

**BRISTOL TOWNSHIP SEWER DEPARTMENT
(Component Unit of Bristol Township)
BUCKS COUNTY, PENNSYLVANIA**

FINANCIAL STATEMENTS

FOR THE PERIOD ENDED DECEMBER 31, 2008

BRISTOL TOWNSHIP SEWER DEPARTMENT
(Component Unit of Bristol Township)
FOR THE PERIOD ENDED DECEMBER 31, 2008

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Zelenkofske Axelrod LLC

INDEPENDENT AUDITORS' REPORT

Township Council
Township of Bristol
Bucks County, Pennsylvania

We have audited the accompanying financial statements of the business-type activities of the BRISTOL TOWNSHIP SEWER DEPARTMENT, a component unit of Bristol Township, as of December 31, 2008, the related statement of revenues, expenses and change in net assets and cash flows for the period April 1, 2008 through December 31, 2008. These financial statements are the responsibility of the BRISTOL TOWNSHIP SEWER DEPARTMENT's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the BRISTOL TOWNSHIP SEWER DEPARTMENT, as of December 31, 2008, and the respective changes in financial position and cash flows for the period April 1, 2008 through December 31, 2008 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the BRISTOL TOWNSHIP SEWER DEPARTMENT adopted the provisions of Governmental Accounting Standards Board's Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation", Statement No. 50, "Pension Disclosures", Statement No. 55 "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", and Statement No. 56 "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards".

The management's discussion and analysis on pages 2 through 5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the BRISTOL TOWNSHIP SEWER DEPARTMENT. The Other Supplementary Information on pages 17 and 18 is presented for the purpose of additional analysis and is not a required part of the financial statements. This Other Supplementary Information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Zelenkofske Axelrod LLC

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD FROM APRIL 1, 2008 THROUGH DECEMBER 31, 2008**

The Bristol Township Sewer Department, hereafter referred to as the "Sewer Department", is pleased to present its financial statements developed in compliance with Statement of Governmental Accounting Standard No. 34, entitled "Basic Financial Statements – Management's Discussion and Analysis – For State and Local Governments (hereafter "GASB 34"), and related standards. GASB 34 enhances information provided to the users of its financial statements. This section of the financial reporting package presents our discussion and analysis of the Sewer Department's financial performance for the period from April 1, 2008 through December 31, 2008. Please read it in conjunction with the Sewer Department's financial statements that follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis (MD&A) serves an introduction to, and should be read in conjunction with, the basic audited financial statements and other supplementary information. The MD&A represents management's examination and analysis of the Sewer Department's financial condition and performance. Summary financial statement data and other management tools were used for this analysis.

The financial statements report information about the Sewer Department using the full accrual method of accounting, 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 and other supplementary information.

The **statement of net assets** presents the financial position of the Sewer Department on a full accrual historical cost basis. The statement of net assets presents information on all of the Sewer Department's assets and liabilities, with the difference reported as net assets. Over time, increases and decreases in net assets are one indicator of whether the financial position of the Sewer Department is improving or deteriorating.

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 type activities over the course of the fiscal year and information as to how the net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the Sewer Department's recovery of its costs.

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

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

The **other supplementary information** includes a summary schedule of operating revenues and expenses, budget and actual, and a separate detailed schedule of operating expenses, budget and actual. These schedules present the Sewer Department's actual performance results compared to the corresponding budgetary line items.

FINANCIAL ANALYSIS

The following comparative condensed financial statements and other selected information serve as the key financial data and indicators for management, monitoring and planning. Comments regarding year-to-year variances are included in each section by the name of the statement or account. The December 31, 2008 amounts include only the period from April 1, 2008 through December 31, 2008 and not a full year as a result of the Sewer Department being taken into the Township effective January 1, 2009.

