	\$ (828,695)
Adjustments to reconcile operating loss to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	1,476,674	1,442,363
Miscellaneous income	81	53,788
Change in:		
Accounts receivable	5,562	(39,537)
Inventory	(15,555)	(10,830)
Prepaid expenses	36,155	3,668
Accounts payable	(15,699)	2,110
Escrow deposits, developers	(49,873)	(47,062)
Accrued payroll and payroll withholdings	6,681	2,908
Accrued compensated absences	(1,439)	1,366
<b>Net Cash and Cash Equivalents Provided by Operating Activities</b>	<b>\$ 553,606</b>	<b>\$ 580,079</b>
<b>Supplemental Disclosure of Noncash Capital and Related Financing Activities</b>		
Assets acquired through capital contributions	\$ 1,061,709	\$ 1,005,824

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, 2017 AND 2016**

**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.

**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.

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY  
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2017 AND 2016**

**NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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
- 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.

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY  
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2017 AND 2016**

**NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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, 2016, 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.

**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 2017 and 2016 totaled \$1,461,789 and \$1,427,274, 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.

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY  
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2017 AND 2016**

**NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (continued)**

**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 2017 and 2016, respectively, \$21,388 and \$6,230 of interest expense was capitalized.

**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 \$1,061,709 and \$1,005,824 during the years ended December 31, 2017 and 2016, respectively. 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.

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY  
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2017 AND 2016**

**NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Deferred Income**

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.

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.

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY  
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2017 AND 2016**

**NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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.

**Deferred Compensation Plan**

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits the Authority's 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>2017</u>	<u>2016</u>
<b><u>Water and Sewer Revenue Bonds - Series 2012</u></b>		
Restricted Cash and Cash Equivalents:		
Revenue Account	\$ 44,019	\$ 58,476
Revenue Account - Electronic Deposits	3,250	7,590
Bond Revenue Fund	1,786,471	1,742,783
Debt Service Reserve	439,609	439,609
Bond Redemption and Improvement Fund	76,567	846,450
Construction Fund	220	945,207
Debt Service Fund	1,189	550
<b>Total Restricted Trust Accounts - Series 2012</b>	<b><u>\$ 2,351,325</u></b>	<b><u>\$ 4,040,665</u></b>

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY  
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2017 AND 2016**

**NOTE 2: RESTRICTED ASSETS (continued)**

**Developer Escrow Accounts**

At December 31, 2017 and 2016, cash and cash equivalents include \$191,736 and \$241,609, 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, 2017 and 2016, \$5,826,490 and \$7,350,081, 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>2017</u>	<u>2016</u>
Uninsured and collateral held by the pledging bank's trust department, but not in the Authority's name	\$ 5,826,490	\$ 7,350,081
Plus: Insured amounts	652,870	717,492
<b>Carrying Amounts - Bank Balances</b>	<u>6,479,360</u>	<u>8,067,573</u>
Plus: Petty cash	100	100
Less: Outstanding checks	<u>(17,743)</u>	<u>(34,805)</u>
<b>Total Cash and Cash Equivalents Per Financial Statements</b>	<u><u>\$ 6,461,717</u></u>	<u><u>\$ 8,032,868</u></u>

Total cash and cash equivalents include:

	<u>2017</u>	<u>2016</u>
Operating accounts - unrestricted	\$ 3,918,656	\$ 3,750,594
Restricted accounts - bond trust accounts	2,351,325	4,040,665
Restricted accounts - developer escrow accounts	191,736	241,609
	<u><u>\$ 6,461,717</u></u>	<u><u>\$ 8,032,868</u></u>

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY  
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2017 AND 2016**

