

Financial Statements

**Delaware County Regional Water
Quality Control Authority**

December 31, 2013 and 2012

INDEX

<u>Title</u>	<u>Page No.</u>
Independent Auditor's Report	1-3
Management's Discussion and Analysis	4-12
Statements of Net Position	13
Statements of Revenues, Expenses and Changes in Net Position	14
Statements of Cash Flows	15
Notes to Financial Statements	16-25

SUPPLEMENTARY INFORMATION

Schedules of Operating Expenses	26
Schedules of Selected Operating Revenues - Budget Comparison	27
Schedules of Debt Service:	
Sewer Revenue Bonds, 2004 Series	28
Sewer Revenue Bonds, 2007 Series	29
Sewer Revenue Bonds, 2013 Series	30
Schedule of Cash Receipts and Disbursements - Trust Funds Established Under an Indenture Dated July 15, 2001 and Total Investments	31

CHRISTOPHER REYNOLDS, INC.
CERTIFIED PUBLIC ACCOUNTANT
352 GARDEN ROAD
SPRINGFIELD, PA 19064

Christopher Reynolds, CPA

MEMBER OF AICPA AND PICPA

TELEPHONE

(610) 543-5486

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Delaware County Regional Water
Quality Control Authority
Chester, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the Delaware County Regional Water Quality Control Authority ("DELCORA"), as of and for the years ended December 31, 2013 and 2012, and the related notes to the 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Delaware County Regional Water Quality Control Authority as of December 31, 2013 and 2012, and the changes in its financial position, and cash flows thereof, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 11 to the financial statements, in 2013, DELCORA adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the Delaware County Regional Water Quality Control Authority's basic financial statements. The schedules of operating expenses, selected operating revenues - budget comparison and debt service are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Other Matters (continued)

Other Information (continued)

The schedules of operating expenses, selected operating revenues - budget comparison and debt service 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, except for that portion marked "unaudited" on which we do not express an opinion or provide any assurance, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2014, on our consideration of the Delaware County Regional Water Quality Control Authority's internal control over financial reporting and on our tests of its compliance with certain provision of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Delaware County Regional Water Quality Control Authority's internal control over financial reporting and compliance.


Christopher Reynolds, Inc.

April 23, 2014

DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
Management's Discussion and Analysis (Unaudited)
December 31, 2013

DELCORA Mission Statement

“Provide Environmentally Responsible and Cost Effective Waste Water Management Services to the Citizens, Businesses and Industries of Delaware County”

Executive Summary

DELCORA's performance for the year ended December 31, 2013 includes the following key highlights:

- DELCORA sent an average of 23.46 million gallons per day (MGD) in 2013 to the Philadelphia Water Department's (PWD) Treatment Plant. Flow at Delcora's Western Regional Treatment Plant was 30.32 MGD.
- Moody's Investment Services announced in 2013 that DELCORA's outstanding sewer revenue bonds have been upgraded from A1 to Aa3. At the same time, Moody's announced DELCORA's \$34.5 million Sewer Revenue Bonds, Series 2013, have been assigned an Aa3 rating. The new rating is thanks to DELCORA'S "large and stable service area with strong demographics, satisfactory security provisions, healthy debt service coverage levels and modest debt burden," as listed by Moody's announcement. This bond rating upgrade will save DELCORA's customers over \$1,500,000 in interest payments over the 20- year term of the bonds. DELCORA went to the bond market in June 2013. Proceeds from the issue will fund capital improvements, including the design and construction of a new municipal wastewater collection system for parts of Edgmont Township and the construction of a large pump station and force main to convey wastewater from Aston and Middletown Townships to DELCORA's Western Region Treatment Plant.
- In 2013, revenue from the trucked waste receiving business reached \$3,564,339 an increase of \$864,339 (32.0%) over the 2013 budget projection and an increase of \$533,543 (17.6%) over the prior year. Revenue has consistently increased annually from a level of approximately \$300,000 in 2004 to the present level.
- On April 1, 2013, a fifteen year agreement for the treatment of wastewater between DELCORA and the Philadelphia Water Department became effective. Many of the terms of the July 2011 agreement remain in effect. DELCORA is responsible for its proportionate share of the PWD's Long Term Control Plan costs.
- PA Act 537 planning for Eastern Delaware County continued in 2013. The Plan was submitted to the eastern municipalities for their approvals in June 2013. As of December 2013, 22 municipalities had approved the Plan with all but one of the remaining nine indicating they would approve by the end of the 1st quarter 2014. Delivery to PaDEP for their review and approval is expected early in the 2nd quarter 2014. The plan will emphasize reducing peak flows.
- In 2010 the United States Environmental Protection Agency (USEPA) ordered DELCORA to update its Long Term Control Plan (LTCP) for the DELCORA Service Area. The plan was submitted February 1, 2011. DELCORA received USEPA comments and a new plan was filed on April 18, 2012. In 2013 DELCORA received additional USEPA comments and responded once more. This regulatory initiative will likely increase the need for capital.
- Re-rating of the capacity of the WRTP from 44 million gallons per day (MGD) to 50 MGD was conditionally approved by Delaware River Basin Commission (DRBC) on September 21, 2011. Conditional approval is based on the construction of a 455 foot outfall into the Delaware River. The estimated cost is \$3.25 million. DELCORA is currently addressing construction timing with DRBC.

DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
Management's Discussion and Analysis (Unaudited)
December 31, 2013

- The agreement to process wastewater from the Sunoco Marcus Hook facility was amended to reduce the amount of flow DELCORA is required to accept from 6.0 MGD to 4.0 MGD in 2013. Included in this agreement is a provision for higher flow during high rainfall months. This opened up capacity at the Western Regional Treatment Plant (WRTP) to allow for new flow to be delivered to the facility.
- In the Chester-Ridley Creek Watershed, construction was completed in 2013 of approximately 15,000 feet of force main (\$5,792,392) . The construction of a pump station on the site of the Baldwin Run Wastewater Treatment Facility owned by the Southwest Delaware County Municipal Authority was started in 2013. Construction is anticipated to be completed by the end of 2014 (estimated at \$8,647,630). The plan also calls for the decommissioning of the Baldwin Run Facility. Up to 6.6 MGD of flow is to be diverted to the DELCORA WRTP.
- DELCORA has finalized an agreement with Edgmont Township to design, construct, own and operate a collection system in the eastern portion of the municipality. Design was completed in early 2014. Construction is expected to begin by mid- 2014. Also in 2013 an agreement was reached with Newtown Township to allow construction of a force main along Gradyville Road to allow tie-in to the Central Delaware County Authority (CDCA) interceptor.
- In 2011, Covanta Energy, the neighboring trash to steam plant, and DELCORA entered into an agreement where DELCORA would sell over 1 million gallons per day of its treated effluent to Covanta as a replacement for their usage of potable water. Construction of a pipeline, pump station and polishing facility began in 2013. The system for their water reuse project will come online in 2014.

Engineering accomplishments in 2013 included:

- Installed a new Chlorine Mixing System (Water Champ) and permanent De-Chlorination System for more effective disinfection.
- Installed new, more efficient aeration panels in all 4 aeration tanks (176 panels/tank). Decreased energy usage at aeration (\$1,363,000).
- Started the Statistical Process Control Project and determined the key process indicators and the appropriate control limits for each. Project has yielded better process understanding and better control of plant operations.
- Finalized new NPDES Permit and obtained path forward for Heat Release Change to Title V Permit (Filed all necessary paperwork with DEP).

Capital projects started and/or completed in 2013 included:

- Replacement Of CSO Regulators #10, #13, #14 (\$608,308); Installation Of Gravity Belt Thickeners (\$1,774,000); Hauled Waste Acceptance Facility (\$1,083,800); Marcus Hook, Viscose Village Pump Station Upgrade (\$413,615); Sanitary Sewer Repairs-Marcus Hook Borough (\$1,131,370); Solids Handling Building (B4) Upgrade Phase II (\$2,934,400) Central Delaware County Pump Station Control System Upgrade (\$256,784.); Afterburner system for Incinerators.

DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
Management's Discussion and Analysis (Unaudited)
December 31, 2013

Summary of Organization and Business

The Delaware County Regional Water Quality Control Authority (DELCORA) is a body, politic and corporate, created October 20, 1971, by a resolution of the Council of the County of Delaware, Pennsylvania, the County, under an Act of General Assembly of the State, approved May 2, 1945, P.L. 382, as amended and supplemented, known as the Municipality Authorities Act of 1945, as amended (the "Act").

The governing body of DELCORA is a Board of Directors consisting of nine members appointed by the Delaware County Council. The Board is authorized to exercise any and all powers conferred by the aforementioned Act necessary for the acquisition, construction, improvement, extension, maintenance and operation of the system facilities. A Board Member's term is for 5 years. The terms of the Board members are staggered.

DELCORA does not have taxing power. Ongoing operations are funded from customer revenues. The acquisition and construction of capital assets are funded by capital borrowing, contributions from developers, Federal and State grants and loans, and customer revenues.

The system is divided into two regions: the Eastern Service Area and the Western Service Area. Each is served by a regional wastewater treatment plant. DELCORA is responsible for building and operating interceptors, force mains and pump stations in both regions, building the regional treatment plant in the Western Service Area and acquiring capacity at PWD's Southwest Water Pollution Control Plant (SW WPCP) for wastewater treatment for the Eastern Service Area. DELCORA currently owns and operates sewer collection systems serving seven municipalities: the City of Chester, parts of the Township of Chester, and the Boroughs of Parkside, Upland, Trainer, Marcus Hook, and Rose Valley.

DELCORA History & Background

- Late 1960's—Delaware County recognized the need for a regional wastewater management plan.
- All 49 Municipalities designated the Delaware County Planning Commission to develop the plan.
 - First phase (1971)—Identified problems, future needs, alternate solutions
 - Second Phase (1972)—Regional plan divided the county into Eastern and Western services areas
 - Eastern Flows (about 50MGD) conveyed to PWD's Southwest Water Pollution Control Plant.
 - Western Flows consisting of mixed Municipal/Industrial Waste (Sun Oil, Scott Paper, FMC) conveyed to a new 44MGD, \$50MM plant in Chester
 - Federal construction grants (~\$100MM) utilized in Delaware County and the City of Philadelphia
- DELCORA was created by the County to implement the plan.

DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
Management's Discussion and Analysis (Unaudited)
December 31, 2013

Overview of Annual Financial Report

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements and supplementary information. The MD&A represents management's analysis of DELCORA's financial condition and performance. Summary financial statement data, key financial and operational indicators from DELCORA's strategic plan, the current year budget, bond resolutions, and other management tools were used for this analysis.

The financial statements report information about DELCORA using full accrual accounting methods as utilized by similar business activities in the private sector.

The financial statements include a statement of net position; a statement of revenues, expenses, and changes in net position; a statement of cash flows; and notes to the financial statements. The statement of net position presents the financial position of DELCORA on a full accrual historical cost basis. While the statement of net position provides information about the nature and amount of resources and obligations at year-end, the statement of revenues, expenses, and changes in net position presents the results of the business activities over the course of the fiscal year and the amounts by which the net position changed during the year. All changes in net position are reported concurrently with the occurrence of the underlying event giving rise to the change, regardless of the timing of the related cash flows. This statement also provides certain information about DELCORA's recovery of its costs.

In 2013 DELCORA used the rate model developed by Black & Veatch Corporation. Rate setting policies employ different methods of cost recovery not fully provided for by generally accepted accounting principles. The primary objective of a rate model is to improve upon the equitable allocation of costs among customer classes and to ensure that capital costs are allocated on the basis of long-term capacity needs, following the axiom that growth pays for growth.

The statement of cash flows reports changes in cash and cash equivalents resulting from operations, financing, and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, the timing of any arising obligations, or depreciation of capital assets.

The notes to the financial statements provide required disclosures and other information that is essential to a full understanding of the financial data provided in the statements. The notes also present information about DELCORA's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any. Supplementary information comparing the budget to actual selected operating revenues, as well as schedules of operating expenses, is also provided.

The financial statements were prepared by DELCORA's staff from the detailed books and records of DELCORA. The financial statements were audited and adjusted, if the adjustments were material, during the independent external audit process.

DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
Management's Discussion and Analysis (Unaudited)
December 31, 2013

Financial Analysis

The following comparative general information and condensed financial statements serve as the key financial data and indicators for management, monitoring and planning. Comments regarding budget-to-actual variances and actual year-to-year variances are included in each section by the name of the statement or account.

	2012	2013	Difference	%
<i>Revenues per thousand gallons billed:</i>				
Residential	\$2.29	\$2.32	0.03	1.3%
Commercial	\$2.89	\$2.62	(0.27)	(9.4)%
<i>Ratio of Operating Revenue to:</i>				
-Operating Expenses	1.20	1.15	(0.05)	(4.2)%
-Operating Expenses, net of depreciation	1.39	1.32	(0.07)	(5.0)%
-Total assets (asset turnover)	0.20	0.17	(0.03)	(15.0)%
<i>Ratio of Operating Income to:</i>				
-Operating Revenue	0.17	0.13	(0.04)	(23.6)%
<i>Debt-related ratios:</i>				
Total debt to total assets	0.27	0.38	0.11	40.7%

Financial Results of System-wide Operations

- Total Liabilities	\$102,133,365
Long Term	\$ 90,324,937
Other	\$ 11,808,428
- Total Net Position	\$149,861,513
Invested in capital assets (net of related debt)	\$ 84,225,075
Restricted for Debt Service	\$ 6,689,777
Unrestricted	\$ 58,946,661
- Revenues (By source)	
Commercial Industries	\$ 8,550,162
Residential	\$ 34,035,910

DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
Management's Discussion and Analysis (Unaudited)
December 31, 2013

2013 Actual Compared to 2013 Budget Results:

	<i><u>Actual</u></i>	<i><u>Budget</u></i>	<i><u>Difference</u></i>
Total Revenues	\$47,164,660	\$48,164,684	\$1,000,024 Unfavorable
Total Operating Expense	\$37,177,937	\$39,136,861	\$1,958,924 Favorable

Operating revenue from service charges is \$42,586,072, approximately 5.1% less than the budget of \$44,864,684 due primarily to actual flows/loadings from the Eastern Service Area being less than budget by 21% along with flows from Southern Delaware County Authority being 21% under budget and flows from Kimberly Clark being 18% under budget.

Non-operating revenue is greater than budget by \$1,280,000, due primarily to sludge disposal and processing being \$865,000 over budget and interest income being \$112,000 over budget.

PWD Treatment Costs – actual treatment costs were less than budget by \$2,634,000 due to actual treated flow being less than budget flow by 8.89 MGD, or 21.4%.

Salaries and Wages – Under budget by \$170,000, offset by an unfavorable variance of \$220,000 in overtime. The favorable variance in salaries and wages was due to open positions and employees being out on disability. This created the unfavorable variance in overtime as it was used to cover for employees being out.

Utilities – Under budget by \$226,000. This was due to lower than budgeted flows at pump stations and the treatment plant resulting in lower electricity usage.

Consulting – Under budget by \$590,000. This was due to significantly less usage of outside consultants and contractors than was originally planned for.

Employee Benefits – Over budget by \$110,000. Contributions totaling \$1,100,000 were made to the pension plan in 2013, \$500,000 more than the budgeted amount of \$600,000. This was partially offset by favorable variances in employee health insurance benefits.

Repairs and Maintenance – Over budget by \$1,100,000. This was due to extensive repairs needed at the plant and the collection system. This included repairs and replacements of HVAC systems, belt presses, settling tanks, aeration systems, dry ash systems, the incinerator, pumps and piping systems, CEMS, electrical systems and bar screens.

DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
Management's Discussion and Analysis (Unaudited)
December 31, 2013

2013 Actual Compared to 2012 Actual Results:

Operating Revenues and Expenses: DELCORA has various classes of wastewater customers depending on assets used in conveying flow to both the Philadelphia and Chester plants. Retail residential sewer rates increased from \$3.72 to \$3.82 per 1,000 gallons (a 2.7% increase) from calendar year 2012 to 2013. Retail Residential customers are Chester City, Chester Township, and the Boroughs of Parkside, Upland, Marcus Hook, Trainer, and Rose Valley. Total operating revenues increased \$651,799 from 2012.

The following table shows the composition of wastewater operating expenses by major classification of expense for the last two fiscal years.

	2012	% of Total	2013	% of Total	Variance	% Change
PWD Plant Treatment	\$ 8,979,036	25.8%	\$ 9,449,558	25.4%	\$ 470,522	5.2 %
Salary and Wages	\$ 8,652,972	24.8%	\$ 9,439,715	25.4%	\$ 786,743	9.1 %
Depreciation/Amortization	\$ 4,598,978	13.2%	\$ 4,918,219	13.2%	\$ 319,241	6.9 %
Utilities	\$ 2,527,005	7.2%	\$ 2,367,508	6.4%	\$ (159,497)	(6.3)%
Employee Benefits	\$ 4,411,727	12.7%	\$ 4,699,784	12.6%	\$ 288,057	6.5%
Repairs and Maintenance	\$ 2,582,114	7.4%	\$ 2,949,574	7.9%	\$ 367,460	14.2%
Engineering	\$ 296,783	0.9%	\$ 332,261	0.9%	\$ (35,478)	12.0%
Legal Fees	\$ 245,321	0.7%	\$ 248,212	0.7%	\$ (2,891)	1.2 %
Other Operating Expenses	\$ 2,540,842	7.3%	\$ 2,773,106	7.5%	\$ 232,264	9.1%
Total Operating Expenses	\$34,834,778	100.0%	\$37,177,937	100.0%	\$(2,343,159)	6.7%

PWD Treatment Costs – 2013 actual treatment costs were higher than 2012 due to a 3.3% increase in flow sent to PWD. In addition \$2,500,000 of PWD expense was accrued to offset future PWD Long Term Control Plan Costs. This was \$1,000,000 more than the \$1,500,000 accrued in 2012.

Salaries and wages – 2013 actual was higher than 2012 actual by \$786,743 or 9.1% due to an increase in overtime of \$165,000, an overall salary increase of 2.5%, an increase in sick and personal time paid out and fewer overall open positions compared to 2012.

Depreciation – 2013 actual was more than 2012 actual by \$319,241 due to increased capital investments in 2013. Capital investments have been added over the past several years more quickly than older assets are being fully depreciated.

Utilities - were lower in 2013 compared to 2012 by \$159,497 as natural gas for the incinerator was in use for the entire year in 2013 versus 9 months in 2012.

Employee Benefits – For 2013 employee benefits increased \$288,057, or 6.5%. This was due to a higher pension contribution of \$1,100,000 in 2013 versus \$850,000 in 2012.

DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
Management's Discussion and Analysis (Unaudited)
December 31, 2013

Repairs and Maintenance – For 2013, repairs and maintenance were higher than 2012 by \$367,460 due to numerous repairs and upgrades at both the Western Region Treatment Plant and throughout the collection system. Some of the major increases over the prior year were for instrumentation and bar screens at the Central Delaware County Pump Station and dry ash repairs, incinerator maintenance, pump maintenance and replacement and electrical systems at WRTP. Other major repairs were for bar screens at Chester Pump Station and repairs at Chester Lift Stations.

Cash Flow Activity

The following table shows DELCORA's ability to generate net operating cash. Net cash provided by operating activities is shown both in total dollars and as a percentage of operating revenues.

Net cash flow from operations increased by \$8,909,180 to \$17,126,712 in 2013 from 2012. This was due almost entirely to the timing of the 4th quarter payments from Darby Creek Joint Authority and Muckinipates Authority (\$6,950,000) 4th quarter payments for 2012 from Darby Creek and Muckinipates were received in January of 2013, but 4th quarter 2013 payments were in December 2013, resulting in the change in cash flow from December 2012 to December 2013.

	<u>2013</u>	<u>2012</u>	<u>Difference</u>
Total operating revenues	\$42,586,072	\$41,934,273	\$ 651,799
Net cash provided by operations	\$17,126,712	\$ 8,217,532	\$ 8,909,180
Net operating cash as a % of operating revenue	40.2%	19.6%	

Rate Covenant

In the Bond Resolution, DELCORA covenants and agrees that it will, at all times, prescribe and maintain, and thereafter collect rates and charges for the services and facilities furnished by DELCORA, together with other income, that will yield annual income from operations before depreciation in the calendar year equal to at least one hundred ten percent (110%) of the sum of the annual debt service payments. The rate covenant in the Bond Resolution obligates DELCORA to review rates not less than once a year and to revise such rates and charges as necessary to meet the coverage test.

2013 Operations

WRTP—Water Quality Performance

- Average Suspended Solids - 11 mg/L for the year
- Average cBOD5 - 7 mg/L for the year
- Average cBOD20 % Removal – 94.53% for the year

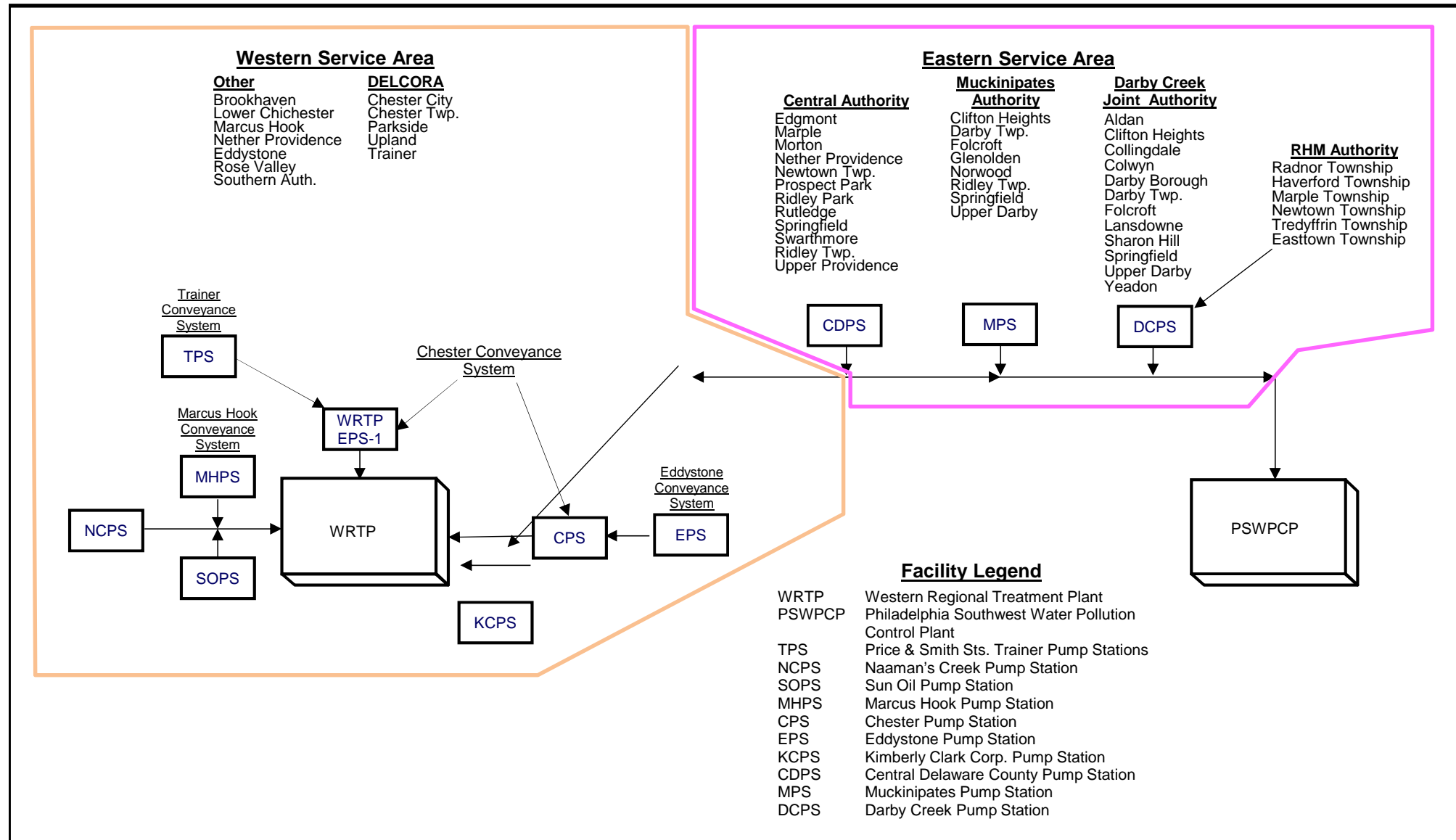
WRTP—Solids Handling Performance

- Average Dry Tons/Day - 48.5 tons for the year
- Average Cake Solids - 29.1 % for the year
- Average Fuel Oil Usage – 5.14 MCF/Dry Ton for the year