CONDENSED STATEMENT OF NET ASSETS

	December 31	March 31	Variance	
	2008	2008	Dollars	%
Current Assets	\$ 595,434	\$ 1,236,394	\$ (640,960)	(52)%
Capital Assets	515,453	505,252	10,201	2%
Other Assets	148,068	147,371	697	1%
Total Assets	1,258,955	1,889,017	(630,062)	(33)%
Current Liabilities	803,679	759,203	44,476	6%
Long-Term Liabilities	14,720	106,152	(91,432)	(86)%
Total Liabilities	818,399	865,355	(46,956)	(5)%
Net Assets:				
Invested in Capital Assets, Net of Related Debt	368,453	358,252	10,201	3%
Unrestricted	72,103	665,410	(593,307)	(89)%
Total Net Assets	\$440,556	\$ 1,023,662	\$ (583,106)	(57)%

The decrease in assets of \$630,062 and net assets of \$583,106 was the result of an increase in inter authority charges and additional allowance set up for uncollectable receivables. In addition, capital assets increased as a result of capital improvements to the collection system.

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

	December 31 2008	March 31 2008	Variance	
			Dollars	%
OPERATING REVENUES:				
Sewer Revenues	\$ 2,535,953	\$3,199,227	\$ (663,274)	(21)%
Other Revenues	299,990	426,727	(126,737)	(30)%
Total Operating Revenues	<u>2,835,943</u>	<u>3,625,954</u>	<u>(790,011)</u>	<u>(22)%</u>
OPERATING EXPENSES				
Plant	2,432,182	2,944,438	(512,256)	(17)%
Administrative	419,556	230,786	188,770	82%
Depreciation	29,437	35,133	(5,696)	(16)%
Total Operating Expenses	<u>2,881,175</u>	<u>3,210,357</u>	<u>(329,182)</u>	<u>(10)%</u>
OPERATING INCOME (LOSS)	<u>(45,232)</u>	<u>415,597</u>	<u>(460,829)</u>	<u>(111)%</u>
NON-OPERATING EXPENSES	<u>(549,128)</u>	<u>(553,580)</u>	<u>4,452</u>	<u>(1)%</u>
NON-OPERATING REVENUE	<u>11,254</u>	<u>63,872</u>	<u>(52,618)</u>	<u>82%</u>
DECREASE IN NET ASSETS	<u>\$ (583,106)</u>	<u>\$ (74,111)</u>	<u>\$ (508,995)</u>	<u>687%</u>

OPERATING REVENUES:

Operating revenues decreased \$790,011 in 2008 due to changing from a fiscal year end of March 31st to a calendar year end of December 31st, which resulted in only 9 months of revenue verses 12 months of revenue.

OPERATING EXPENSES:

Operating expenses decreased \$329,182 due primarily to 9 month expenses verses 12 month expenses.

NON OPERATING EXPENSES:

Non operating expenses increased by \$4,452 due to an increase in bond interest.

CAPITAL ASSETS

The Sewer Department's investment in capital assets at December 31, 2008, net of accumulated depreciation, was \$515,453. Capital assets consist primarily of office and other equipment, vehicles, and a collection system. The following is a summary of capital assets at December 31, 2008 and March 31, 2008.

Capital Assets at December 31, 2008 and March 31, 2008

	<u>12/31/2008</u>	<u>3/31/2008</u>
Construction in Progress	\$ -	\$ -
Land Improvements	5,970	5,970
Office Equipment	100,063	100,063
Vehicles	97,825	97,825
Equipment	257,062	217,424
Collection System	397,276	397,276
Accumulated Depreciation	<u>(342,743)</u>	<u>(313,306)</u>
Total	<u>\$ 515,453</u>	<u>\$ 505,252</u>

Other detailed information about the Sewer Department's capital assets can be found in Note 7.

LONG TERM DEBT:

At December 31, 2008, the Sewer Department had \$147,000, and \$14,120 of long-term debt outstanding related to notes payable and compensated absences, respectively. The following table details activity related to the long-term debt:

<u>Type</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Note Payable	\$ 147,000	\$ -	\$ -	\$ 147,000
Compensated Absences	106,152	-	(91,432)	14,720
Total Long Term Debt	<u>\$ 253,152</u>	<u>\$ -</u>	<u>\$ (91,432)</u>	<u>\$ 161,720</u>

Other detailed information about the Sewer Department's long term debt can be found in Note 8.

