

Financial Statements

**Delaware County Regional Water
Quality Control Authority**

December 31, 2014 and 2013

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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, 2014 and 2013, 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, 2014 and 2013, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 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. The schedules of operating expenses, selected operating revenues - budget comparison, debt service and cash receipts and disbursements - trust funds established under an indenture dated July 15, 2001 and total investments 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 22, 2015, 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 22, 2015

INDEPENDENT AUDITOR'S REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with the 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, the financial statements of Delaware County Regional Water Quality Control Authority, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise Delaware County Regional Water Quality Control Authority's basic financial statements, and have issued our report thereon dated April 22, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Delaware County Regional Water Quality Control Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Delaware County Regional Water Quality Control Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Delaware County Regional Water Quality Control Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Delaware County Regional Water Quality Control Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Christopher Reynolds, Inc.

April 22, 2015

DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
Management's Discussion and Analysis (Unaudited)
December 31, 2014

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, 2014 includes the following key highlights:

- As of December 31, 2014, Executive Director Joseph L. Salvucci retired. Mr. Salvucci was a founding DELCORA Board Member. He was the Executive Director since 1997. He was succeeded as Executive Director by Robert J. Willert. Mr. Willert had been a member of the DELCORA Board of Directors since August 2002.
- DELCORA is in ongoing negotiations with United States Environmental Protection Agency (USEPA) and the Pennsylvania Department of Environmental Protection (PADEP) concerning the resolution of claims that DELCORA must develop and implement a more comprehensive Long Term Control Plan (LTCP) to control storm water discharges from its combined sewer overflows (CSOs). We currently expect this matter to be resolved with a Consent Decree in which DELCORA will agree to establish and implement a new LTCP and to pay a civil penalty to resolve these claims. The new LTCP will involve increased capital projects, the extent of which are not known at this time.
- DELCORA sent an average of 25.49 million gallons per day (MGD) in 2014 to the Philadelphia Water Department's (PWD) Treatment Plant. Flow at Delcora's Western Regional Treatment Plant was 31.21 MGD.
- In 2014, revenue from the trucked waste receiving business reached \$3,707,977, an increase of \$507,977 (15.8%) over the 2014 budget and an increase of \$143,638 (4.0%) over the prior year. Revenue has consistently increased annually from a level of approximately \$300,000 in 2004 to the present level. In 2014 DELCORA opened its new Trucked Waste Receiving Facility. The facility has increased the ability to handle more truck volume with quicker turnaround.
- 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 and was completed in 2014 at a cost of approximately \$9,100,000. All wastewater flows from the Baldwin Run facility were permanently diverted to the WRTP for treatment in December of 2014, ahead of schedule. DELCORA began the decommissioning of the Baldwin Run facility in 2014, with demolition of the facility to take place in 2015. All flows from the facility have been permanently diverted to the WRTP. Average Daily Flow has been averaging 4.2 MGD since the diversion.
- 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 of the two Pump Stations and the collection system for approximately 1,000 Equivalent Dwelling Units began in 2014 and expected completion is in the 4th quarter of 2015. Construction of the Gradyville Road Force Main was completed in 2014 as well as the tie-in to the Newtown Township-owned Route 252 line tying in the Edgmont flows to the Central Delaware County Authority (CDCA) Crum Creek 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 went online in April of 2014. This produces approximately \$100,000 per year of revenue for DELCORA.

DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
Management's Discussion and Analysis (Unaudited)
December 31, 2014

Executive Summary (continued)

- In 2014 DELCORA renewed its contracts to operate the Chadds Ford Turner's Mill and Ridings facilities for a new 5 year term. It also renewed the Springhill Farm contract for one year and the contract to manage the Thornbury Township Waste Water Treatment Plant (WWTP) and pump stations for a new 5 year term. Springhill Farm is in discussions with neighboring Concord Township to decommission their WWTP and divert the flow to the Concord Township WWTP. DELCORA anticipates it will operate the new Force Main and Pump Station if it is owned by Springhill Farm.
- In 2014, DELCORA completed its 2015 to 2019 Strategic Plan. The Plan focuses on 4 primary objectives:
 - Remain in the 1st quartile in expenses in the National Association of Clean Water Agencies survey
 - Implement a comprehensive Asset Management Program
 - Implement a Disaster Preparedness & Recovery Program
 - Grow Delaware County and Chester County Revenue

This is a five year plan with 43 employees engaged with 23 objectives. Progress and Implementation are to be monitored on a semi-annual basis with reporting to the Executive Director and Board of Directors.

Capital projects started and/or completed in 2014 included:

- 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); Belt Filter Press (\$548,000); Ridley Creek Interceptor Grouting (\$1,760,377); Edgmont Township Collection System (\$5,856,433), Baldwin Run Pump Station (\$9,100,000).

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.

DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
Management's Discussion and Analysis (Unaudited)
December 31, 2014

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.

