

**EASTTOWN MUNICIPAL AUTHORITY
(A Component Unit of Easttown Township)**

ANNUAL FINANCIAL REPORT

Year Ended December 31, 2015



Certified Public Accountants and Business Consultants

INTRODUCTORY SECTION

EASTTOWN MUNICIPAL AUTHORITY
(A Component Unit of Easttown Township)

TABLE OF CONTENTS
YEAR ENDED DECEMBER 31, 2015

	Page
Introductory Section	
Table of Contents	1
Financial Section	
Independent Auditors' Report	2
Management's Discussion and Analysis (Unaudited)	4
Basic Financial Statements	
Statement of Assets, Liabilities and Net Position--Modified Cash Basis	8
Statement of Revenues, Expenses and Changes in Net Position--Modified Cash Basis	9
Statement of Cash Flows--Modified Cash Basis	10
Notes to the Basic Financial Statements	11

FINANCIAL SECTION

Independent Auditors' Report

To the Members
Easttown Municipal Authority
Devon, Pennsylvania

We have audited the accompanying financial statements of the Easttown Municipal Authority (a component unit of Easttown Township), which comprise the statement of assets, liabilities and net position--modified cash basis as of December 31, 2015, and the related statements of revenues, expenses and changes in net position--modified cash basis and cash flows--modified cash basis for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Easttown Municipal Authority's management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note B; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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.

To the Members
Easttown Municipal Authority
Devon, Pennsylvania

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and net position of the Easttown Municipal Authority as of December 31, 2015, and its revenues and expenses during the year then ended in accordance with the modified cash basis of accounting described in Note B.

Basis of Accounting

We draw attention to Note B of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 7 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.

Maillie LLP

West Chester, Pennsylvania
July 29, 2016

EASTTOWN MUNICIPAL AUTHORITY
(A Component Unit of Easttown Township)
 MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
 YEAR ENDED DECEMBER 31, 2015

The management of the Easttown Municipal Authority offers the readers of the Authority's basic financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended December 31, 2015. We encourage readers to consider the information presented here in conjunction with additional information that can be found in the Authority's basic financial statements in the financial section of this report.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements are comprised of two components: (1) financial statements and (2) notes to the basic financial statements.

Components of the Annual Financial Report

Management's Discussion and..... Analysis	Basic Financial Statements.....	Notes to the Basic Financial Statements
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Basic Financial Statements

The basic financial statements are comprised of the statement of assets, liabilities and net position--modified cash basis and the statement of revenues, expenses and changes in net position--modified cash basis. These statements are designed to provide readers with a broad overview of the Authority's finances utilizing the modified cash basis of accounting.

The statement of assets, liabilities and net position--modified cash basis presents information on all the Authority's assets and liabilities, including capital assets and long-term liabilities, with the difference between the two reported as net position. Over time, the increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority as a whole is improving or deteriorating.

The statement of revenues, expenses and changes in net position--modified cash basis presents information showing how the Authority's net position changed during the most recent fiscal year.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements are found in the following pages of this report.

EASTTOWN MUNICIPAL AUTHORITY
(A Component Unit of Easttown Township)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2015

Basis of Accounting

The Authority has elected to present its financial statements on a modified cash basis of accounting. The modified cash basis is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses and their related assets and liabilities. Under the Authority's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from cash transactions, except for the recording of depreciation and amortization expense on capital assets and deferred charges in the basic financial statements.

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

The analysis below focuses on net position and changes in net position of the Authority's business-type activities.

Condensed Statements of Net Position--Modified Cash Basis
December 31, 2015 and 2014