CONTACTING THE TOWNSHIP SEWER DEPARTMENT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, and investors and creditors with a general overview of the Township Sewer Department's finances and to demonstrate the Township Sewer Department's accountability for the money it receives. If you have questions about this report or need additional information, contact the Bristol Township Manager, 2501 Bath Road, Bristol, PA 19007.

BRISTOL TOWNSHIP SEWER DEPARTMENT
 (COMPONENT UNIT OF BRISTOL TOWNSHIP)
 STATEMENT OF NET ASSETS
 DECEMBER 31, 2008

Assets

Current Assets:

Cash	\$ 501,310
Grant Receivable	10,536
Accounts Receivable, Net	<u>83,588</u>

Total Current Assets	<u>595,434</u>
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Noncurrent Assets:

Restricted Cash	97,989
Due from Bristol Township Authority	50,079
Capital Assets, Being Depreciated, Net	<u>515,453</u>

Total Noncurrent Assets	<u>663,521</u>
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Total Assets	<u><u>\$ 1,258,955</u></u>
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Liabilities

Current Liabilities

Accounts Payable	\$ 558,690
Note Payable - Current	147,000
Escheat Liability	5,652
Escrow Deposit	<u>92,337</u>

Total Current Liabilities	<u>803,679</u>
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Noncurrent Liabilities

Compensated Absences	<u>14,720</u>
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Total Noncurrent Liabilities	<u>14,720</u>
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Total Liabilities	<u>\$ 818,399</u>
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Net Assets:

Invested in Capital Assets, Net of Related Debt	\$ 368,453
Unrestricted	<u>72,103</u>

Total Net Assets	<u><u>\$ 440,556</u></u>
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The accompanying notes are an integral part of the financial statements.

BRISTOL TOWNSHIP SEWER DEPARTMENT
 (COMPONENT UNIT OF BRISTOL TOWNSHIP)
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 FOR THE PERIOD APRIL 1, 2008 THROUGH DECEMBER 31, 2008

Operating Revenues:

Sewer Revenue	
Residential	\$ 1,432,154
Commercial	363,171
Apartments	512,111
Institutions	228,517
Penalties and Interest	130,038
Intergovernmental	132,260
Permits and Certifications	25,430
Reimbursements	<u>12,262</u>
Total Operating Revenues	<u>2,835,943</u>

Operating Expenses:

Plant	2,432,182
Administrative	419,556
Depreciation	<u>29,437</u>
Total Operating Expenses	<u>2,881,175</u>

Operating Loss (45,232)

Non-Operating Revenues (Expenses)

Interest Income	11,254
Lease Payments	<u>(549,128)</u>
Total Non-Operating Expenses	<u>(537,874)</u>

Change in Net Assets (583,106)

Total Net Assets - Beginning 1,023,662

Total Net Assets - Ending \$ 440,556

BRISTOL TOWNSHIP SEWER DEPARTMENT
(COMPONENT UNIT OF BRISTOL TOWNSHIP)
STATEMENT OF CASH FLOWS
FOR THE PERIOD APRIL 1, 2008 THROUGH DECEMBER 31, 2008