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 assets; a statement of revenues, expenses, and changes in net assets; a statement of cash flows; and notes to the financial statements. The statement of net assets presents the financial position of DELCORA on a full accrual historical cost basis. While the statement of net assets provides information about the nature and amount of resources and obligations at year-end, the statement of revenues, expenses, and changes in net assets presents the results of the business activities over the course of the fiscal year and the amounts by which the net assets changed during the year. All changes in net assets 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 2014, DELCORA used the rate model developed by Black and Veatch. 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 expenses, as well as statements 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, 2014

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.

	2013	2014	Difference	%
<i>Revenues per thousand gallons billed:</i>				
Residential	\$2.32	\$2.24	(0.08)	(3.4%)
Commercial	\$2.62	\$2.63	0.01	0.4%
<i>Ratio of Operating Revenue to:</i>				
-Operating Expenses	1.15	1.08	(0.07)	(6.1)%
-Operating Expenses, net of depreciation	1.32	1.24	(0.08)	(6.1)%
-Total assets (asset turnover)	0.17	0.17	(0.00)	0.00%
<i>Ratio of Operating Income to:</i>				
-Operating Revenue	0.13	0.08	(0.05)	(38.5)%
<i>Debt-related ratios:</i>				
Total debt to total assets	0.38	0.33	(0.05)	(13.2)%

Financial Results of System-wide Operations

- Total Liabilities	\$96,530,274
Long Term	\$83,755,316
Other	\$12,774,958
- Total Net Assets	\$156,050,022
Invested in Capital Assets (net of related debt)	\$93,177,543
Restricted for Debt Service	\$ 7,383,735
Unrestricted	\$55,488,744
- Revenues (By Source)	
Commerical Industries	\$ 8,225,862
Residential	<u>\$35,526,485</u>
Total Operating Revenue	\$43,752,347

DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
Management's Discussion and Analysis (Unaudited)
December 31, 2014

2014 Actual Compared to 2014 Budget Results:

	<i><u>Actual</u></i>	<i><u>Budget</u></i>	<i><u>Difference</u></i>
Total Revenues	\$48,621,322	\$49,067,733	\$446,411 Unfavorable
Total Operating Expense	\$40,445,871	\$39,961,198	\$484,673 Unfavorable

Operating revenue from service charges is \$43,752,347, approximately 2.5% less than the budget of \$44,892,733 due primarily to actual flows/loadings from the Eastern Service Area being less than budget by 12% along with flows from Southern Delaware County Authority being 9% under budget.

Non-operating revenue is greater than budget by \$944,000, due primarily to sludge disposal and processing being \$500,000 over budget and several significant fines being collected due to several violations by customers at the WRTP.

PWD Treatment Costs – actual treatment costs were less than budget by \$2,000,000 due to actual treated flow being less than budget flow by 4.90 MGD, or 12.2%.

Salaries and Wages and Overtime – Actual of \$9,540,000 approximated the budget of \$9,567,000 as a small unfavorable variance in Overtime offset a favorable variance in salaries and wages, as overtime was used to fill in for open positions.

Utilities – Over budget by \$293,000, due primarily to higher than planned usage and price for natural gas, as both incinerators were in operation for much of the year.

Employee Benefits – Over budget by \$225,000. Contributions totaling \$1,150,000 were made to the pension plan in 2014, \$300,000 more than the budgeted amount of \$850,000. 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 to Belt Presses, Holding Tanks, Aeration Systems, Clarifiers and Piping Systems.

DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
Management's Discussion and Analysis (Unaudited)
December 31, 2014

2014 Actual Compared to 2013 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 \$3.82 to \$3.99 per 1,000 gallons (a 4.5% increase) from calendar year 2013 to 2014. Retail Residential customers are Chester City, Chester Township, and the Boroughs of Parkside, Upland, Marcus Hook, Trainer, and Rose Valley. Total operating revenues increased \$1,166,275 from 2013.

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

	2013	% of Total	2014	% of Total	Variance	% Change
PWD Plant Treatment	\$ 9,449,558	25.4%	\$ 9,889,192	24.4%	\$ 439,634	4.6 %
Salary and Wages	\$ 9,439,715	25.4%	\$ 9,540,339	23.6%	\$ 100,624	1.1%
Depreciation/Amortization	\$ 4,918,219	13.2%	\$ 5,088,028	12.6%	\$ 169,809	3.4 %
Utilities	\$ 2,367,508	6.4%	\$ 2,643,834	6.5%	\$ 276,326	11.7%
Employee Benefits	\$ 4,699,784	12.6%	\$ 4,896,567	12.2%	\$ 196,783	4.2%
Repairs and Maintenance	\$ 2,949,574	7.9%	\$ 3,476,320	8.6%	\$ 526,746	17.8%
Engineering	\$ 332,261	0.9%	\$ 387,767	1.0%	\$ 55,506	16.7%
Legal Fees	\$ 248,212	0.7%	\$ 788,427	1.9%	\$ 540,215	217.6 %
Other Operating Expenses	\$2,773,106	7.5%	\$3,735,397	9.2%	\$ 962,291	34.7%
Total Operating Expenses	\$37,177,937	100.0%	\$40,445,871	100.0%	\$ 3,267,934	8.7%