Waste Water Conveyed and Treated

- Western Delaware County To WRTP, including 9.35 MGD from CDCA — ~ 30.32 MGD
- Eastern Delaware County To Philadelphia Southwest Treatment Plant — ~ 23.46 MGD

**DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY**
Management's Discussion and Analysis (Unaudited)
December 31, 2013



Delaware County Regional Water
Quality Control Authority

DELCORA's CONVEYANCE SYSTEM

**DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY**
Statements of Net Position
December 31, 2013 and 2012

<u>ASSETS</u>	<u>2013</u>	<u>2012</u>	<u>LIABILITIES</u>	<u>2013</u>	<u>2012</u>
Current:			Current:		
Cash and Cash Equivalents	\$ 7,529,622	\$ 4,663,407	Accounts Payable and Accrued Expenses Payable to the City of Philadelphia	\$ 3,782,001	\$ 4,012,535
Certificates of Deposit with Original Maturities Beyond Three Months	2,052,905	2,039,663		1,256,031	1,184,837
Investments	82,309,304	45,439,471	Current Portion of Long-Term Debt	4,585,972	4,200,894
Receivables:			Accrued Bond Interest Payable	628,856	369,263
Western Region:			Advances on Services:		
Residential, Net of Allowance for Doubtful Accounts of \$464,682 and \$487,687 in 2013 and 2012, Respectively	863,171	849,619	Central Delaware County Authority	66,776	165,595
Municipal	1,316,568	1,149,951	Muckinipates Authority	228,930	0
Major Industries	279,065	529,816	Darby Creek Joint Authority	916,989	0
Permit Industries	375,875	842,813	Municipal	163,176	296,438
Eastern Region:			Major Industries	82,571	448,434
Darby Creek Joint Authority	0	2,921,956	Permit Industries	80,386	46,190
Muckinipates Authority	0	548,374	Residential	16,740	14,185
Note Receivable, Current Portion	25,326	23,720	TOTAL CURRENT LIABILITIES	<u>11,808,428</u>	<u>10,738,371</u>
Other Receivables	1,027,409	966,947	Noncurrent:		
Prepaid Expenses	369,327	363,322	Long-Term Debt	86,324,937	50,045,912
TOTAL CURRENT ASSETS	<u>96,148,572</u>	<u>60,339,059</u>	Payable to the City of Philadelphia	4,000,000	1,500,000
Noncurrent:			TOTAL NONCURRENT LIABILITIES	<u>90,324,937</u>	<u>51,545,912</u>
Capital Assets, Net of Accumulated Depreciation	147,790,287	137,089,716	TOTAL LIABILITIES	<u>102,133,365</u>	<u>62,284,283</u>
Note Receivable, Net of Current Portion	102,469	133,923			
Restricted Investments	7,924,167	6,738,092	<u>NET POSITION</u>		
TOTAL NONCURRENT ASSETS	<u>155,816,923</u>	<u>143,961,731</u>	Invested in Capital Assets, Net of Related Debt	84,225,075	82,389,591
TOTAL ASSETS	<u>251,965,495</u>	<u>204,300,790</u>	Restricted for Debt Service	6,689,777	5,765,261
			Unrestricted	58,946,661	53,979,188
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			TOTAL NET POSITION	<u>149,861,513</u>	<u>142,134,040</u>
Deferred Amount on Refunding	29,383	117,533			
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 251,994,878</u>	<u>\$ 204,418,323</u>	TOTAL LIABILITIES AND NET POSITION	<u>\$ 251,994,878</u>	<u>\$ 204,418,323</u>

The accompanying notes are an integral part of these statements.

DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2013 and 2012

	2013	2012
Operating Revenues:		
Western Region:		
Major Industries	\$ 7,173,941	\$ 8,670,569
Residential	5,345,122	5,088,831
Municipal	3,620,228	3,359,596
Permit Industries	1,376,221	1,513,152
TOTAL WESTERN REGION	17,515,512	18,632,148
Eastern Region:		
Darby Creek Joint Authority	14,314,818	13,485,843
Central Delaware County Authority	7,426,251	6,819,038
Muckinipates Authority	3,329,491	2,997,244
TOTAL EASTERN REGION	25,070,560	23,302,125
TOTAL OPERATING REVENUES	42,586,072	41,934,273
Operating Expenses, Including Depreciation of \$4,918,219 in 2013 and \$4,598,978 in 2012	37,177,937	34,834,778
OPERATING INCOME	5,408,135	7,099,495
Nonoperating Revenues (Expenses):		
Interest Income	361,859	476,200
Sludge Disposal and Processing	3,564,339	3,030,796
Realized and Unrealized Loss on Investments	(130,853)	(169,265)
Interest Expense	(1,798,458)	(1,606,748)
Debt Issue Costs	(329,939)	0
Other Income	652,390	793,222
TOTAL NONOPERATING REVENUE	2,319,338	2,524,205
CHANGE IN NET POSITION	7,727,473	9,623,700
Net Position - Beginning	142,134,040	132,510,340
NET POSITION - ENDING	\$ 149,861,513	\$ 142,134,040

The accompanying notes are an integral part of these statements.

**DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY**

Statements of Cash Flows

For the Years Ended December 31, 2013 and 2012

	2013	2012
Cash Flows From Operating Activities:		
Receipts from Customers	\$ 46,947,473	\$ 36,587,261
Payments to Suppliers	(15,615,620)	(15,471,209)
Payments to Employees	(14,205,141)	(12,898,520)
NET CASH PROVIDED BY OPERATING ACTIVITIES	17,126,712	8,217,532
Cash Flows From Capital and Related Financing Activities:		
Acquisition and Construction of Capital Assets	(13,478,965)	(13,463,481)
Payment of Accounts Payable Incurred for the Purchase of Capital Assets	(1,188,312)	(1,098,165)
Note Payable Proceeds	40,963,773	4,552,406
Other Income	652,390	793,222
Sludge Disposal and Processing Revenue	3,564,339	3,030,796
Interest Paid	(2,787,240)	(2,324,166)
Repayment of Long-Term Debt	(3,956,284)	(4,044,599)
Debt Issue Costs	(329,939)	0
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	23,439,762	(12,553,987)
Cash Flows From Investing Activities:		
Collection of Notes Receivable	29,848	18,840
Decrease (Increase) in Investments	(38,186,761)	2,850,243
Purchase of Certificates of Deposit	(13,242)	(17,724)
Interest Received	469,896	471,475
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(37,700,259)	3,322,834
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,866,215	(1,013,621)
Cash and Cash Equivalents - Beginning	4,663,407	5,677,028
CASH AND CASH EQUIVALENTS - ENDING	\$ 7,529,622	\$ 4,663,407
Non-Cash Capital Financing Activities:		
Accounts Payable Incurred for the Purchase of Capital Assets	\$ 1,146,687	\$ 1,188,312
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities:		
Operating Income	\$ 5,408,135	\$ 7,099,495
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	4,918,219	4,598,978
Provision for Doubtful Accounts	62,678	116,508
Decrease (Increase) in:		
Receivables:		
Residential	(76,230)	(119,148)
Municipal	(166,618)	20,027
Major Industries	250,751	(529,816)
Permit Industries	466,940	(229,454)
Authorities	3,470,330	(3,470,330)
Other Receivables	(168,497)	(236,713)
Prepaid Expenses	(6,005)	79,874
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	(188,910)	(278,821)
Payable to the City of Philadelphia	2,571,194	1,948,499
Advances on Services	584,725	(781,567)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 17,126,712	\$ 8,217,532

The accompanying notes are an integral part of these statements.

DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
Notes to Financial Statements
December 31, 2013 and 2012

NOTE 1 - Summary of Significant Accounting Policies

Nature of Operations - Delaware County Regional Water Quality Control Authority ("DELCORA") was created by the County Council of Delaware County, Pennsylvania, on October 20, 1971, pursuant to the Municipality Authorities Act of 1945. DELCORA has the power to construct, finance, operate and maintain sewer systems throughout Delaware County and adjacent areas included in its drainage basin.

Reporting Entity - The reporting entity has been defined in accordance with the criteria established in Statement 14 issued by the Governmental Accounting Standards Board (GASB). The specific criteria used in determining whether DELCORA should be included in another organization's financial reporting entity are financial accountability, fiscal dependency and legal separation.

As defined above, DELCORA should not be included in another organization's financial statements.

Basis of Presentation - DELCORA's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements.

DELCORA adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-For State and Local Governments* and related standards, as of January 1, 2003. The standard provides for significant changes in terminology and inclusion of a Management Discussion and Analysis (MD&A) section providing an analysis of DELCORA's overall financial position and results of its operations.

DELCORA's accounts are organized as a governmental enterprise fund, and are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Operating revenues are charges to customers for services provided. Operating expenses include the cost of services, administrative expenses and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Basis of Accounting - The financial statements are prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Use of Estimates - The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reporting 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.

DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
Notes to Financial Statements
December 31, 2013 and 2012

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents - DELCORA considers all highly liquid investments purchased with original maturities of less than three months to be cash equivalents.

Capital Assets - Capital assets have been financed primarily through proceeds from various bond issues, grants from the Environmental Protection Agency and funds generated from ongoing operations. Capital assets are recorded at cost. If actual cost could not be determined from available records, estimated historical cost was used. Interest on sewer revenue bonds is capitalized during the construction period, net of interest earned on the investment of unexpended bond proceeds. Expenditures for maintenance and repairs are charged to operating expenses.

Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows:

Western Region Treatment Plant	5 - 40 Years
Service Lines and Force Mains	10 - 60 Years
Pumping Stations	10 - 40 Years
Machinery and Equipment	5 - 10 Years
Buildings and Improvements	40 Years

Investments - Investments represent funds established under various trust indentures and secured sewer revenue bonds outstanding. Restricted investments are reserved for liquidation of specific obligations. Investments are stated at fair value.

Advances on Services - Advances on services represents user charges collected in excess of the user's respective share of operating expenses.

Vacation, Sick Leave and Other Compensated Absences - DELCORA employees are entitled to certain compensated absences based on their length of employment. Compensated absences are accrued when earned.

Allowance for Doubtful Accounts - Provisions for doubtful accounts are provided for on the reserve method based on historical experience and management's evaluation of outstanding residential receivables.

Subsequent Events - DELCORA has evaluated subsequent events through April 23, 2014, which represents the date the financial statements were available to be issued.

Reclassifications - Certain reclassifications have been made to prior year amounts to conform with current year classifications.

DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
Notes to Financial Statements
December 31, 2013 and 2012

NOTE 2 - Deposits and Investments

Under Section 7.1 of the Pennsylvania Municipality Authorities Act and the Trust Indenture, DELCORA is permitted to invest funds consistent with sound business practices in the following types of investments:

- Obligations of the United States government or its agencies or instrumentalities;
- Obligations of the Commonwealth of Pennsylvania or any of its political subdivisions; and
- Deposits in savings accounts or time deposits must be insured by the Federal Deposit Insurance Corporation ("FDIC"). For amounts above the insured limit, collateral must be pledged by the depository.
- Other investments as described in the Trust Indenture Agreement between DELCORA and TD Bank, N.A. dated July 15, 2001.

Deposits - As of December 31, 2013 and 2012, the carrying amount of the entity's deposits was \$7,437,320 and \$4,584,342, respectively. As of December 31, 2013 and 2012, the bank balance was \$7,513,451 and \$4,445,767, respectively. As of December 31, 2013 and 2012, the entity had \$2,052,905 and \$2,039,663 in certificates of deposit, respectively. The certificates of deposit mature through June 2014.

Custodial Credit Risk - Deposits - Custodial credit risk is the risk that in the event of a bank failure, the entity's deposits may not be returned to it. The entity's investment policy limits the exposure to custodial credit risk by requiring all deposits in excess of federal depository insurance limits to be secured with collateralization pledged by the applicable financial institution. Of the bank balance, \$500,000 was covered by federal depository insurance. The remaining balance was uninsured and covered by collateral in accordance with the Intergovernmental Cooperation Act of 1972. The entities certificates of deposit are held in a CDARS program and are covered in their entirety by federal depository insurance.

Investments - The entity's investments are categorized as either (1) insured and registered, or securities held by the entity or its agent in the entity's name, (2) uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name, or (3) uninsured and unregistered with securities held by the counterparty, or by its trust department or agent but not in the entity's name.

All funds in the Pennsylvania Local Government Investment Trust ("PLGIT") are invested in accordance with the Pennsylvania Municipality Authorities Act. Each entity owns a prorata share of each investment or deposit which is held in the name of the fund. Other fixed-term investments purchased by the entity through the fund's administrator are purchased in the name of the entity. The balance of the funds as of December 31, 2013 and 2012 was \$92,302 and \$79,065, respectively.

All funds held in accordance with the Trust Indenture for the Sewer Revenue Bonds are invested in accordance with the Trust Indenture Agreement between DELCORA and TD Bank, N.A. dated July 15, 2001. The balance as of December 31, 2013 and 2012 was \$75,895,986 (including certificates of deposit of \$44,566,105, repurchase agreements of \$1,454,372 and commercial paper of \$9,185,423) and \$40,914,269 (including certificates of deposit of \$31,430,471 and repurchase agreements of \$1,427,043), respectively. Certificates of deposit are held in a PLGIT CD program and are covered in their entirety by federal depository insurance.

At December 31, 2013 and 2012 the entity held investments in U.S. Government and Agency Issues, maturing through 2015, amounting to \$14,337,485 and \$11,263,294, respectively. Investments maturing in less than one year from original purchase are recorded at unamortized cost. Investments maturing beyond one year from original purchase are recorded at fair value.

DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
Notes to Financial Statements
December 31, 2013 and 2012

NOTE 2 - Deposits and Investments (Continued)

Custodial Credit Risk - Investments - For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the entity will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The entity has no investments subject to custodial credit risk.

NOTE 3 - Investments and Restricted Investments

	2013	2012
Cash and Cash Equivalents	\$20,666,742	\$ 7,964,021
Commercial Paper	9,185,423	0
Certificates of Deposit Originally Maturing Beyond Three Months	37,141,952	25,956,801
Repurchase Agreements	1,454,372	1,427,043
U. S. Government and Agency Issues	13,860,815	10,091,606
TOTAL INVESTMENTS	\$82,309,304	\$45,439,471

	2013	2012
Cash and Cash Equivalents	\$ 23,344	\$ 92,734
Certificates of Deposit Originally Maturing Beyond Three Months	7,424,153	5,473,670
U. S. Government and Agency Issues	476,670	1,171,688
TOTAL RESTRICTED INVESTMENTS	\$ 7,924,167	\$ 6,738,092

NOTE 4 - Capital Assets

	2013	2012
Western Region Treatment Plant	\$97,518,968	\$93,996,841
Service Lines and Force Mains	67,492,369	67,100,445
Pumping Stations	28,151,101	28,151,101
Machinery and Equipment	3,146,264	3,345,997
Buildings and Improvements	6,522,616	6,522,616
Land and Right of Way	1,349,495	1,349,495
	204,180,813	200,466,495
Less: Accumulated Depreciation	90,167,984	85,579,558
	114,012,829	114,886,937
Construction in Progress	33,777,458	22,202,779
NET CAPITAL ASSETS	\$147,790,287	\$137,089,716

Capital assets at December 31, 2013 and 2012 includes capitalized interest of \$16,966,576 and \$15,643,017, respectively, reduced by interest earned on construction fund investments of \$15,257,818 and \$14,927,398, respectively.

DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
Notes to Financial Statements
December 31, 2013 and 2012

NOTE 5 - Note Receivable

DELCORA has a note receivable from Folcroft Borough for renovations to a pump station. The note is being repaid over 20 years with installments of \$2,619 per month including interest at 5.25%. The balance of the note receivable at December 31, 2013 and 2012 was \$127,795 and \$157,643, respectively.

NOTE 6 - Long-Term Debt

<u>Series</u>	<u>Interest Rates</u>	<u>Maturity Date</u>	<u>2013</u>	<u>2012</u>
2004	4.00% - 4.30%	May 1, 2017	\$ 4,530,000	\$ 5,550,000
2007	5.25%	May 1, 2025	34,040,000	36,235,000
2013	5.00%	May 1, 2025	34,470,000	0
TOTAL SEWER REVENUE BONDS			<u>73,040,000</u>	<u>41,785,000</u>

Note Payable - Pennsylvania Infrastructure Investment Authority ("Pennvest"), monthly payments of \$30,227, including interest at 4.017%. The note is collateralized by property. The loan matures November 2021. The aggregate principal amount of the note is \$5,009,000, of which the Authority has borrowed \$4,758,963 as of December 31, 2013.

2,015,730	2,291,442
-----------	-----------

Note Payable - Pennsylvania Infrastructure Investment Authority ("Pennvest"), monthly payments of \$46,168, including interest at 1%. Interest rate goes to 1.061% in 2014. The note is collateralized by property. The loan matures September 2031. The aggregate principal amount of the note is \$10,038,785, all of which the Authority has borrowed as of December 31, 2013.

<u>8,943,488</u>	<u>7,466,977</u>
83,999,218	51,543,419

Issuance Premiums	<u>6,911,691</u>	<u>2,703,387</u>
TOTAL	90,910,909	54,246,806

Less: Current Portion	<u>4,585,972</u>	<u>4,200,894</u>
-----------------------	------------------	------------------

LONG-TERM DEBT	<u><u>\$86,324,937</u></u>	<u><u>\$50,045,912</u></u>
----------------	----------------------------	----------------------------

**DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY**

Notes to Financial Statements
December 31, 2013 and 2012

NOTE 6 - Long-Term Debt (Continued)

Sewer Revenue Bond interest is payable on May 1st and November 1st.

Aggregate maturities and required sinking fund payments of long-term debt subsequent to December 31, 2013 are as follows:

Year Ending
December 31,

	Principal	Interest	Principal and Interest	Deferred	Total
	\$				
2014	4,127,839	\$ 3,781,639	\$ 7,909,478	\$ 458,133	\$ 8,367,611
2015	4,305,065	3,600,766	7,905,831	458,133	8,363,964
2016	4,502,261	3,404,987	7,907,248	458,133	8,365,381
2017	4,710,009	3,198,450	7,908,459	448,474	8,356,933
2018	4,933,332	2,975,193	7,908,525	443,565	8,352,090
2019-2023	21,848,546	11,363,749	33,212,295	2,217,825	35,430,120
2024-2028	18,145,449	7,163,988	25,309,437	1,432,959	26,742,396
2029-2033	21,426,717	2,915,679	24,342,396	994,469	25,336,865
TOTAL	\$83,999,218	\$38,404,451	\$122,403,669	\$ 6,911,691	\$129,315,360

The Sewer Revenue Bonds and TD Bank Note were issued pursuant to the Trust Indenture Agreement between DELCORA and TD Bank, N.A. ("Trustee") dated July 15, 2001. Additionally the Sewer Revenue Bonds, 2004 Series, were issued pursuant to the Continuing Disclosure Agreement between DELCORA and TD Bank dated July 8, 2004. TD Bank replaced Chase Manhattan Trust Company, N.A., now known as JP Morgan Chase, who was the trustee under the previous indenture. Under the July 15, 2001 Indenture, DELCORA has pledged certain assets and agreed to covenants and conditions, the most significant of which are:

- Fix rates and rentals sufficient to cover the costs of operating the system;
- Pledge revenues to secure the outstanding bonds;
- Net Revenues at least equal to 100% of annual debt service requirements of all outstanding bonds exclusive of funds deposited into the revenue fund from the renewal and replacement fund;
- Net Revenues at least equal to 1.1 times the annual debt service requirements of all outstanding bonds;
- Establish certain funds to account for DELCORA activity; and,
- Maintain and operate the system in a sound and economical manner.

Management believes it has complied, in all material respects, with all covenants and requirements of the Indenture.

**DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY**

Notes to Financial Statements
December 31, 2013 and 2012

NOTE 6 - Long-Term Debt (Continued)

BOND REFUNDING

During 2007, DELCORA issued the Sewer Revenue Bonds, 2007 Series. The 2007 Series bonds were issued to provide funds to advance refund certain maturities of DELCORA's Series 2001 and Series 2004 bonds. Proceeds from the issuance of the 2007 Series bonds were deposited in an irrevocable trust with an escrow agent to provide for the debt service required for advance refunding of the bonds. The advance refunding met the requirements of an in substance defeasance. Accordingly, the trust account assets and defeased bond liabilities are not included in DELCORA's financial statements. The excess of the trust account over the defeased bond liability upon issuance of the 2007 Series bonds was \$1,774,467. The excess is stated as a deferred outflow of resources and is being amortized over the term of the advance refunding period.

Following is the principal balance of all defeased bonds outstanding as of December 31, 2013:

2004 Series	\$12,210,000
-------------	--------------

NOTE 7 - User Agreements

In accordance with a County-Wide Sewerage Facilities Plan (the "Plan") developed in 1972 and by orders of the Commonwealth of Pennsylvania Department of Environmental Protection, various municipal authorities and industries in Delaware County were ordered to negotiate with DELCORA for future treatment of sewage in its regional facilities.

The Plan divided the County into two sections: Eastern Service Region and Western Service Region. Eastern Service Region waste water is treated in the upgraded and expanded Philadelphia Southwest Water Pollution Control Plant ("City Plant"). Western Service Region waste water is treated at a regional plant constructed on the site of the former City of Chester Plant. The Central Delaware County Authority has the ability to flow to either plant.

In order to execute the Plan, DELCORA entered into service agreements with municipalities and major industries in DELCORA's service area. The agreements are for various terms up to 50 years.

NOTE 8 - Commitments and Contingencies

Commitments - DELCORA had construction commitments outstanding at December 31, 2013 of approximately \$11,141,842. DELCORA leases equipment at a monthly cost of \$1,842 through 2017.

Contingencies - DELCORA is involved in various claims and lawsuits, both for and against DELCORA, arising in the normal course of business. Management believes that any financial responsibility that may be incurred in settlement of such claims and lawsuits would not be material to DELCORA's financial position. Additionally, amounts received from grantor agencies are subject to audit and adjustment by grantor agencies, principally by the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although management expects such amounts, if any, to be immaterial.

**DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY**

Notes to Financial Statements
December 31, 2013 and 2012

NOTE 9 - Employee Retirement Plans
DEFINED BENEFIT PLAN

Plan Description - Delaware County Regional Water Quality Control Authority Retirement Plan (the "Plan") is a single-employer defined benefit pension plan administered by DELCORA. The Plan provides early retirement, normal retirement, and disability benefits to plan members. Plan benefits were established under the terms of the plan document. The Plan allows amendments by DELCORA. The operation of the Plan is governed by the provisions of certain public employee laws under the Commonwealth of Pennsylvania Code which are administered by the Public Employee Retirement Commission of the Commonwealth of Pennsylvania.