Cash Flows from Operating Activities:	
Receipts from Customers	\$ 2,650,881
Receipts from Permits and Fees	37,692
Receipts from Other Governments	121,724
Payments for materials and supplies	(2,225,090)
Payments for Salaries and Employee Benefits	(673,604)
Payments to other governments	<u>549,128</u>
Net Cash Provided by Operating Activities	<u>460,731</u>
Cash Flows from Non-capital Financing Activities	
Lease Payments	<u>(549,128)</u>
Net Cash Used In Non-capital Financing Activities	<u>(549,128)</u>
Cash Flows from Capital and Related Financing Activities:	
Purchase of Capital Assets	<u>(39,638)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(39,638)</u>
Cash Flows from Investing Activities:	
Interest Income	<u>11,254</u>
Net Cash Provided by Investing Activities	<u>11,254</u>
Net Decrease in Cash	(116,781)
Balance - Beginning of Year	<u>716,080</u>
Balance- End of Year	<u><u>\$ 599,299</u></u>
Displayed as:	
Cash	\$ 501,310
Restricted Cash	<u>97,989</u>
	<u><u>\$ 599,299</u></u>
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:	
Operating Loss	\$ (45,232)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation Expense	29,437
Change in Assets and Liabilities	
Accounts Receivable, Net	(25,646)
Prepaid Lease Expense	549,128
Accounts Payable	72,496
Accrued Liabilities	-
Compensated Absences	(120,149)
Escheats	-
Escrow Deposits	<u>697</u>
Net Cash Provided by Operating Activities	<u><u>\$ 460,731</u></u>

The accompanying notes are an integral part of the financial statements.

BRISTOL TOWNSHIP SEWER DEPARTMENT
(COMPONENT UNIT OF BRISTOL TOWNSHIP)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE PERIOD APRIL 1, 2008 THROUGH DECEMBER 31, 2008

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Bristol Township Sewer Department (the Sewer Department) maintains and operates a Sewage Treatment Plant and Collection System (the Sewer System) that serves the Township of Bristol (Township), under a lease dated November 1, 1984. The Sewer System is owned by the Bristol Township Authority (the Authority). The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units as prescribed by the Governmental Accounting Standards Board (GASB).

Under a management agreement dated November 1, 1984, the Authority was engaged to manage the Sewer System for the Township. On September 15, 1995, the Township terminated the management agreement and reassumed full control of the Sewer System. In addition, effective January 1, 2009 the Sewer Department was taken over by the Township and established as a separate enterprise fund of the Township.

A summary of the Sewer Department's significant accounting policies are as follows:

A. Reporting Entity

For the period April 1, 2008 through December 31, 2008 the Sewer Department was a separate entity and therefore adopted the provisions of Section 2100 of the Codification of Governmental Accounting and Financial Reporting Standards, for the criteria used to evaluate organizations, activities and functions that should be included in the Sewer Department's financial statements. The basic criteria used are the exercise of "oversight responsibility" over such organizations, activities and functions.

The Sewer Department has not identified any entities which should be subject to evaluation for inclusion in the Sewer Department's reporting entity. Because the Sewer Department maintains and operates the Sewer System of the Township, the Sewer Department has been evaluated under the aforementioned criteria for the inclusion in the reporting entity of the Township. The Township includes the Sewer Department in the financial statements as a component unit since the Sewer Department meets the criteria satisfying inclusion in the Township's financial statements.

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Sewer Department's financial statements are presented on the full accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Sewer Department applies Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, and the Accounting Principles Board (APB) of the Committee of Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

All activity of the Sewer Department is accounted for within one proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be 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.

BRISTOL TOWNSHIP SEWER DEPARTMENT
(COMPONENT UNIT OF BRISTOL TOWNSHIP)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE PERIOD APRIL 1, 2008 THROUGH DECEMBER 31, 2008

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation
(Continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing and producing and delivering goods in connection with a proprietary's funds, principle ongoing operations. The principle operating revenues of the Sewer Department are charges to customers for sales and services. Operating expenses of the Sewer Department include plant operations, administration expenses and depreciation on capital assets. All revenues and expenses not meeting the definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the Sewer Department's policy to use restricted resources first, then unrestricted resources as they are needed.

The accounting and financial reporting treatment applied to the Sewer Department is determined by its measurement focus. The transactions of the Sewer Department are accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flow. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net assets (i.e., total assets net of total liabilities) are segregated into "invested in capital assets" and "unrestricted" components.