PWD Treatment Costs – 2014 actual treatment costs were higher than 2013 due to a 9.4% increase in flow sent to PWD. In addition \$2,000,000 of PWD expense was accrued to offset future PWD rate increases. This was \$500,000 less than the \$2,500,000 accrued in in 2013, offsetting some of the increase due to the increased flow.

Depreciation – 2014 actual was more than 2013 actual by \$169,809 due to increased capital investments in 2014. Capital investments have been added over the past several years more quickly than older assets are being fully depreciated.

Utilities - were higher in 2014 compared to 2013 by \$276,326 as more natural gas for the incinerator was used in 2014 than 2013 due to both incinerators being in use for much of the year along with a slightly higher natural gas price.

DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
Management's Discussion and Analysis (Unaudited)
December 31, 2014

Employee Benefits – For 2014 employee benefits increased \$196,783, or 4.2%. This was due to a higher pension contribution of \$1,150,000 in 2014 vs. \$1,100,000 in 2013, as well as an increase in employee group health insurance.

Repairs and Maintenance – For 2014, repairs and maintenance were higher than 2013 by \$526,746 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 Aeration Systems, Clarifiers, Belt Presses, Holding Tanks and Piping Systems.

Legal Fees – For 2014, Legal Fees were higher than 2013 by \$540,215. This was the result of significant legal fees incurred as a result of the Chester Long Term Control Plan.

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 decreased by \$7,376,867 to \$9,749,845 in 2014 from 2013. This was due primarily to the timing of the 2012 4th quarter payments from Darby Creek Joint Authority and Muckinipates Authority (\$6,950,000). These payments were received in January of 2013, improving 2013 cash flow. All 2014 invoices were received in 2014.

	<u>2014</u>	<u>2013</u>	<u>Difference</u>
Total operating revenues	\$43,752,347	\$42,586,072	\$ 1,166,275
Net cash provided by operations	\$9,749,845	\$17,126,712	\$ (7,376,867)
Net operating cash as a % of operating revenue	22.3%	40.2%	

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.

2014 Operations

WRTP—Water Quality Performance

- Average Suspended Solids - 10 mg/L for the year
- Average cBOD5 - 6 mg/L for the year
- Average cBOD20 % Removal – 95.5% for the year