	December 31,		Variance	
	2015	2014	Amount Increase (Decrease)	%
ASSETS				
Cash	\$ 4,015,250	\$ 4,265,559	\$ (250,309)	-5.87%
Capital assets, net	12,239,852	12,669,974	(430,122)	-3.39%
Bond discounts, net	250,378	264,827	(14,449)	-5.46%
TOTAL ASSETS	<u>16,505,480</u>	<u>17,200,360</u>	<u>(694,880)</u>	-4.04%
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding, net	<u>146,413</u>	<u>159,767</u>	<u>(13,354)</u>	-8.36%
LIABILITIES				
Bonds payable	<u>21,484,173</u>	<u>21,980,771</u>	<u>(496,598)</u>	-2.26%
NET POSITION				
Net investment in capital assets	(6,853,294)	(6,574,181)	(279,113)	-4.25%
Unrestricted	<u>2,021,014</u>	<u>1,953,537</u>	<u>67,477</u>	3.45%
TOTAL NET POSITION	<u>\$ (4,832,280)</u>	<u>\$ (4,620,644)</u>	<u>\$ (211,636)</u>	-4.58%

EASTTOWN MUNICIPAL AUTHORITY
(A Component Unit of Easttown Township)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2015

**Condensed Statements of Revenues, Expenses and
Changes in Net Position--Modified Cash Basis
Years Ended December 31, 2015 and 2014**

	December 31,		Variance	
	<u>2015</u>	<u>2014</u>	Amount Increase (Decrease)	%
OPERATING REVENUES				
Sewer lease	\$ 1,155,705	\$ 1,434,341	\$ (278,636)	-19.43%
Sewer rents and fees	<u>42,640</u>	<u>70,638</u>	<u>(27,998)</u>	-39.64%
TOTAL OPERATING REVENUES	<u>1,198,345</u>	<u>1,504,979</u>	<u>(306,634)</u>	-20.37%
OPERATING EXPENSES				
Administrative expenses	9,735	5,000	4,735	94.70%
Sewer system upgrades	51,294	60,707	(9,413)	-15.51%
Depreciation and amortization	<u>773,044</u>	<u>763,557</u>	<u>9,487</u>	1.24%
TOTAL OPERATING EXPENSES	<u>834,073</u>	<u>829,264</u>	<u>4,809</u>	0.58%
OPERATING INCOME	364,272	675,715	(311,443)	-46.09%
NONOPERATING EXPENSES	<u>(622,408)</u>	<u>(946,249)</u>	<u>323,841</u>	34.22%
LOSS BEFORE TRANSFER	(258,136)	(270,534)	12,398	4.58%
TRANSFER FROM EASTTOWN TOWNSHIP	<u>46,500</u>	<u>63,000</u>	<u>(16,500)</u>	-26.19%
CHANGE IN NET POSITION	(211,636)	(207,534)	<u>\$ (4,102)</u>	-1.98%
NET POSITION AT BEGINNING OF YEAR, restated in 2014	<u>(4,620,644)</u>	<u>(4,413,110)</u>		
NET POSITION AT END OF YEAR	<u>\$ (4,832,280)</u>	<u>\$ (4,620,644)</u>		

EASTTOWN MUNICIPAL AUTHORITY
(A Component Unit of Easttown Township)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2015

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

During 2015 there was continued progress in implementing a multi-year capital plan for the sanitary sewer system to address operational and capacity issues.

During 2015, design and permitting were in their final stages.

- Sharp's Wood gravity main and replacement project – Final design and permitting phase is near completion. Preparation to publically bid in the 2nd Qtr. 2016.

Construction began.

- Daylesford Pump Station upgrade and retrofit – A notice to proceed with construction was given to the general and electrical contractors on October 22, 2016. Substantial completion is June 18, 2016. Final completion is July 23, 2016.

Construction was completed on the following projects during 2015.

- Daylesford Pump Station upgrade and retrofit was the only capital project under construction and will be completed in 2016.

Also, during the year, aggressive inflow and infiltration (I&I) work continued. Due to this multi-year effort, flows continue to stay at historic lows from 304 EDU (GPD) to 261 EDU (GPD) in 2015.

The Valley Creek Trunk Sewer (VCTS) system's operating cost for year ending 2015 was \$228,079. A capital expenditure of \$720,548 was made in January 2016 for a December 2015 invoice.

The Wilson Road Force Main (WRFM) Emergency Rehab Project began construction late 2015.

The Valley Forge Sewer Authority has completed 90% of the WWTP Upgrade and Improvement Project 2013, of which Easttown Township's pay requisitions of \$661,403, as of November 30, 2015, out of a total project contribution of \$738,000, is 5.5% of the total project cost. Easttown Township is a partner Municipality in both projects. The VCTS and VFSA project are vital to the Township's needs to alleviate capacity constraints.