C. Cash

Cash, for the purposes of the statement of cash flows, include restricted cash on hand or on deposit with a maturity of three months or less.

D. Accounts Receivable

The Sewer Department evaluates the collectibility of individual receivables and, if necessary, records an allowance for doubtful accounts. At December 31, 2008, \$679,084 is provided for such doubtful receivables at year end. The Sewer Department's policy is to file a lien against the respective property for delinquent sewer customers; however, the Sewer Department is required to provide continuous service to these customers.

E. Capital Assets

Capital assets of the Sewer Department include office equipment and vehicles and are reported in the financial statements at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Capital assets are defined by the Sewer Department as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized.

BRISTOL TOWNSHIP SEWER DEPARTMENT
 (COMPONENT UNIT OF BRISTOL TOWNSHIP)
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 FOR THE PERIOD APRIL 1, 2008 THROUGH DECEMBER 31, 2008

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
 (CONTINUED)

E. Capital Assets (continued):

Property, plant, and equipment of the Sewer Department are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land Improvements	5
Office and other Equipment	5 – 20
Vehicles	3 – 10
Computer Equipment	3 – 5
Collection System	10 - 50

F. Compensated Absences

Employee's vacation time not taken at year end accrues and must be taken within the next nine months. If the employee terminates within the nine month period, accrued vacation is due to the employee. Employees' may accrue up to 150 days of sick leave and will be paid 50% of the accrued sick leave at time of termination up to a maximum of \$5,000 if the employee has 10 years of service and a maximum of \$7,500 if the employee has 20 years of service.

G. Use of Estimates

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

H. Restricted Cash

Restricted cash represents amounts paid by a property owner that are held in an escrow account for the purpose of sewer hookup and unclaimed monies to be remitted to the state.

I. Adoption of Governmental Accounting Standards Board Statements

The Sewer Fund adopted the provisions of GASB Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation", Statement No. 50, "Pension Disclosures", Statement No. 55 "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", and Statement No. 56, "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards". The adoption of these statements had no effect on previously reported amounts.

BRISTOL TOWNSHIP SEWER DEPARTMENT
 (COMPONENT UNIT OF BRISTOL TOWNSHIP)
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 FOR THE PERIOD APRIL 1, 2008 THROUGH DECEMBER 31, 2008

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
 (CONTINUED)

J. Pending Changes in Accounting Principles

In 2004 the GASB issued Statement No. 45, "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*". The Sewer Department is required to adopt Statement No. 45 for its 2009 financial statements.

In 2007 the GASB issued Statement No. 51, "*Accounting and Financial Reporting for Intangible Assets*". The Sewer Department is required to adopt Statement No. 51 for its 2010 financial statements.

In November 2007 the GASB issued Statement No. 52, "*Land and Other Real Estate Held as Investments by Endowments*". The Sewer Department is required to adopt Statement No. 52 for its calendar year 2009 financial statements.

In June 2008 the GASB issued Statement No. 53, "*Accounting and Financial Reporting for Derivative Instruments*". The Sewer Department is required to adopt Statement No. 53 for its calendar year 2010 financial statements.

In March 2009 the GASB issued Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*". The Sewer Department is required to adopt Statement No. 54 for its calendar year 2011 financial statements.

The Sewer Department has not yet completed the analysis required to estimate the financial statement impact of these new pronouncements.

NOTE 2: CASH

The Sewer Department's cash, both restricted and unrestricted, is shown below.

<u>Book Balance</u>	<u>Bank Balance</u>
<u>\$599,299</u>	<u>\$653,313</u>

Custodial Credit Risk. For deposits, custodial credit risk is the risk that in the event of the failure of the counterparty, the Sewer Department, will not be able to recover the value of its deposits or collateral securities that are in the possession of an outside party. At December 31, 2008, \$368,217 of the Sewer Department's deposits was exposed to custodial credit risk. The Sewer Department does not have a formal policy related to custodial credit risk.