Pension Benefits - Pension benefits are as follows:

Normal Retirement: A member is eligible upon attainment of age 65.

For salaried employees, the accrued benefit equals the sum of:

- (a) 1.50% of average applicable compensation multiplied by years of service completed on or after January 2, 2006;
- (b) 1.45% of average applicable compensation multiplied by years of service completed on or after January 2, 2004 and before January 2, 2006;
- (c) 1.35% of average applicable compensation multiplied by years of service completed on or after January 2, 2000 and before January 2, 2004; and
- (d) 1.50% of average applicable compensation multiplied by years of service completed prior to January 2, 2000;

For non-salaried employees, the accrued benefit equals the sum of:

- (a) 1.65% of average applicable compensation multiplied by years of service completed on or after January 2, 2006;
- (b) 1.60% of average applicable compensation multiplied by years of service completed on or after January 2, 2004 and before January 2, 2006; and
- (c) 1.50% of average applicable compensation multiplied by years of service completed prior to January 2, 2004;

Early Retirement: A member is eligible for a retirement benefit upon attainment of age 55 and the completion of ten years of service equal to the portion of the normal retirement benefit that has been accrued as of the participant's early retirement date, reduced by 5/16% for each month that the benefit commencement date precedes the normal retirement date.

Disability: Upon total disability, a member is eligible for retirement benefits equal to an early retirement benefit amount.

Funding Policy - Pursuant to the plan document, DELCORA is required to contribute to the Plan from time to time amounts necessary to satisfy the applicable requirements of every relevant statute and expected to be sufficient on the basis of actuarial estimates to provide the benefits specified in the Plan. There is no required contribution rate of the employer in dollars or as a percentage of covered payroll. Active plan members are not required to contribute to the Plan. The Plan was amended in 2011 for technical compliance updates.

**DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY**

Notes to Financial Statements
December 31, 2013 and 2012

NOTE 9 - Employee Retirement Plans (Continued)

The annual contribution calculation was determined as part of the January 1, 2013 actuarial valuation using the Entry Age Normal Actuarial Cost Method. The actuarial assumptions included (a) interest rate of 7.50% compounded annually, (b) mortality rates are based on 1983 Group Annuity Mortality Table, (c) turnover (withdrawal) are based on Turnover Table T3, (d) salary increases of 4.00% per annum (e) the Level Dollar Method over an open period of 30 years is used to amortize the unfunded actuarial liability. The Plan amendment and restatement adopted in 2011 was considered in the valuation.

The asset valuation method was changed effective January 1, 2005 to use a five year smoothing method. This method determines the value of assets so that asset appreciation or depreciation is only partially recognized in the year of occurrence. The result is a gradual recognition of 20% per year over a five year period of each year's appreciation or depreciation in excess of or less than that which is assumed. The actuarial asset value must be within 80% to 120% of the market value of the assets.

Three-Year Trend Information: Schedule of funding progress:

	January 1,		
	2013	2012	2011
Actuarial Value of Plan Assets	\$ 8,091,840	\$ 8,176,286	\$ 7,907,619
Less: Actuarial Accrued Liability	12,730,961	11,624,106	10,893,527
Funding Excess (Unfunded Actuarial Accrued Liability)	\$(4,639,121)	\$(3,447,820)	\$ (2,985,908)
Assets as Percentage of Actuarial Accrued Liability	64%	70%	73%
Annual Covered Payroll	\$ 7,324,098	\$ 6,704,545	\$ 6,477,822
Ratio of Actuarial Accrued Liability to Payroll	63%	51%	46%

Plan assets at January 1, 2013 include marketable equity securities at fair value of \$7,545,690 and cash and cash equivalents of \$713,925. Employer contributions were \$1,100,000 and \$850,000 for the years ended December 31, 2013 and 2012, respectively.

DEFINED CONTRIBUTION PLAN

DELCORA established the Delaware County Regional Water Quality Control Authority Defined Contribution Plan (401a Plan) in 2000 covering all salaried employees. Employer contributions were \$113,288 and \$87,954 for the years ended December 31, 2013 and 2012, respectively.

Additionally, all employees are eligible to contribute into a 457 Plan. The 457 Plan does not allow for employer contributions.

DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
Notes to Financial Statements
December 31, 2013 and 2012

NOTE 10 - Wastewater Treatment Agreement

In 1974, DELCORA entered into a thirty year agreement with the Philadelphia Water Department (“the City”) to pay the City for treatment of wastewater sent to the Southwest Philadelphia plant based on its proportionate share of the City’s operating costs. The agreement with the City was extended until 2011.

In July 2011, DELCORA signed an agreement with the City for treatment of the flows. The term was for the longer of either two years or one year after DELCORA received information about the City’s Long Term Control Plan (LTCP). The agreement was considered a bridge toward a long-term agreement.

There remained a need for the determination by the City of DELCORA’s proportionate share of the \$2 billion in estimated costs over twenty five years for the implementation of the City’s LTCP. The flow capacity thresholds in the contract had remained the same as the 1974 agreement. The management fee had been increased from 10% to 12%. The contract also included a different method for accounting for DELCORA’s share of the City’s capital costs, i.e., the depreciation and return on investment method.

On April 1, 2013, a fifteen year agreement between the City and DELCORA became effective. Many of the terms of the July 2011 agreement remain in effect. DELCORA has received an estimate of its proportionate share of LTCP costs.

NOTE 11 - Prior Period Adjustment

The 2012 financials statements have been restated as a result of DELCORA’s adoption of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The statement required the unamortized balance of debt issues costs from prior years to be expensed in the year incurred. The effect of the restatement was to reduce net position as of January 1, 2012 by \$479,632 and to increase the change in net position for the year ended December 31, 2012 by \$65,319.

DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
Supplementary Information
For the Years Ended December 31, 2013 and 2012

SCHEDULES OF OPERATING EXPENSES

	<u>2013</u>	<u>2012</u>
Philadelphia Plant Treatment Costs	\$ 9,449,558	\$ 8,979,036
Salaries and Wages	9,439,715	8,652,972
Depreciation	4,918,219	4,598,978
Utilities	2,367,508	2,527,005
Employee Benefits	4,699,784	4,411,727
Repairs and Maintenance	2,949,574	2,582,114
Insurance	536,741	500,396
Minor Equipment and Supplies	635,659	587,346
Solids Disposal	478,852	498,252
Engineering and Tech Services	332,261	296,783
Provision for Doubtful Accounts	62,678	116,508
Other Contracted Services	786,372	606,358
Consulting	79,109	67,312
Solicitor	248,212	245,321
Office	113,953	113,519
Dues and Conferences	68,628	40,976
Advertising	11,114	10,175
	<u> </u>	<u> </u>
TOTAL OPERATING EXPENSES	<u>\$ 37,177,937</u>	<u>\$ 34,834,778</u>

**DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY**

Supplementary Information
For the Year Ended December 31, 2013

**SCHEDULE OF SELECTED OPERATING REVENUES -
BUDGET COMPARISON**

	Actual 2013	Budget 2013 (Unaudited)	Favorable (Unfavorable) Variances (Unaudited)	Actual 2012
Major Industry:				
Kimberly-Clark	\$ 4,744,189	\$ 4,826,760	\$ (82,571)	\$ 6,310,978
Sun Refining and Marketing Co.	2,196,738	2,080,500	116,238	2,304,716
Monroe Energy	233,014	233,014	0	54,875
	<u>\$ 7,173,941</u>	<u>\$ 7,140,274</u>	<u>\$ 33,667</u>	<u>\$ 8,670,569</u>
TOTAL MAJOR INDUSTRY				
Municipal:				
Nether Providence	\$ 681,169	\$ 701,306	\$ (20,137)	\$ 627,242
Brookhaven	506,556	526,694	(20,138)	505,707
Eddystone	348,723	284,700	64,023	290,101
Lower Chichester	394,654	370,110	24,544	322,924
Southern Delaware County Authority	1,689,126	1,852,302	(163,176)	1,613,162
Other	0	0	0	460
	<u>\$ 3,620,228</u>	<u>\$ 3,735,112</u>	<u>\$ (114,884)</u>	<u>\$ 3,359,596</u>
TOTAL MUNICIPAL				
Permit Industries:				
Braskem	\$ 161,278	\$ 180,120	\$ (18,842)	\$ 238,402
Liberty Electric	264,422	233,700	30,722	281,432
The P.Q. Corporation	118,271	123,094	(4,823)	91,334
Ace Linen	69,573	108,460	(38,887)	112,753
Rhodia	38,953	16,644	22,309	44,981
PECO	4,682	5,941	(1,259)	4,740
Florida Power & Light	424,287	186,732	237,555	434,038
Congoleum	40,926	29,307	11,619	37,051
Boeing	117,346	101,400	15,946	137,834
Harrah's Casino	44,980	39,488	5,492	49,401
Other	91,503	91,503	0	81,186
	<u>\$ 1,376,221</u>	<u>\$ 1,116,389</u>	<u>\$ 259,832</u>	<u>\$ 1,513,152</u>
TOTAL PERMIT INDUSTRIES				

DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
Supplementary Information
December 31, 2013

SCHEDULE OF DEBT SERVICE
SEWER REVENUE BONDS, 2004 SERIES

<u>Year Ending December 31</u>	<u>Coupon</u>	<u>Principal Maturity</u>	<u>Interest</u>	<u>Total Debt Service</u>
2014	4.00%	1,065,000	167,783	1,232,783
2015	4.13%	1,105,000	123,693	1,228,693
2016	4.25%	1,155,000	76,359	1,231,359
2017	4.30%	1,205,000	25,908	1,230,908
TOTAL		<u>\$ 4,530,000</u>	<u>\$ 393,743</u>	<u>\$ 4,923,743</u>

DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
Supplementary Information
December 31, 2013

SCHEDULE OF DEBT SERVICE
SEWER REVENUE BONDS, 2007 SERIES

<u>Year Ending December 31</u>	<u>Coupon</u>	<u>Principal Maturity</u>	<u>Interest</u>	<u>Total Debt Service</u>
2014	5.25%	2,310,000	1,726,462	4,036,462
2015	5.25%	2,435,000	1,601,906	4,036,906
2016	5.25%	2,565,000	1,470,656	4,035,656
2017	5.25%	2,705,000	1,332,318	4,037,318
2018	5.25%	4,115,000	1,153,293	5,268,293
2019	5.25%	4,335,000	931,482	5,266,482
2020	5.25%	4,570,000	697,725	5,267,725
2021	5.25%	4,820,000	451,237	5,271,237
2022	5.25%	1,425,000	287,306	1,712,306
2023	5.25%	1,505,000	210,394	1,715,394
2024	5.25%	1,585,000	129,281	1,714,281
2025	5.25%	1,670,000	43,838	1,713,838
TOTAL		<u>\$ 34,040,000</u>	<u>\$ 10,035,898</u>	<u>\$ 44,075,898</u>

DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
Supplementary Information
December 31, 2013

SCHEDULE OF DEBT SERVICE
SEWER REVENUE BONDS, 2013 SERIES

<u>Year Ending December 31</u>	<u>Coupon</u>	<u>Principal Maturity</u>	<u>Interest</u>	<u>Total Debt Service</u>
2014	5.00%	0	1,723,500	1,723,500
2015	5.00%	0	1,723,500	1,723,500
2016	5.00%	0	1,723,500	1,723,500
2017	5.00%	0	1,723,500	1,723,500
2018	5.00%	0	1,723,500	1,723,500
2019	5.00%	0	1,723,500	1,723,500
2020	5.00%	0	1,723,500	1,723,500
2021	5.00%	0	1,723,500	1,723,500
2022	5.00%	1,100,000	1,696,000	2,796,000
2023	5.00%	1,150,000	1,639,750	2,789,750
2024	5.00%	1,215,000	1,580,625	2,795,625
2025	5.00%	1,275,000	1,518,375	2,793,375
2026	5.00%	3,100,000	1,409,000	4,509,000
2027	5.00%	3,255,000	1,250,125	4,505,125
2028	5.00%	3,425,000	1,083,125	4,508,125
2029	5.00%	3,600,000	907,500	4,507,500
2030	5.00%	3,785,000	722,875	4,507,875
2031	5.00%	3,980,000	528,750	4,508,750
2032	5.00%	4,185,000	324,625	4,509,625
2033	5.00%	4,400,000	110,000	4,510,000
TOTAL		<u>\$ 34,470,000</u>	<u>\$ 26,558,750</u>	<u>\$ 61,028,750</u>

**DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY**
Supplementary Information
For the Year Ended December 31, 2013

**SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS -
TRUST FUNDS ESTABLISHED UNDER AN INDENTURE DATED JULY 15, 2001
AND TOTAL INVESTMENTS**

	Renewal and Replacement Fund	Rate Stabilization Fund	Revenue Fund	Sewer Reserve Fund	Debt Service Fund	Sewer Repair and Replacement Fund	2009 Pennvest Construction Fund	Kimberly Clark Settlement Fund	Debt Service Reserve Fund	2001 Pennvest Debt Service Fund	2013 Construction Fund	Total
Balances - January 1, 2013	<u>\$ 30,691,938</u>	<u>\$ 900,002</u>	<u>\$ 3,088,825</u>	<u>\$ 2,912,938</u>	<u>\$ 2,940,605</u>	<u>\$ 2,097,801</u>	<u>\$ 1,668,655</u>	<u>\$ 1,138,708</u>	<u>\$ 6,738,091</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 52,177,563</u>
Receipts:												
Transfers from Operating Account	0	0	49,494,322	0	0	0	0	0	0	0	0	49,494,322
Transfers from Other Trust Funds	7,610,739	600,000	0	0	6,504,008	250,000	0	0	1,164,160	362,719	0	16,491,626
Loan Proceeds	0	0	0	0	0	0	1,942,083	0	0	0	38,691,751	40,633,834
Investment Income	119,141	1,506	252,261	4,648	8,588	20,532	0	105	25,468	0	3,828	436,077
TOTAL RECEIPTS	<u>7,729,880</u>	<u>601,506</u>	<u>49,746,583</u>	<u>4,648</u>	<u>6,512,596</u>	<u>270,532</u>	<u>1,942,083</u>	<u>105</u>	<u>1,189,628</u>	<u>362,719</u>	<u>38,695,579</u>	<u>107,055,859</u>
Disbursements:												
Requisitions	3,943,615	0	31,682,573	0	0	0	3,610,738	300,239	0	0	9,706,219	49,243,384
Transfers to Other Trust Funds	0	0	11,716,727	0	0	0	0	0	0	0	1,164,160	12,880,887
Debt Service Payments:												
Principal	0	0	465,572	0	3,215,000	0	0	0	0	275,712	0	3,956,284
Interest	0	0	88,442	0	2,613,094	0	0	0	0	87,007	0	2,788,543
TOTAL DISBURSEMENTS	<u>3,943,615</u>	<u>0</u>	<u>43,953,314</u>	<u>0</u>	<u>5,828,094</u>	<u>0</u>	<u>3,610,738</u>	<u>300,239</u>	<u>0</u>	<u>362,719</u>	<u>10,870,379</u>	<u>68,869,098</u>
Unrealized Loss on Investments	<u>(73,365)</u>	<u>0</u>	<u>(35,000)</u>	<u>(18,936)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(3,552)</u>	<u>0</u>	<u>0</u>	<u>(130,853)</u>
 BALANCES - DECEMBER 31, 2013	 <u><u>\$ 34,404,838</u></u>	 <u><u>\$ 1,501,508</u></u>	 <u><u>\$ 8,847,094</u></u>	 <u><u>\$ 2,898,650</u></u>	 <u><u>\$ 3,625,107</u></u>	 <u><u>\$ 2,368,333</u></u>	 <u><u>\$ 0</u></u>	 <u><u>\$ 838,574</u></u>	 <u><u>\$ 7,924,167</u></u>	 <u><u>\$ 0</u></u>	 <u><u>\$ 27,825,200</u></u>	 <u><u>\$ 90,233,471</u></u>