

BOROUGH OF CONSHOHOCKEN AUTHORITY

FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

BOROUGH OF CONSHOHOCKEN AUTHORITY
FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

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INDEPENDENT AUDITORS' REPORT

Board Members
Borough of Conshohocken Authority
Conshohocken, Pennsylvania

We have audited the accompanying statements of net assets of the Borough of Conshohocken Authority as of December 31, 2010 and 2009, and the related statements of activities and changes in net assets, and cash flows, for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Borough of Conshohocken Authority as of December 31, 2010 and 2009, and its activities and its cash flows for the years then ended in conformity with U.S. generally accepted principles.

The Borough of Conshohocken Authority has not presented a management's discussion and analysis that U.S. generally accepted accounting principles have determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements. The accompanying statements of operating expenses and general and administrative expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Gold Gocial Gerstein LLC

May 20, 2011

BOROUGH OF CONSHOHOCKEN AUTHORITY
STATEMENTS OF NET ASSETS
DECEMBER 31

	<u>ASSETS</u>	<u>2010</u>	<u>2009</u>
Current			
Cash		\$ 2,139,296	\$ 1,221,784
Accounts receivable, less allowance for doubtful accounts of \$59,509 and \$60,000		1,577,657	1,238,312
Grant receivable		40,000	-
Other receivable, less allowance of \$223,953 for both years		-	-
Escrows, net		54,468	68,594
Prepaid expenses		<u>19,420</u>	<u>17,906</u>
Total current assets		<u>3,830,841</u>	<u>2,546,596</u>
Utility plant and equipment, net of accumulated depreciation		14,468,983	13,415,311
Debt issue costs, net of accumulated amortization of \$3,367 and \$73		<u>83,911</u>	<u>87,205</u>
TOTAL ASSETS		<u>\$18,383,735</u>	<u>\$16,049,112</u>
 <u>LIABILITIES AND NET ASSETS</u> 			
Current			
Accounts payable and accrued expenses		\$ 248,640	\$ 169,069
Payroll, payroll taxes and union dues payable		18,259	17,869
Payable to Plymouth Township, current portion		<u>35,000</u>	<u>35,000</u>
Total current liabilities		<u>301,899</u>	<u>221,938</u>
Payable to Plymouth Township		105,000	140,000
Sewer Revenue Note		<u>1,430,798</u>	<u>87,278</u>
Total liabilities		<u>1,837,697</u>	<u>449,216</u>
Net assets			
Invested in capital assets		14,468,980	13,415,311
Unrestricted		<u>2,077,058</u>	<u>2,184,585</u>
Total net assets		<u>16,546,038</u>	<u>15,599,896</u>
TOTAL LIABILITIES AND NET ASSETS		<u>\$18,383,735</u>	<u>\$16,049,112</u>

See notes to financial statements.

BOROUGH OF CONSHOHOCKEN AUTHORITY
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31

	<u>2010</u>	<u>2009</u>
Operating revenues		
Sewer rentals, net of discounts	\$ 2,655,278	\$ 1,652,240
Connection fees	418,300	30,641
Grant	40,000	-
Miscellaneous fees and penalties	<u>84,322</u>	<u>70,827</u>
Total operating revenues	3,197,900	1,753,708
Operating expenses	1,152,150	1,200,041
General and administrative expenses	<u>1,106,826</u>	<u>1,048,098</u>
Operating income (loss)	938,924	(494,431)
Interest income	<u>7,218</u>	<u>9,079</u>
Increase (decrease) in net assets	946,142	(485,352)
Net assets, beginning	<u>15,599,896</u>	<u>16,085,248</u>
Net assets, ending	<u>\$16,546,038</u>	<u>\$15,599,896</u>

See notes to financial statements.