**Note 4: CAPITAL ASSETS**

	2017				Balance at December 31, 2017
	Balance at January 1, 2017	Additions	Deletions	Transfers	
<u>Land and CIP</u>					
Land	\$ 551,571	\$ -	\$ -	\$ -	\$ 551,571
Construction in progress (CIP)	1,232,100	1,703,451	-	(16,845)	2,918,706
<b>Total Land and CIP</b>	<b>\$ 1,783,671</b>	<b>\$ 1,703,451</b>	<b>\$ -</b>	<b>\$ (16,845)</b>	<b>\$ 3,470,277</b>
<u>Plant and Equipment</u>					
Plant facilities	\$ 52,127,604	\$ 1,179,902	\$ -	\$ -	\$ 53,307,506
Plant equipment	485,993	-	-	-	485,993
Leasehold improvements	321,627	-	-	-	321,627
Furniture and equipment	176,548	2,174	-	-	178,722
Vehicles	215,356	-	-	-	215,356
<b>Total Plant and Equipment</b>	<b>53,327,128</b>	<b>1,182,076</b>	<b>-</b>	<b>-</b>	<b>54,509,204</b>
Accumulated depreciation	(22,138,917)	(1,461,789)	-	-	(23,600,706)
<b>Net Plant and Equipment</b>	<b>\$ 31,188,211</b>	<b>\$ (279,713)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 30,908,498</b>
	2016				Balance at December 31, 2016
	Balance at January 1, 2016	Additions	Deletions	Transfers	
<u>Land and CIP</u>					
Land	\$ 551,571	\$ -	\$ -	\$ -	\$ 551,571
Construction in progress (CIP)	415,935	842,293	-	(26,128)	1,232,100
<b>Total Land and CIP</b>	<b>\$ 967,506</b>	<b>\$ 842,293</b>	<b>\$ -</b>	<b>\$ (26,128)</b>	<b>\$ 1,783,671</b>
<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
<b>Total Plant and Equipment</b>	<b>52,141,810</b>	<b>1,185,318</b>	<b>-</b>	<b>-</b>	<b>53,327,128</b>
Accumulated depreciation	(20,711,643)	(1,427,274)	-	-	(22,138,917)
<b>Net Plant and Equipment</b>	<b>\$ 31,430,167</b>	<b>\$ (241,956)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 31,188,211</b>



**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY  
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2017 AND 2016**

**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, 2017 are:

<u>Year Ending December 31</u>	<u>Amount</u>
2018	\$ 54,393
2019	26,800
2020	26,800
2021	26,800
2022	6,700
	<u>\$ 141,493</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, 2017 and 2016, the Authority's debt service coverage is 1.75 and 1.94 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, 2017 AND 2016**

**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:

	Maturity Date (July 1)	Interest Rate	Principal Amount	Interest	Total Debt Service
	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			\$ 5,540,000	<u>\$ 1,289,198</u>	<u>\$ 6,829,198</u>
Less: Current Maturities			<u>(300,000)</u>		
Total Long-term Bonds Outstanding			5,240,000		
Less: Unamortized Discount			<u>(47,517)</u>		
Net Long-term Bonds Outstanding			<u>\$ 5,192,483</u>		

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.

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY  
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2017 AND 2016**

**Note 6: BONDS PAYABLE (continued)**

Changes in bonds payable for the years ended December 31, 2017 and 2016 are:

	Balance at January 1, 2017	Increase	Decrease	Balance at December 31, 2017
Series 2012	\$ 5,840,000	\$ -	\$ (300,000)	\$ 5,540,000
	Balance at January 1, 2016	Increase	Decrease	Balance at December 31, 2016
Series 2012	\$ 6,120,000	\$ -	\$ (280,000)	\$ 5,840,000

**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, 2017 and 2016. Annual rent expense through December 31, 2018 will amount to \$48,000. 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 2018.

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. Final payment on the project is expected in 2018.

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY  
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2017 AND 2016**

**Note 7: COMMITMENTS (continued)**

In December 2017, the Authority accepted dedication of an eight (8) inch water main extension along Creek Road in the Township that was constructed and funded by the Pennsylvania Department of Environmental Protection (PADEP) to address known TCE contamination in that area. The project connected twenty two (22) customers to the Authority water system with a project cost of \$594,144.41.

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, 2017 through November 27, 2018, the monthly charge was \$45,217.08 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, 2016 through November 27, 2017, the monthly charge was \$45,007 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.

**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.

**NOTE 8: 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.

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY  
COMPONENT UNIT OF THE TOWNSHIP OF WARWICK  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2017 AND 2016**

**NOTE 9: SUBSEQUENT EVENTS**

Subsequent events have been evaluated by management through April 23, 2018, which is the date the financial statements were available to be issued. There were no significant subsequent events to report.