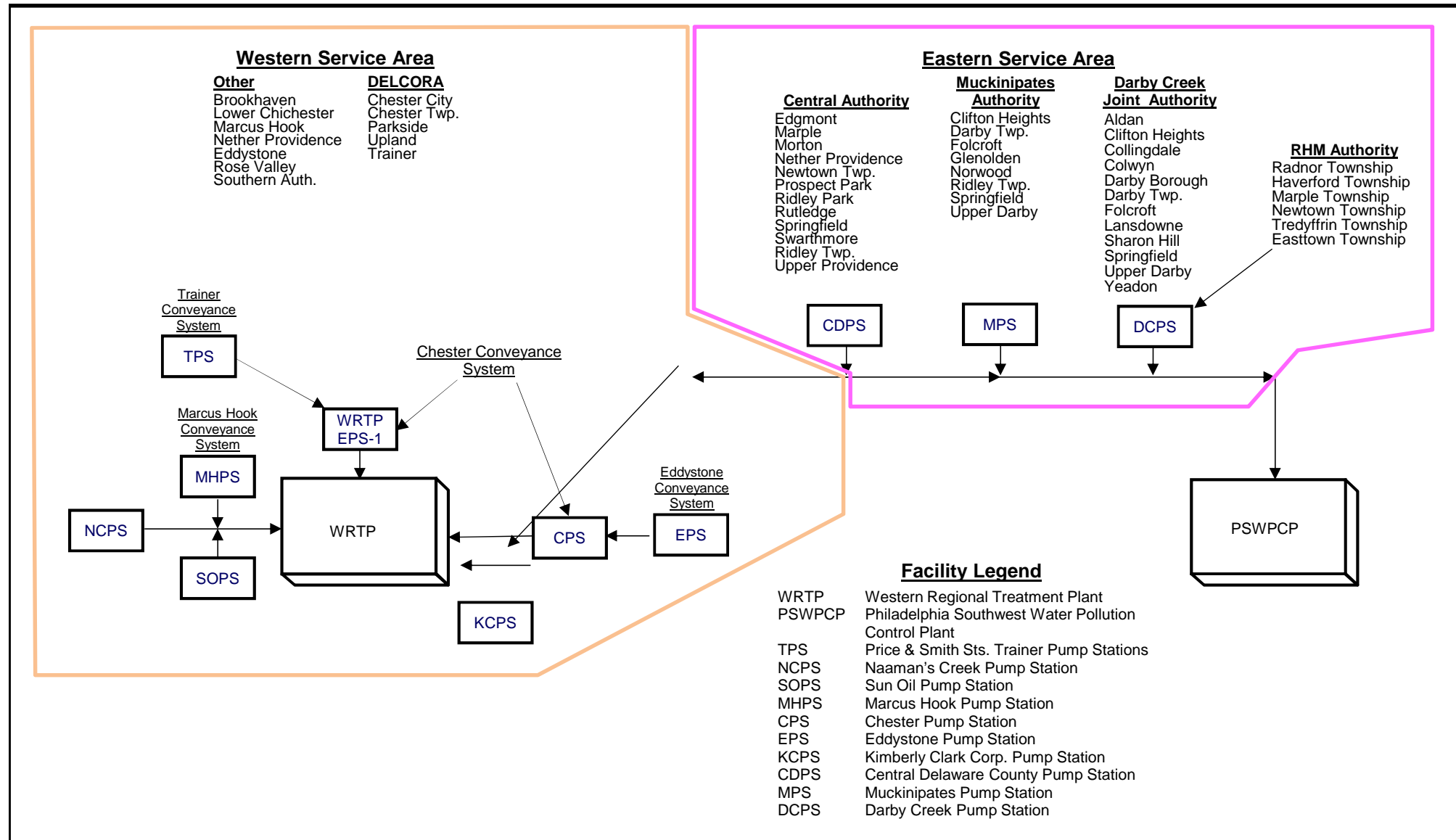
WRTP—Solids Handling Performance

- Average Dry Tons/Day - 54.5 tons for the year
- Average Cake Solids - 27.6 % for the year
- Average Fuel Oil Usage – 6.8 MCF/Dry Ton for the year

Waste Water Conveyed and Treated

- Western Delaware County To WRTP, including 10.01 MGD from CDCA — ~ 31.21 MGD
- Eastern Delaware County To Philadelphia Southwest Treatment Plant— ~25.49 MGD

**DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY**
Management's Discussion and Analysis (Unaudited)
December 31, 2014



Delaware County Regional Water
Quality Control Authority

DELCORA's CONVEYANCE SYSTEM

**DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY**
Statements of Net Position
December 31, 2014 and 2013

<u>ASSETS</u>	<u>2014</u>	<u>2013</u>	<u>LIABILITIES</u>	<u>2014</u>	<u>2013</u>
Current:			Current:		
Cash and Cash Equivalents	\$ 8,240,136	\$ 7,529,622	Accounts Payable and Accrued Expenses	\$ 4,749,366	\$ 3,782,001
Certificates of Deposit with Original Maturities Beyond Three Months	2,062,305	2,052,905	Payable to the City of Philadelphia	703,371	1,256,031
Investments	65,950,422	82,309,304	Current Portion of Long-Term Debt	5,073,632	8,050,972
Receivables:			Accrued Bond Interest Payable	577,547	628,856
Western Region:			Advances on Services:		
Residential, Net of Allowance for Doubtful Accounts			Central Delaware County Authority	130,165	66,776
of \$150,819 and \$464,682 in 2014 and 2013, Respectively	753,235	863,171	Muckinipates Authority	56,880	228,930
Municipal	1,581,531	1,316,568	Darby Creek Joint Authority	941,793	916,989
Major Industries	787,705	279,065	Municipal	77,073	163,176
Permit Industries	284,589	375,875	Major Industries	346,977	82,571
Note Receivable, Current Portion	26,689	25,326	Permit Industries	98,152	80,386
Other Receivables	1,034,229	1,027,409	Residential	20,002	16,740
Prepaid Expenses	634,717	369,327	TOTAL CURRENT LIABILITIES	<u>12,774,958</u>	<u>15,273,428</u>
TOTAL CURRENT ASSETS	<u>81,355,558</u>	<u>96,148,572</u>	Noncurrent:		
Noncurrent:			Long-Term Debt	77,755,316	82,859,937
Capital Assets, Net of Accumulated Depreciation	163,200,336	147,790,287	Payable to the City of Philadelphia (2014 additions of \$2,000,000)	6,000,000	4,000,000
Note Receivable, Net of Current Portion	75,779	102,469	TOTAL NONCURRENT LIABILITIES	<u>83,755,316</u>	<u>86,859,937</u>
Restricted Investments	7,948,623	7,924,167	TOTAL LIABILITIES	<u>96,530,274</u>	<u>102,133,365</u>
TOTAL NONCURRENT ASSETS	<u>171,224,738</u>	<u>155,816,923</u>			
			<u>NET POSITION</u>		
TOTAL ASSETS	252,580,296	251,965,495	Invested in Capital Assets, Net of Related Debt	93,177,543	84,225,075
			Restricted for Debt Service	7,383,735	6,689,777
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			Unrestricted	55,488,744	58,946,661
Deferred Amount on Refunding	<u>0</u>	<u>29,383</u>	TOTAL NET POSITION	<u>156,050,022</u>	<u>149,861,513</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 252,580,296</u>	<u>\$ 251,994,878</u>	TOTAL LIABILITIES AND NET POSITION	<u>\$ 252,580,296</u>	<u>\$ 251,994,878</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, 2014 and 2013