The continuing improvements to the Township's own sewer conveyance system, along with the partner Municipality conveyance and treatment facilities improvements, capacity continued to become available for distribution and reserve in 2015.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This report is designed to provide a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Gary Bernhard, Authority's Administrator, at 566 Beaumont Road, Devon, Pa 19333 or telephone at 610-687-3000 ext. 114.

EASTTOWN MUNICIPAL AUTHORITY
(A Component Unit of Easttown Township)
STATEMENT OF ASSETS, LIABILITIES AND NET
POSITION--MODIFIED CASH BASIS
DECEMBER 31, 2015

ASSETS	
Cash	\$ 4,015,250
Capital assets, net	12,239,852
Bond discounts, net	250,378
TOTAL ASSETS	<u>16,505,480</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding, net	<u>146,413</u>
LIABILITIES	
Portion due or payable within one year	
Bonds payable	755,000
Portion due or payable after one year	
Bonds payable	20,650,000
Bond premium, net	79,173
TOTAL LIABILITIES	<u>21,484,173</u>
NET POSITION	
Net investment in capital assets	(6,853,294)
Unrestricted	<u>2,021,014</u>
TOTAL NET POSITION	<u>\$ (4,832,280)</u>

See accompanying notes to the basic financial statements.

EASTTOWN MUNICIPAL AUTHORITY
(A Component Unit of Easttown Township)
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET POSITION--MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2015

OPERATING REVENUES	
Sewer rents and fees	\$ 42,640
Sewer lease	<u>1,155,705</u>
TOTAL OPERATING REVENUES	<u>1,198,345</u>
OPERATING EXPENSES	
Administrative expenses	9,735
Sewer system upgrades	51,294
Depreciation and amortization	<u>773,044</u>
TOTAL OPERATING EXPENSES	<u>834,073</u>
OPERATING INCOME	<u>364,272</u>
NONOPERATING REVENUES (EXPENSES)	
Investment income	576
Interest expense	<u>(622,984)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(622,408)</u>
LOSS BEFORE TRANSFER	(258,136)
TRANSFER FROM EASTTOWN TOWNSHIP	<u>46,500</u>
CHANGE IN NET POSITION	(211,636)
NET POSITION AT BEGINNING OF YEAR	<u>(4,620,644)</u>
NET POSITION AT END OF YEAR	<u>\$ (4,832,280)</u>

See accompanying notes to the basic financial statements.

EASTTOWN MUNICIPAL AUTHORITY
(A Component Unit of Easttown Township)
STATEMENT OF CASH FLOWS--MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from rental and tapping fees	\$ 1,198,345
Payments to suppliers	(61,029)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,137,316</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfer from Easttown Township	<u>46,500</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Interest paid on capital debt	(622,984)
Acquisition, construction and improvement of capital assets	(321,717)
Principal paid on bonds	(490,000)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(1,434,701)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	<u>576</u>
NET DECREASE IN CASH	(250,309)
CASH AT BEGINNING OF YEAR	<u>4,265,559</u>
CASH AT END OF YEAR	<u>\$ 4,015,250</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 364,272
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation and amortization	<u>773,044</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,137,316</u>

See accompanying notes to the basic financial statements.

EASTTOWN MUNICIPAL AUTHORITY
(A Component Unit of Easttown Township)
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE A - ORGANIZATION

Easttown Municipal Authority (the "Authority") is a component unit of Easttown Township (the "Township") and is incorporated under the Municipal Authorities Act of the Commonwealth of Pennsylvania. The Authority was created for the purpose of operating and maintaining the facilities necessary to furnish the collection and treatment of sewage waste in the Township.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The basic financial statements of the Authority are prepared on the modified cash basis of accounting. Revenues are recognized when received rather than when earned, with the exception of connection fees receivable. Expenses are recognized when cash is disbursed rather than when the obligation is incurred, with the exception of deferred charges and depreciation. These financial statements are not intended to present results of operations in accordance with accounting principles generally accepted in the United States of America.