## SUPPLEMENTARY INFORMATION

**WARWICK TOWNSHIP WATER AND SEWER AUTHORITY**  
**COMPONENT UNIT OF THE TOWNSHIP OF WARWICK**  
**OPERATING EXPENSES**  
**YEAR ENDED DECEMBER 31, 2017**  
**WITH SUMMARIZED FINANCIAL INFORMATION**  
**FOR YEAR ENDED DECEMBER 31, 2016**

	<u>Water</u>	<u>Sewer</u>	<u>Administrative</u>	<u>2017 Total Expenses</u>	<u>2016 Total Expenses</u>
<b>Operating Expenses</b>					
Personnel Expenses:					
Payroll	\$ 127,970	\$ 174,515	\$ 333,735	\$ 636,220	\$ 610,580
Employee benefits	19,373	25,549	54,813	99,735	130,499
Payroll taxes	10,514	14,162	27,254	51,930	51,443
Pension	5,727	6,220	14,928	26,875	23,721
<b>Total Personnel Expenses</b>	<u>163,584</u>	<u>220,446</u>	<u>430,730</u>	<u>814,760</u>	<u>816,243</u>
Direct Expenses:					
Contract water purchases	723,002	-	-	723,002	742,947
Sludge transporation	-	482,069	-	482,069	475,087
Utilities	19,511	215,866	-	235,377	224,115
Chemicals	-	64,231	-	64,231	94,371
Meter expense	32,062	39,421	-	71,483	103,945
System repairs and maintenance	33,795	62,609	-	96,404	36,688
Plant repairs and maintenance	-	34,282	-	34,282	29,894
Testing	3,556	22,176	-	25,732	22,374
Truck expenses	5,267	8,614	-	13,881	16,913
Operating supplies	3,120	10,412	-	13,532	11,639
Monitoring and regulating	4,799	-	-	4,799	6,119
Ground maintenance	1,628	1,990	-	3,618	11,857
Uniforms	324	1,043	-	1,367	2,179
PA One Call	376	308	-	684	1,474
Permits and licenses	-	1,805	-	1,805	735
<b>Total Direct Expenses</b>	<u>827,440</u>	<u>944,826</u>	<u>-</u>	<u>1,772,266</u>	<u>1,780,337</u>
Administrative Expenses:					
Insurance	15,469	38,342	7,173	60,984	67,551
Legal	-	-	80,968	80,968	99,345
Auditing and accounting	-	-	13,000	13,000	12,500
Payroll service	-	-	5,290	5,290	5,156
Computer support	-	-	28,921	28,921	14,409
Trust and bank fees	-	-	7,500	7,500	4,500
Office rent	-	-	48,000	48,000	48,000
Office expenses	-	-	27,555	27,555	27,000
Postage	-	-	10,353	10,353	7,356
Telephone	-	-	8,004	8,004	6,599
Meetings, seminars and conferences	-	-	2,044	2,044	1,940
Dues and memberships	-	-	3,252	3,252	4,415
Education and training	-	-	4,589	4,589	1,265
Engineering	6,833	15,475	-	22,308	17,826
<b>Total Administrative Expenses</b>	<u>22,302</u>	<u>53,817</u>	<u>246,649</u>	<u>322,768</u>	<u>317,862</u>
<b>Total Operating Expenses</b>	<u>\$ 1,013,326</u>	<u>\$ 1,219,089</u>	<u>\$ 677,379</u>	<u>\$ 2,909,794</u>	<u>\$ 2,914,442</u>

See independent auditor's report.