BOROUGH OF CONSHOHOCKEN AUTHORITY
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31

Increase (Decrease) in Cash	<u>2010</u>	<u>2009</u>
Cash flows from operating activities		
Cash received from customers	\$ 2,123,488	\$ 1,511,661
Cash payments to suppliers for materials and services	(526,289)	(1,094,428)
Cash payments to employees and subcontractors for services	<u>(489,912)</u>	<u>(521,543)</u>
Net cash provided (used) by operating activities	<u>1,107,287</u>	<u>(104,310)</u>
Cash flows from capital and related financial activities		
Acquisition of capital assets	(1,540,513)	(174,986)
Proceeds of Sewer Revenue Note, net of debt issue costs of \$87,278 in 2009	<u>1,343,520</u>	<u>-</u>
Net cash used by capital and related financial activities	<u>(196,993)</u>	<u>(174,986)</u>
Cash flows from investment activities		
Interest received	<u>7,218</u>	<u>9,079</u>
Net change in cash	917,512	(270,217)
Cash, beginning	<u>1,221,784</u>	<u>1,492,001</u>
Cash, ending	<u>\$ 2,139,296</u>	<u>\$ 1,221,784</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 938,924	\$ (494,431)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	490,135	498,951
Bad debts (recovery)	(491)	118,760
Change in:		
Accounts receivable	(338,854)	(210,072)
Grant receivable	(40,000)	-
Prepaid expenses	(1,514)	(3,253)
Escrows, net	14,126	(68,594)
Accounts payable and accrued expenses	79,571	92,785
Accrued payroll and benefits	390	(3,456)
Payable to Plymouth Township	<u>(35,000)</u>	<u>(35,000)</u>
Net cash provided (used) by operating activities	<u>\$ 1,107,287</u>	<u>\$ (104,310)</u>
Supplemental disclosure		
Interest paid	\$ 2,106	\$ -

See notes to financial statements.

BOROUGH OF CONSHOHOCKEN AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009

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

Nature of activity

The Borough of Conshohocken Authority (the Authority) is a municipal authority under the Commonwealth of Pennsylvania, which oversees the wastewater treatment facility of the Borough of Conshohocken. Operating revenues are received from sewer rents, permits, certifications and connection fees.

Basis of accounting

Revenues and expenses are recognized on the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned, and expenses in the accounting period in which they are incurred and become measurable.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Utility plant and equipment

Depreciation of utility plant and equipment is computed using the straight-line method. Estimated useful lives are as follows:

	<u>Years</u>
Sewer plant	7 – 50
Fixtures and equipment	5 – 12
Building	31 ½ - 40

Receivables

The Authority accounts for uncollectible accounts and other receivables using the allowance method.

Debt issue costs

Debt issue costs are amortized using the straight-line method over the term of the related debt.

BOROUGH OF CONSHOHOCKEN AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2010 AND 2009

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

Fund accounting

The Authority is considered an Enterprise Fund, which is a fund type used to account for operations that are financed and operated in a manner similar to private business enterprises.

The Authority has elected to follow Financial Accounting Standards Board (FASB) pronouncements issued before November 30, 1989, and all pronouncements of the Governmental Accounting Standards Board (GASB).

Use of estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2: Cash

The Authority's cash and cash investments consist of deposits with financial institutions.

Custodial credit risk

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned to it. Deposits are insured under Act 72 of the 1971 Session of the Pennsylvania General Assembly, whereby financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of FDIC limits. The Authority does not have a deposit policy for custodial credit risk. As of December 31, 2010, \$2,146,619 of the Authority's cash balance of \$2,139,296 was exposed to custodial credit risk, as follows:

Uninsured and uncollateralized but covered under Act 72	\$2,146,619
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Note 3: Allowance for doubtful accounts

Changes in the accounts receivable allowance for doubtful accounts are:

	<u>2010</u>	<u>2009</u>
Balance, January 1	\$ 60,000	\$660,590
Provision for (recovery of) uncollectible amounts	(491)	118,760
Writeoffs of uncollectible amounts	<u>-</u>	<u>(719,350)</u>
Balance, December 31	<u>\$ 59,509</u>	<u>\$ 60,000</u>