BRISTOL TOWNSHIP SEWER DEPARTMENT
(COMPONENT UNIT OF BRISTOL TOWNSHIP)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE PERIOD APRIL 1, 2008 THROUGH DECEMBER 31, 2008

NOTE 3: RELATED PARTY TRANSACTIONS

The amount due from the Bristol Township Authority at December 31, 2008, in the amount of \$50,079, represents various expenses paid by the Sewer Department for the Bristol Township Authority that are to be repaid.

NOTE 4: PENSION PLAN

The Sewer Department provides a defined contribution pension plan for eligible full-time employees. Members are required to contribute an amount equal to 1% of compensation but may elect to contribute an amount in excess of the required 1% up to a maximum of 10% of compensation. The Sewer Department contributes on behalf of each member, on a quarterly basis, a maximum of 5% of each member's compensation. The contribution of the Sewer Department shall be equal to the contribution of the member up to 4% of compensation plus 1%. The Sewer Department and employee contributions to the plan were \$17,321 and \$25,089, respectively, for the period from April 1, 2008 through December 31, 2008.

NOTE 5: SEWER SYSTEM LEASE

The Authority leases the operation and maintenance of the Sewer System to the Township under a lease agreement dated November 1, 1984 and the First Supplemental Agreement of Lease dated July 1, 1985 and the Second Supplemental Agreement of Lease dated April 1, 1993, and the Third Supplemental Agreement of Lease dated April 1, 2005. The lease calls for fixed rentals, net of interest collected on funds held by the trustee for bonds issued by the Authority, to be paid to the Authority until sufficient funds become available in the Authority's segregated trust funds to meet the full debt service (principal and interest) or redemption price of the Authority's outstanding revenue bonds secured by the trust indentures. As lessee, the Township is responsible for all care, maintenance and improvements of the leased property.

Upon expiration of the lease, the leased property reverts to the Authority, which may then convey the property to the Township. Under the lease terms, the Township agrees to pay the Authority, from its Sewer Revenue account (the Sewer Department), annual rents, payable in two installments on or before April 1 and October 1 of each lease year, through April 1, 2009. Interest collected on funds held by the Authority's bond trustee may be credited against the next lease rental at the Township's request.

Future minimum payments under the Sewer System lease are:

<u>Year Ending December 31,</u>	<u>Amount</u>
2009	\$ 569,342
	<u>\$ 569,342</u>

BRISTOL TOWNSHIP SEWER DEPARTMENT
(COMPONENT UNIT OF BRISTOL TOWNSHIP)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE PERIOD APRIL 1, 2008 THROUGH DECEMBER 31, 2008

NOTE 6: INTERAUTHORITY TREATMENT SERVICES

The Sewer Department, together with the Bristol Authority, has separate agreements with four other municipal authorities, which provide for the treatment by these authorities of a portion of the wastewater collected by the Bristol Authority. These agreements expire between 2004 and 2012. For the period from April 1, 2008 through December 31, 2008, the Sewer Department's expense for treatment services under these agreements was \$1,270,938.

NOTE 7: CAPITAL ASSETS

Capital assets activity for the period from April 1, 2008 through December 31, 2008 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets, Not Being Depreciated				
Construction in Progress	\$ -	\$ -	\$ -	\$ -
Total Capital Assets, Not Being Depreciated	-	-	-	-
Capital Assets, Being Depreciated				
Land Improvements	5,970	-	-	5,970
Office Equipment	100,063	-	-	100,063
Vehicles	97,825	-	-	97,825
Equipment	217,424	39,638	-	257,062
Collection System	397,276	-	-	397,276
Total Capital Assets, Being Depreciated	818,558	39,638	-	858,196
<u>Less Accumulated Depreciation for:</u>				
Land Improvements	(1,891)	(896)	-	(2,787)
Office Equipment	(90,851)	(628)	-	(91,479)
Vehicles	(89,274)	(3,207)	-	(92,481)
Equipment	(71,627)	(16,726)	-	(88,353)
Collection System	(59,663)	(7,980)	-	(67,643)
Total Accumulated Depreciation	(313,306)	(29,437)	-	(342,743)
Total Capital Assets, Being Depreciated, Net	505,252	10,201	-	515,453
Total Capital Assets, Net	\$ 505,252	10,201	-	\$ 515,453