	2014	2013
Operating Revenues:		
Western Region:		
Major Industries	\$ 6,751,251	\$ 7,173,941
Residential	5,569,475	5,345,122
Municipal	4,043,630	3,620,228
Permit Industries	1,474,611	1,376,221
TOTAL WESTERN REGION	17,838,967	17,515,512
Eastern Region:		
Darby Creek Joint Authority	14,907,180	14,314,818
Central Delaware County Authority	7,603,060	7,426,251
Muckinipates Authority	3,403,140	3,329,491
TOTAL EASTERN REGION	25,913,380	25,070,560
TOTAL OPERATING REVENUES	43,752,347	42,586,072
Operating Expenses, Including Depreciation of \$5,088,028 in 2014 and \$4,918,219 in 2013	40,445,871	37,177,937
OPERATING INCOME	3,306,476	5,408,135
Nonoperating Revenues (Expenses):		
Interest Income	288,783	361,859
Sludge Disposal and Processing	3,707,977	3,564,339
Realized and Unrealized Loss on Investments	0	(130,853)
Interest Expense	(1,986,942)	(1,798,458)
Debt Issue Costs	0	(329,939)
Other Income	872,215	652,390
TOTAL NONOPERATING REVENUE	2,882,033	2,319,338
CHANGE IN NET POSITION	6,188,509	7,727,473
Net Position - Beginning	149,861,513	142,134,040
NET POSITION - ENDING	\$ 156,050,022	\$ 149,861,513

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, 2014 and 2013

	2014	2013
Cash Flows From Operating Activities:		
Receipts from Customers	\$ 42,973,980	\$ 46,947,473
Payments to Suppliers	(18,728,719)	(15,615,620)
Payments to Employees	(14,495,416)	(14,205,141)
NET CASH PROVIDED BY OPERATING ACTIVITIES	9,749,845	17,126,712
Cash Flows From Capital and Related Financing Activities:		
Acquisition and Construction of Capital Assets	(17,798,317)	(13,478,965)
Payment of Accounts Payable Incurred for the Purchase of Capital Assets	(1,146,687)	(1,188,312)
Note Payable Proceeds	0	40,963,773
Other Income	872,215	652,390
Sludge Disposal and Processing Revenue	3,707,977	3,564,339
Interest Paid	(3,677,063)	(2,787,240)
Repayment of Long-Term Debt	(7,589,781)	(3,956,284)
Debt Issue Costs	0	(329,939)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(25,631,656)	23,439,762
Cash Flows From Investing Activities:		
Collection of Notes Receivable	25,327	29,848
Decrease (Increase) in Investments	16,334,427	(38,186,761)
Purchase of Certificates of Deposit	(9,400)	(13,242)
Interest Received	241,971	469,896
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	16,592,325	(37,700,259)
NET INCREASE IN CASH AND CASH EQUIVALENTS	710,514	2,866,215
Cash and Cash Equivalents - Beginning	7,529,622	4,663,407
CASH AND CASH EQUIVALENTS - ENDING	\$ 8,240,136	\$ 7,529,622
Non-Cash Capital Financing Activities:		
Accounts Payable Incurred for the Purchase of Capital Assets	\$ 1,523,747	\$ 1,146,687
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities:		
Operating Income	\$ 3,306,476	\$ 5,408,135
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	5,088,028	4,918,219
Provision for Doubtful Accounts	361,436	62,678
Decrease (Increase) in:		
Receivables:		
Residential	(251,502)	(76,230)
Municipal	(264,963)	(166,618)
Major Industries	(508,640)	250,751
Permit Industries	91,286	466,940
Authorities	0	3,470,330
Other Receivables	39,993	(168,497)
Prepaid Expenses	(265,392)	(6,005)
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	590,309	(188,910)
Payable to the City of Philadelphia	1,447,340	2,571,194
Advances on Services	115,474	584,725
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 9,749,845	\$ 17,126,712

The accompanying notes are an integral part of these statements.

DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
Notes to Financial Statements
December 31, 2014 and 2013

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, 2014 and 2013

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 22, 2015, 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, 2014 and 2013

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, 2014 and 2013, the carrying amount of the entity's deposits was \$8,229,349 and \$7,437,320, respectively. As of December 31, 2014 and 2013, the bank balance was \$9,155,820 and \$7,513,451, respectively. As of December 31, 2014 and 2013, the entity had \$2,062,305 and \$2,052,905 in certificates of deposit, respectively. The certificates of deposit mature through June 2016.