BOROUGH OF CONSHOHOCKEN AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2010 AND 2009

Note 4: Utility plant and equipment

	Balance at January 1, 2010	Additions	Disposals (Reclassifications)	Balance at December 31, 2010
Nondepreciable property				
Land	\$ 81,177	\$ -	\$ -	\$ 81,177
Construction in progress	<u>133,953</u>	<u>1,295,044</u>	<u>(30,803)</u>	<u>1,398,194</u>
Total nondepreciable property	<u>215,130</u>	<u>1,295,044</u>	<u>(30,803)</u>	<u>1,479,371</u>
Depreciation property				
Sewer plant and improvements	20,853,928	274,880	-	21,128,808
Maintenance equipment	250,233	-	-	250,233
Laboratory equipment	107,450	-	-	107,450
Trucks	153,148	-	-	153,148
Office furniture and equipment	<u>145,767</u>	<u>1,392</u>	<u>-</u>	<u>147,159</u>
Total depreciable property	21,510,526	276,272	-	21,786,798
Less: Accumulated depreciation	<u>(8,310,345)</u>	<u>(486,841)</u>	<u>-</u>	<u>(8,797,186)</u>
Total depreciable property, net	<u>13,200,181</u>	<u>(210,569)</u>	<u>-</u>	<u>12,989,612</u>
Total utility plant and equipment	<u>\$13,415,311</u>	<u>\$ 1,084,475</u>	<u>\$ (30,803)</u>	<u>\$14,468,983</u>

Note 5: Sewer Revenue Note, Series of 2009

On December 23, 2009, the Borough issued a Sewer Revenue Note, Series of 2009, in the principal amount of \$5,780,000 payable to VIST Bank.

The proceeds of the Note, which may be drawn at the discretion of the Authority through December 15, 2012, may be used to finance various improvements and upgrades to the Authority's sewage treatment and collection facilities and to pay costs associated with the issuance of the Note.

Interest is payable semiannually on amounts advanced on January 15 and July 15 of each year, beginning on July 15, 2010. For the period through January 15, 2017, interest is charged at 4.3%. Effective February 8, 2011, the interest rate charged for the period through January 15, 2017 was reset to 4%. For subsequent periods through July 15, 2036, interest is calculated at a bank-qualified tax-exempt fixed rate equal to the 30-day London Inter-Bank Offering Rate (LIBOR) as set on January 15, 2017 and reset on January 15, 2024 and 2031, plus 175 basis points. The interest rate for each period shall not be less than 4% or exceed 7% per annum.

BOROUGH OF CONSHOHOCKEN AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2010 AND 2009

Note 5: Sewer Revenue Note, Series of 2009 (continued)

The Note is subject to repayment in amounts ranging from \$159,000 in 2013 to \$389,000 in 2036. The Note requires the Authority to charge and collect from its customers sanitary sewer rates and other charges, including assessments and connection fees, that will provide the Authority with funds to annually pay its administrative expenses, 110% of the annual debt service requirements on the Note, and any other debt service requirements of the Authority. The Authority has pledged its future revenues as security for the Note.

As of December 31, 2010 and 2009, the Authority drew \$1,430,798 and \$87,278 under the Note, respectively, including \$87,278 to pay fees and costs incurred in connection with obtaining the financing. Interest expense was \$16,626 and \$83 for 2010 and 2009, respectively.

Plymouth Township and West Conshohocken Municipal Authority are responsible for 26.2% and 20.2% as their respective capital shares in the Authority's sewage treatment and collection facilities (see Note 11).