NOTE 8: LONG-TERM OBLIGATIONS

During 2004, the Sewer Department entered into a note payable agreement with Bristol Township in order to reimburse Bristol Township for expenses paid on the Palmer Avenue Project. The note is non-interest bearing and payable in installments of \$50,000 per year through 2006 and \$47,000 in April of 2007. The Sewer Department is delinquent in its payments and the outstanding payments on the note are as follows:

<u>Year</u>	<u>Amount</u>
Current Portion	\$147,000

BRISTOL TOWNSHIP SEWER DEPARTMENT
 (COMPONENT UNIT OF BRISTOL TOWNSHIP)
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 FOR THE PERIOD APRIL 1, 2008 THROUGH DECEMBER 31, 2008

NOTE 8: LONG-TERM OBLIGATIONS (CONTINUED)

A summary of changes in long-term debt obligations is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Note Payable	\$ 147,000	\$ -	\$ -	\$ 147,000	\$ 147,000
Compensated Absences	106,152	-	(91,432)	14,720	-
Total long term debt	<u>\$ 253,152</u>	<u>\$ -</u>	<u>\$ (91,432)</u>	<u>\$ 161,720</u>	<u>\$ 147,000</u>

NOTE 9: CONTINGENCIES

The Department has received a Consent Decree from the Environmental Protection Agency ("EPA") pertaining to the operations and record keeping at the Sewage Plant regarding alleged violations of State and Federal regulations. The proposed Consent Decree includes payment of a civil penalty in the amount of \$800,000 and the EPA's attorney has advised the Department that the amount and payment schedule of the penalty is negotiable. At this time, the Department cannot estimate the ultimate liability related to the outcome of the violation.

Two former employees of the Department are seeking to be reinstated and be paid back pay from the time they were terminated. The Department approximates the loss related to these two claims to be \$26,802. At this time, the Department cannot estimate the ultimate liability related to the outcome of these cases.

NOTE 10: SUBSEQUENT EVENT

On January 1, 2009 the Sewer Department will be established as a separate enterprise fund in the Township's Financial Statements.

OTHER
SUPPLEMENTARY
INFORMATION

BRISTOL TOWNSHIP SEWER DEPARTMENT
 (COMPONENT UNIT OF BRISTOL TOWNSHIP)
 SCHEDULE OF REVENUES AND EXPENSES AND CHANGES IN FUND NET ASSETS
 BUDGET AND ACTUAL
 FOR THE PERIOD APRIL 1, 2008 THROUGH DECEMBER 31, 2008

	Original Budget Amounts	Final Budget Amounts	Actual Amounts	Variance With Final Budget Positive (Negative)
Operating Revenues:				
Sewer Revenues				
Residential	\$ 1,411,749	\$ 1,411,749	\$ 1,432,154	\$ 20,405
Commercial	563,760	563,760	363,171	(200,589)
Apartments	512,297	512,297	512,111	(186)
Institutions	270,975	270,975	228,517	(42,458)
Interest and Penalties	102,264	102,264	130,038	27,774
Permits and Certifications	41,425	41,425	25,430	(15,995)
Intergovernmental	311,340	311,340	132,260	(179,080)
Industrial Strength Surcharges	9,375	9,375	-	(9,375)
Reimbursements	5,800	5,800	12,262	6,462
	<u>3,228,985</u>	<u>3,228,985</u>	<u>2,835,943</u>	<u>(393,042)</u>
Total Operating Revenues				
Operating Expenses:				
Plant	2,647,751	2,647,751	2,432,182	215,569
Administrative	376,445	376,445	419,556	(43,111)
Depreciation	24,075	24,075	29,437	(5,362)
	<u>3,048,271</u>	<u>3,048,271</u>	<u>2,881,175</u>	<u>167,096</u>
Total Operating Expenses				
Operating Income (Loss)	<u>180,714</u>	<u>180,714</u>	<u>(45,232)</u>	<u>(225,946)</u>
Non-Operating Revenues (Expenses)				
Interest	31,140	31,140	11,254	(19,886)
Lease Payments	(559,470)	(559,470)	(549,128)	10,342
Total Non-Operating Expenses	<u>(528,330)</u>	<u>(528,330)</u>	<u>(537,874)</u>	<u>(9,544)</u>
Change in Net Assets	<u>\$ (347,616)</u>	<u>\$ (347,616)</u>	<u>\$ (583,106)</u>	<u>\$ (235,490)</u>