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, 2014 and 2013 was \$10,787 and \$92,302, 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, 2014 and 2013 was \$69,897,625 (including certificates of deposit of \$56,059,931 and repurchase agreements of \$1,454,372) and \$75,895,986 (including certificates of deposit of \$44,566,105 and repurchase agreements of \$1,454,372), respectively. Certificates of deposit are held in a PLGIT CD program and are covered in their entirety by federal depository insurance.

At December 31, 2014 and 2013 the entity held investments in U.S. Government and Agency Issues, maturing through 2015, amounting to \$4,001,420 and \$14,337,485, 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, 2014 and 2013

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

	2014	2013
Cash and Cash Equivalents	\$12,321,357	\$20,666,742
Commercial Paper	0	9,185,423
Certificates of Deposit Originally Maturing Beyond Three Months	48,173,274	37,141,952
Repurchase Agreements	1,454,372	1,454,372
U. S. Government and Agency Issues	4,001,419	13,860,815
TOTAL INVESTMENTS	\$65,950,422	\$82,309,304

	2014	2013
Cash and Cash Equivalents	\$ 61,966	\$ 23,344
Certificates of Deposit Originally Maturing Beyond Three Months	7,886,657	7,424,153
U. S. Government and Agency Issues	0	476,670
TOTAL RESTRICTED INVESTMENTS	\$ 7,948,623	\$ 7,924,167

NOTE 4 - Capital Assets

	2014	2013
Western Region Treatment Plant	\$102,625,469	\$97,518,968
Service Lines and Force Mains	75,412,278	67,492,369
Pumping Stations	28,151,101	28,151,101
Machinery and Equipment	3,385,976	3,146,264
Buildings and Improvements	6,522,616	6,522,616
Land and Right of Way	1,349,495	1,349,495
	217,446,935	204,180,813
Less: Accumulated Depreciation	95,256,010	90,167,984
	122,190,925	114,012,829
Construction in Progress	41,009,411	33,777,458
NET CAPITAL ASSETS	\$163,200,336	\$147,790,287

Capital assets at December 31, 2014 and 2013 include capitalized interest of \$18,409,763 and \$16,966,576, respectively, reduced by interest earned on construction fund investments of \$15,524,990 and \$15,257,818, respectively. Interest expense for the years ended December 31, 2014 and 2013 was \$3,162,957 and \$2,399,672, respectively. Interest expense capitalized for the years ended December 31, 2014 and 2013 was \$1,176,015 and \$601,214, respectively.

**DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY**

Notes to Financial Statements
December 31, 2014 and 2013

NOTE 4 - Capital Assets (Continued)

Capital assets activity for the year ended December 31, 2014, is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
		\$		
Western Region Treatment Plant	\$97,518,968	5,106,501	\$ 0	\$102,625,469
Service Lines and Force Mains	67,492,369	7,919,909	0	75,412,278
Pumping Stations	28,151,101	0	0	28,151,101
Machinery and Equipment	3,146,264	239,712	0	3,385,976
Buildings and Improvements	6,522,616	0	0	6,522,616
Land and Right of Way	1,349,495	0	0	1,349,495
	<u>204,180,813</u>	<u>13,266,122</u>	<u>0</u>	<u>217,446,935</u>
Less: Accumulated Depreciation	<u>90,167,984</u>	<u>5,088,026</u>	<u>0</u>	<u>95,256,010</u>
	<u>114,012,829</u>	<u>8,178,096</u>	<u>0</u>	<u>122,190,925</u>
Construction in Progress	<u>33,777,458</u>	<u>7,231,953</u>	<u>0</u>	<u>41,009,411</u>
		\$		
NET CAPITAL ASSETS	<u>\$147,790,287</u>	<u>\$15,410,049</u>	<u>\$ 0</u>	<u>\$163,200,336</u>

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, 2014 and 2013 was \$102,468 and \$127,795, respectively.

NOTE 6 - 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.

DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
Notes to Financial Statements
December 31, 2014 and 2013

NOTE 7 - Long-Term Debt

<u>Series</u>	<u>Interest Rates</u>	<u>Maturity Date</u>	<u>2014</u>	<u>2013</u>
2004	4.00%	May 1, 2014	\$ 0	\$4,530,000
2007	5.25%	May 1, 2025	31,730,000	34,040,000
2013	5.00%	May 1, 2033	34,470,000	34,470,000
TOTAL SEWER REVENUE BONDS			<u>66,200,000</u>	<u>73,040,000</u>

Note Payable - Pennsylvania Infrastructure Investment Authority ("Pennvest"), monthly payments of \$30,227, including interest at 4.017%. The note was collateralized by property.