Note 6: Pension plan

Plan description

The Authority has a contributory defined benefit pension plan. The plan is administered by the Pennsylvania Municipal Retirement System (PMRS). The following table provides information concerning the Authority's pension plan as of January 1, 2009 (the most recent valuation date):

Covered employees	All full-time employees
Total annual payroll of active members on valuation date	\$419,209
Benefit vesting	100% after ten years
Normal retirement date	After 65 th birthday or completion of 20 years of service
Annual retirement benefit	1.25% times years of credited service times final average salary
Final salary	Average annual compensation during three years prior to effective date of retirement
Required employee contributions	3.5% of monthly earnings

BOROUGH OF CONSHOHOCKEN AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2010 AND 2009

Note 6: Pension plan (continued)

Funding status and progress

Actuarial assumptions	
Rate of return on investment of assets	6%
Projected salary inflation and age-related scale for merit/seniority	5.2%

Actuarial accrued liability at January 1, 2009	\$ 838,057
Total assets available for benefits (fair value at January 1, 2009)	<u>1,029,135</u>

Excess of total assets over actuarial accrued liability	<u>\$ 191,078</u>
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Membership in pension plan at valuation date is comprised of the following active and terminated employees, fully vested and nonvested	12
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Number of members receiving benefits from plan as of valuation date	5
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Entry Age Normal Cost Method is the actuarial cost method used to establish the actual position of the plan and determine the appropriate level of contributions. Entry age is defined as attained age less credited service.

The actuarial assumptions used to compute actuarially determined contribution requirements are the same as those used to compute the pension benefit obligation.

An historical summary of the Authority's progress in accumulating sufficient assets to pay benefits when due is presented below.

	Historical Information		
	as of January 1,		
	<u>2009</u>	<u>2007</u>	<u>2005</u>
Net assets available for benefits expressed as percentage of accrued liability	<u>122.80%</u>	<u>119.51%</u>	<u>119.23%</u>

BOROUGH OF CONSHOHOCKEN AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2010 AND 2009

Note 6: Pension plan (continued)

Statement of changes in fund assets for the year ended December 31, 2010

Net assets at beginning of year (at fair value)	\$783,142
Add:	
Member contributions	18,650
Interest earnings	47,497
Less:	
Insurance premiums	(272)
Administrative expenses	(280)
Refund of member contributions	<u>(855)</u>
Net assets at end of year (at fair value)	<u>\$847,882</u>
Net assets at end of year are allocated as follows:	
PMRS retiree reserve liability	\$482,704
Employee accounts	\$365,178

Note 7: Litigation

The Authority is party to various litigation matters. Based on the opinion of legal counsel, Authority officials feel that the outcome of any suits will not have material effect on the financial condition of the Authority.

Note 8: Contingencies

The Authority contracts to provide sewer services to local municipalities through a Sewage Treatment Agreement (the Agreement). The Agreement provides for the cost of sewer services to be determined on an annual basis by the Authority. The local municipalities remit quarterly payments based upon an estimate of the cost. Subsequent to year end, the Authority determines the actual cost by municipality and provides a retroactive billing or credit for the prior year.

The Authority negotiated a settlement agreement and contract amendment with Plymouth Township pertaining to retroactive billing for the five-year period ended December 31, 2003, totaling \$350,000. Under the settlement agreement, the Authority is paying \$350,000 over a ten-year period at an amount of \$35,000 per year.

West Conshohocken Municipal Authority did not pay treatment charges billed by the Authority for a period of time from 2003 through the first quarter of 2006 due to a dispute over retroactive billing adjustments/credits. West Conshohocken Municipal Authority resumed all payments for treatment charges beginning in the second quarter 2006. As of December 31, 2008, the Authority had reserved all of the unpaid bills for West Conshohocken Municipal Authority for periods prior to the second quarter of 2006, totaling \$539,613. During 2010, \$147,146 was received in settlement of the dispute.

BOROUGH OF CONSHOHOCKEN AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2010 AND 2009

Note 9: Other receivable

During 2008, an employee was dismissed after unauthorized transactions were discovered. Although a receivable was recorded for the amounts due from the former employee, the Authority has provided a 100% allowance, since the ultimate recovery of this receivable is uncertain. In 2009, an additional \$74,136 in unauthorized transactions were discovered.