**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, 2017**

	Budget	Actual	Variance Favorable (Unfavorable)
<b>Operating Revenues</b>			
Water revenue	\$ 1,443,000	\$ 1,412,074	\$ (30,926)
Sewer revenue	2,054,000	2,034,275	(19,725)
Connection fees	1,500	-	(1,500)
Administrative fees	8,500	6,799	(1,701)
Construction usage and certificate fees	15,000	13,100	(1,900)
Meter installations	17,000	27,325	10,325
Rental income	26,000	2,214	(23,786)
Miscellaneous operating revenues	5,500	1,700	(3,800)
<b>Total Operating Revenues</b>	<u>3,570,500</u>	<u>3,497,487</u>	<u>(73,013)</u>
<b>Operating Expenses</b>			
Water Plant Operating Expenses:			
Personnel expenses	187,500	163,584	23,916
Direct expenses	842,000	827,440	14,560
Administrative expenses	21,000	22,302	(1,302)
<b>Total Water Plant Operating Expenses</b>	<u>1,050,500</u>	<u>1,013,326</u>	<u>37,174</u>
Wastewater Plant Operating Expenses:			
Personnel expenses	187,500	220,446	(32,946)
Direct expenses	921,000	944,826	(23,826)
Administrative expenses	64,000	53,817	10,183
<b>Total Wastewater Plant Operating Expenses</b>	<u>1,172,500</u>	<u>1,219,089</u>	<u>(46,589)</u>
General and Administrative Expenses:			
Personnel expenses	440,500	430,730	9,770
Other	220,000	246,649	(26,649)
<b>Total General and Administrative Expenses</b>	<u>660,500</u>	<u>677,379</u>	<u>(16,879)</u>
<b>Total Operating Expenses</b>	<u>2,883,500</u>	<u>2,909,794</u>	<u>(26,294)</u>
<b>Operating Income Before Depreciation and Amortization</b>	<u>687,000</u>	<u>587,693</u>	<u>(99,307)</u>
Depreciation and amortization	<u>1,431,000</u>	<u>1,476,674</u>	<u>(45,674)</u>
<b>Operating Loss</b>	<u>(744,000)</u>	<u>(888,981)</u>	<u>(144,981)</u>
<b>Nonoperating Revenues</b>			
Water tapping fees	158,500	144,999	(13,501)
Sewer tapping fees	157,500	138,600	(18,900)
Interest income	20,000	29,574	9,574
Miscellaneous income	5,000	81	(4,919)
<b>Total Nonoperating Revenues</b>	<u>341,000</u>	<u>313,254</u>	<u>(27,746)</u>
<b>Nonoperating Expenses</b>			
Interest expense	135,109	113,721	21,388
Miscellaneous expense	1,000	-	1,000
<b>Total Nonoperating Expenses</b>	<u>136,109</u>	<u>113,721</u>	<u>22,388</u>
<b>Net Nonoperating Revenues (Expenses)</b>	<u>204,891</u>	<u>199,533</u>	<u>(5,358)</u>
<b>Loss Before Capital Contributions</b>	<u>\$ (539,109)</u>	<u>\$ (689,448)</u>	<u>\$ (150,339)</u>

See independent auditor's report.



**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>
<b>Operating Revenues</b>			
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)
<b>Total Operating Revenues</b>	<u>3,449,085</u>	<u>3,528,110</u>	<u>79,025</u>
<b>Operating Expenses</b>			
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)
<b>Total Water Plant Operating Expenses</b>	<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
<b>Total Wastewater Plant Operating Expenses</b>	<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)
<b>Total General and Administrative Expenses</b>	<u>626,000</u>	<u>672,428</u>	<u>(46,428)</u>
<b>Total Operating Expenses</b>	<u>2,864,500</u>	<u>2,914,442</u>	<u>(49,942)</u>
<b>Operating Income Before Depreciation and Amortization</b>	<u>584,585</u>	<u>613,668</u>	<u>29,083</u>
Depreciation and amortization	<u>1,431,000</u>	<u>1,442,363</u>	<u>(11,363)</u>
<b>Operating Loss</b>	<u>(846,415)</u>	<u>(828,695)</u>	<u>17,720</u>
<b>Nonoperating Revenues</b>			
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
<b>Total Nonoperating Revenues</b>	<u>622,000</u>	<u>239,224</u>	<u>(382,776)</u>
<b>Nonoperating Expenses</b>			
Interest expense	142,300	136,179	6,121
Miscellaneous expense	1,000	-	1,000
<b>Total Nonoperating Expenses</b>	<u>143,300</u>	<u>136,179</u>	<u>7,121</u>
<b>Net Nonoperating Revenues (Expenses)</b>	<u>478,700</u>	<u>103,045</u>	<u>(375,655)</u>
<b>Loss Before Capital Contributions</b>	<u>\$ (367,715)</u>	<u>\$ (725,650)</u>	<u>\$ (357,935)</u>

See independent auditor's report.