The loan was paid in full March 2015. The aggregate principal amount of the note was \$5,009,000, of which the Authority had borrowed \$4,758,963 as of December 31, 2014.

1,728,738	2,015,730
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Note Payable - Pennsylvania Infrastructure Investment Authority ("Pennvest"), monthly payments of \$46,168, including interest at 1.061%. 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, 2014.

<u>8,480,698</u>	<u>8,943,488</u>
76,409,436	83,999,218

Issuance Premiums	<u>6,419,512</u>	<u>6,911,691</u>
TOTAL	82,828,948	90,910,909

Less: Current Portion	<u>5,073,632</u>	<u>8,050,972</u>
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LONG-TERM DEBT	<u><u>\$77,755,316</u></u>	<u><u>\$82,859,937</u></u>
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Sewer Revenue Bond interest is payable on May 1st and November 1st.

DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
Notes to Financial Statements
December 31, 2014 and 2013

NOTE 7 - Long-Term Debt (Continued)

Aggregate maturities and required sinking fund payments of long-term debt subsequent to December 31, 2014 are as follows:

Year Ending
December 31,

	Principal	Interest	Principal and Interest	Deferred	Total
2015	\$4,630,067	\$ 3,430,205	\$ 8,060,272	\$ 443,565	\$ 8,503,837
2016	3,036,301	3,276,869	6,313,170	443,565	6,756,735
2017	3,181,326	3,133,506	6,314,832	443,565	6,758,397
2018	4,596,404	2,949,402	7,545,806	443,565	7,989,371
2019	4,821,537	2,722,459	7,543,996	443,565	7,987,561
2020-2024	19,881,611	10,397,775	30,279,386	2,217,825	32,497,211
2025-2029	18,973,387	6,333,644	25,307,031	1,218,891	26,525,922
2030-2033	17,288,803	1,995,137	19,283,940	764,971	20,048,911
TOTAL	\$76,409,436	\$34,238,997	\$110,648,433	\$ 6,419,512	\$117,067,945

The Sewer Revenue Bonds 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, 2014 and 2013

NOTE 7 - Long-Term Debt (Continued)

Long-term debt activity for the year ended December 31, 2014, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Bonds and Notes Payable:				
Sewer Revenue Bonds 2004 Series	\$ 4,530,000	\$ 0	\$(4,530,000)	\$ 0
Sewer Revenue Bonds 2007 Series	34,040,000	0	(2,310,000)	31,730,000
Sewer Revenue Bonds 2013 Series	34,470,000	0	0	34,470,000
Note Payable - Pennvest	2,015,730	0	(286,992)	1,728,738
Note Payable - Pennvest	8,943,488	0	(462,790)	8,480,698
TOTAL	83,999,218	0	(7,589,782)	76,409,436
Deferred Amounts:				
Issuance Premiums	6,911,691	0	(492,179)	6,419,512
LONG-TERM DEBT	<u>\$90,910,909</u>	<u>\$ 0</u>	<u>\$(8,081,961)</u>	<u>\$82,828,948</u>

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 were 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 was stated as a deferred outflow of resources and was amortized over the term of the advance refunding period. In May 2014, the remaining 2004 Series defeased bonds outstanding of \$12,210,000 were redeemed.

NOTE 8 - Commitments and Contingencies

Commitments - DELCORA had construction commitments outstanding at December 31, 2014 of approximately \$9,496,766. 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, 2014 and 2013

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, 2014 and 2013

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 \$1,150,000 and \$1,100,000 for the years ended December 31, 2014 and 2013, 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 \$118,151 and \$113,288 for the years ended December 31, 2014 and 2013, 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
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Notes to Financial Statements
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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.

DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
Supplementary Information
For the Years Ended December 31, 2014 and 2013

SCHEDULES OF OPERATING EXPENSES

	<u>2014</u>	<u>2013</u>
Philadelphia Plant Treatment Costs	\$ 9,889,192	\$ 9,449,558
Salaries and Wages	9,540,339	9,439,715
Depreciation	5,088,028	4,918,219
Utilities	2,643,834	2,367,508
Employee Benefits	4,896,567	4,699,784
Repairs and Maintenance	3,476,320	2,949,574
Insurance	688,414	536,741
Minor Equipment and Supplies	1,034,397	635,659
Solids Disposal	503,196	478,852
Engineering and Tech Services	387,767	332,261
Provision for Doubtful Accounts	361,436	62,678
Other Contracted Services	798,782	786,372
Consulting	146,258	79,109
Solicitor	788,427	248,212
Office	126,904	113,953
Dues and Conferences	57,646	68,628
Advertising	18,364	11,114
	<u> </u>	<u> </u>
TOTAL OPERATING EXPENSES	<u>\$ 40,445,871</u>	<u>\$ 37,177,937</u>

**DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY**

Supplementary Information
For the Year Ended December 31, 2014

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

	Actual 2014	Budget 2014 (Unaudited)	Favorable (Unfavorable) Variances (Unaudited)	Actual 2013
Major Industry:				
Kimberly-Clark	\$ 4,105,928	\$ 3,489,400	\$ 616,528	\$ 4,744,189
Sun Refining and Marketing Co.	2,270,073	2,617,050	(346,977)	2,196,738
Monroe Energy	375,250	168,829	206,421	233,014
	<u>\$ 6,751,251</u>	<u>\$ 6,275,279</u>	<u>\$ 475,972</u>	<u>\$ 7,173,941</u>
TOTAL MAJOR INDUSTRY				
Municipal:				
Nether Providence	\$ 786,408	\$ 734,751	\$ 51,657	\$ 681,169
Brookhaven	530,663	551,574	(20,911)	506,556
Eddystone	322,455	302,220	20,235	348,723
Lower Chichester	362,972	392,886	(29,914)	394,654
Southern Delaware County Authority	1,766,161	1,813,320	(47,159)	1,689,126
South West Delaware County Authority	164,982	0	164,982	0
Middletown Authority	109,989	0	109,989	0
	<u>\$ 4,043,630</u>	<u>\$ 3,794,751</u>	<u>\$ 248,879</u>	<u>\$ 3,620,228</u>
TOTAL MUNICIPAL				
Permit Industries:				
Braskem	\$ 150,219	\$ 187,615	\$ (37,396)	\$ 161,278
Liberty Electric	295,442	249,994	45,448	264,422
The P.Q. Corporation	133,354	133,152	202	118,271
Ace Linen	80,318	58,522	21,796	69,573
Rhodia	43,788	18,642	25,146	38,953
PECO	6,612	6,863	(251)	4,682
Florida Power & Light	392,116	249,516	142,600	424,287
Congoleum	40,577	39,592	985	40,926
Boeing	124,749	113,333	11,416	117,346
Harrah's Casino	48,840	41,555	7,285	44,980
Delaware County Linen	68,353	50,800	17,553	59,880
Other	90,243	0	90,243	31,623
	<u>\$ 1,474,611</u>	<u>\$ 1,149,584</u>	<u>\$ 325,027</u>	<u>\$ 1,376,221</u>
TOTAL PERMIT INDUSTRIES				

DELAWARE COUNTY REGIONAL WATER
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Supplementary Information

December 31, 2014

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>
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>\$ 31,730,000</u>	<u>\$ 8,309,436</u>	<u>\$ 40,039,436</u>

DELAWARE COUNTY REGIONAL WATER
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Supplementary Information

December 31, 2014

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>
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>\$ 24,835,250</u>	<u>\$ 59,305,250</u>

**DELAWARE COUNTY REGIONAL WATER
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Supplementary Information
For the Year Ended December 31, 2014

**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	Kimberly Clark Settlement Fund	Debt Service Reserve Fund	2001 Pennvest Debt Service Fund	2013 Construction Fund	Total
Balances - January 1, 2014	\$ 34,404,838	\$ 1,501,508	\$ 8,847,094	\$ 2,898,650	\$ 3,625,107	\$ 2,368,333	\$ 838,574	\$ 7,924,167	\$ 0	\$ 27,825,200	\$ 90,233,471
Receipts:											
Transfers from Operating Account	0	0	47,493,761	0	0	0	0	0	0	0	47,493,761
Transfers from Other Trust Funds	5,900,000	2,500,000	0	0	8,203,193	240,000	0	0	362,717	0	17,205,910
Loan Proceeds	0	0	0	0	0	0	0	0	0	0	0
Investment Income	99,536	15,104	31,667	4,276	44,361	9,307	76	24,456	0	30,430	259,213
TOTAL RECEIPTS	5,999,536	2,515,104	47,525,428	4,276	8,247,554	249,307	76	24,456	362,717	30,430	64,958,884
Disbursements:											
Requisitions	4,309,736	0	34,399,080	0	0	0	549,419	0	0	13,525,730	52,783,965
Transfers to Other Trust Funds	2,500,000	0	14,705,912	0	0	0	0	0	0	0	17,205,912
Debt Service Payments:											
Principal	0	0	462,790	0	6,840,000	0	0	0	286,991	0	7,589,781
Interest	0	0	87,318	0	3,550,608	0	0	0	75,726	0	3,713,652
TOTAL DISBURSEMENTS	6,809,736	0	49,655,100	0	10,390,608	0	549,419	0	362,717	13,525,730	81,293,310
BALANCES - DECEMBER 31, 2014	\$ 33,594,638	\$ 4,016,612	\$ 6,717,422	\$ 2,902,926	\$ 1,482,053	\$ 2,617,640	\$ 289,231	\$ 7,948,623	\$ 0	\$ 14,329,900	\$ 73,899,045