Note 10: Escrows

At December 31, 2010 and 2009, escrows include \$36,930 and \$17,693, respectively, of cash received from developers and other customers, and \$23,750 and \$50,901, respectively, due from developers and other customers for amounts expended by the Authority on their behalf. As of December 31, 2010, the Authority owed consultants \$6,212 related to the escrow balances.

Note 11: Concentrations

For 2010 and 2009, revenues from Plymouth Township were \$941,946 and \$439,724, respectively, including \$399,531 in 2010 for its capital share for plant improvements. At December 31, 2010 and 2009, respectively, accounts receivable due from Plymouth Township were \$865,305 (including \$399,531 for capital share) and \$624,530. In April 2011, Plymouth Township paid \$300,000 relating to 2010 operating costs. In July 2010, Plymouth Township paid \$304,763 relating to 2008 operating costs and prior capital share costs.

For 2010 and 2009, revenues from West Conshohocken Municipal Authority were \$494,271 and \$201,538, respectively, including \$308,035 in 2010 for its capital share for plant improvements. At December 31, 2010 and 2009, respectively, accounts receivable due from West Conshohocken Municipal Authority were \$356,038 (including \$308,035 for capital share) and \$242,742 (including the settlement payment received in 2010, as discussed in Note 8).

Note 12: Subsequent events

Subsequent events have been evaluated through May 20, 2011, which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

BOROUGH OF CONSHOHOCKEN AUTHORITY
OPERATING EXPENSES
YEARS ENDED DECEMBER 31

	<u>2010</u>	<u>2009</u>
Operating expenses		
Plant expenses		
Building maintenance	\$ 11,945	\$ 17,457
Engineering fees	50,783	55,187
Equipment rental	1,653	3,741
Laboratory expenses	18,306	29,043
Miscellaneous	70	2,305
Operating manager consultant	6,750	-
Payroll taxes and benefits	164,031	185,176
Plant security	1,648	1,795
Plant supplies and repair expenses	78,944	27,977
Plant wages	343,590	366,760
Sludge removal	137,019	150,746
Treatment chemicals	23,959	27,579
Uniforms	4,382	225
Utilities	<u>151,824</u>	<u>187,641</u>
Total plant expenses	<u>994,904</u>	<u>1,055,632</u>
Collection expenses		
Engineering fees	2,535	1,087
Equipment rental	245	128
Miscellaneous	629	139
Payroll taxes and benefits	65,935	42,326
Road crew wages	71,968	82,430
Sewer supplies and repair expenses	5,160	5,757
Vehicle expenses	9,643	12,542
Uniforms	<u>1,131</u>	<u>-</u>
Total collection expenses	<u>157,246</u>	<u>144,409</u>
Total operating expenses	<u>\$1,152,150</u>	<u>\$1,200,041</u>

BOROUGH OF CONSHOHOCKEN AUTHORITY
GENERAL AND ADMINISTRATIVE EXPENSES
YEARS ENDED DECEMBER 31

	<u>2010</u>	<u>2009</u>
General and administrative expenses	\$ 6,109	\$ 10,531
Advertising	3,294	73
Amortization	(491)	118,760
Bad debt expense (recovery)	4,811	2,013
Bank fees	1,475	1,500
Board expense	2,007	3,433
Collection expenses	13,559	15,768
Computer expense and supplies	192,985	-
Consulting fees	486,841	498,878
Depreciation	6,000	5,850
Directors' fees	8,867	2,887
Dues and conferences	79,773	69,133
Insurance	20,569	3,823
Interest and penalties	9,093	4,026
Miscellaneous	54,245	76,944
Office salaries	13,126	10,878
Office supplies and expenses	3,330	2,614
Payroll processing fee	61,047	37,034
Payroll taxes and benefits	8,491	5,032
Postage	120,687	175,416
Professional fees	9,675	11,478
Telephone	-	(7,973)
Pension expense (recovery)	1,333	-
Website	<u>1,333</u>	<u>-</u>
Total general and administrative expenses	<u>\$1,106,826</u>	<u>\$1,048,098</u>