BRISTOL TOWNSHIP SEWER DEPARTMENT
 (COMPONENT UNIT OF BRISTOL TOWNSHIP)
 SCHEDULE OF OPERATING EXPENSES
 BUDGET AND ACTUAL
 FOR THE PERIOD APRIL 1, 2008 THROUGH DECEMBER 31, 2008

	Final Budget <u>Amounts</u>	Actual <u>Amounts</u>	Variance <u>Positive/(Negative)</u>
Plant Expenses:			
Salaries	\$ 365,740	\$ 311,253	\$ 54,487
Employee benefits	185,895	138,010	47,885
Dues & Conference Expense	3,000	1,519	1,481
Contracted Maintenance Services	115,700	166,081	(50,381)
Laboratory Services	20,670	39,752	(19,082)
Supplies and Equipment	90,000	53,798	36,202
Sludge Disposal	31,700	38,907	(7,207)
Industrial Waste	500	-	500
Inter-Authority Treatment	1,075,950	1,270,938	(194,988)
Telephone	9,590	2,638	6,952
Water	15,790	28,060	(12,270)
Chemical Supplies	24,950	28,666	(3,716)
Electric	101,840	113,497	(11,657)
Oil	9,250	11,755	(2,505)
Uniforms	6,120	3,474	2,646
Professional Services	61,770	43,374	18,396
Insurances	70,896	138,730	(67,834)
Automobile Expense	5,510	5,774	(264)
Equipment Rental	1,880	14,801	(12,921)
Sewer Blockage Expense	5,500	-	5,500
Capital	440,000	12,619	427,381
Miscellaneous	5,500	8,536	(3,036)
Total Plant Expenses	<u>2,647,751</u>	<u>2,432,182</u>	<u>215,569</u>
Administrative Expenses:			
Salaries	63,685	67,340	(3,655)
Employee Benefits	40,300	36,852	3,448
Office Supplies	1,130	1,283	(153)
Telephone	-	7,130	(7,130)
Postage	6,510	8,063	(1,553)
Printing	1,500	2,511	(1,011)
Equipment Maintenance	500	-	500
Legal	17,500	12,180	5,320
Accounting	23,000	40,846	(17,846)
Contracted Maintenance	2,250	30,515	(28,265)
Dues & Subscriptions	640	1,412	(772)
Travel	250	-	250
Advertising	1,900	10	1,890
Bad Debt Expense	18,750	206,797	(188,047)
Lien Cost	100	-	100
Board Members	1,530	-	1,530
Capital	41,350	12,394	28,956
Bank Service Charge	550	2,523	(1,973)
Casino Grant	-	109,749	(109,749)
Palmer Ave Payment	50,000	-	50,000
Act 537 Plan	55,000	-	55,000
Recovery of PY Expenditures	-	(120,149)	120,149
Miscellaneous	50,000	100	49,900
Total Administrative Expenses	<u>376,445</u>	<u>419,556</u>	<u>(43,111)</u>
Depreciation	24,075	29,437	(5,362)
Total Operating Expenses	<u>\$ 3,048,271</u>	<u>\$ 2,881,175</u>	<u>\$ 167,096</u>