Capital Assets

Capital assets are stated at cost. The Authority defines capital assets as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. The cost of repairs, maintenance and minor replacements is charged to expense. Depreciation is being provided on a straight-line method based upon the following estimated useful lives of the assets:

	<u>Years</u>
Buildings	25
Equipment	20

Deferred Charges

Financing costs are being amortized on a straight-line basis over the terms of the bonds.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of assets, liabilities and net position--modified cash basis will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority's deferred charge on refunding is qualified for reporting in this category.

EASTTOWN MUNICIPAL AUTHORITY
(A Component Unit of Easttown Township)
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In addition to liabilities, the statement of assets, liabilities and net position--modified cash basis will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has no types of items that qualify for reporting in this category.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE C - DEPOSITS AND INVESTMENTS

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a formal deposit policy for custodial credit risk. As of December 31, 2015, \$3,767,061 of the Authority's bank balance of \$4,017,061 was exposed to custodial credit risk. This uninsured amount was collateralized by funds held by the pledging bank's trust department but not in the Authority's name.

Credit Risk

Pennsylvania statutes authorize the Authority to invest in U.S. Treasury bills, short-term obligations of the U.S. Government, obligations of the U.S. Government or Commonwealth of Pennsylvania or political subdivisions of the Commonwealth that are backed by the full faith and credit of the issuing government and shares of authorized investment companies provided that all of the company investments are authorized investments for an authority.

In addition, the Authority may invest in bank deposits, savings accounts, or share accounts of institutions insured by the FDIC, FSLIC, or NCUSIF to the extent that such investments are insured and, where amounts exceed the insured maximums, the depository pledge collateral as provided by Pennsylvania law.

EASTTOWN MUNICIPAL AUTHORITY
(A Component Unit of Easttown Township)
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE D - CAPITAL ASSETS

Capital assets consist of:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
CAPITAL ASSETS NOT BEING DEPRECIATED				
Land	\$ 294,170	\$ -	\$ -	\$ 294,170
CAPITAL ASSETS BEING DEPRECIATED				
Buildings and improvements	800,746	-	-	800,746
Machinery and equipment	<u>16,142,337</u>	<u>321,717</u>	-	<u>16,464,054</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED	<u>16,943,083</u>	<u>321,717</u>	-	<u>17,264,800</u>
Accumulated depreciation				
Buildings and improvements	(296,243)	(30,925)	-	(327,168)
Machinery and equipment	<u>(4,271,036)</u>	<u>(720,914)</u>	-	<u>(4,991,950)</u>
TOTAL ACCUMULATED DEPRECIATION	<u>(4,567,279)</u>	<u>(751,839)</u>	-	<u>(5,319,118)</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED, net	<u>12,375,804</u>	<u>(430,122)</u>	-	<u>11,945,682</u>
CAPITAL ASSETS, net	<u>\$ 12,669,974</u>	<u>\$ (430,122)</u>	<u>\$ -</u>	<u>\$ 12,239,852</u>

NOTE E - LONG-TERM DEBT

As of December 31, 2015, bonds payable consisted of the following individual issues:

Guaranteed Sewer Revenue Bonds, Series of 2011, due in annual installments through 2036, bearing interest at fixed rates of 1.25% to 4.20%	\$ 9,380,000
Guaranteed Sewer Revenue Bonds, Series of 2012, due in annual installments through 2032, bearing interest at fixed rates of 1% to 3.25%	5,215,000
Guaranteed Sewer Revenue Bonds, Series of 2013, due in annual installments through 2025, bearing interest at fixed rates of 2.0% to 3.0%	2,145,000
Guaranteed Sewer Revenue Bonds, Series of 2014, due in annual installments through 2027, bearing interest at fixed rates of 1.75% to 4.0%	<u>4,665,000</u>
	<u>\$ 21,405,000</u>

EASTTOWN MUNICIPAL AUTHORITY
(A Component Unit of Easttown Township)
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE E - LONG-TERM DEBT (Continued)

The debt service requirements are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2016	\$ 755,000	\$ 693,173	\$ 1,448,173
2017	765,000	679,524	1,444,524
2018	795,000	654,348	1,449,348
2019	815,000	633,143	1,448,143
2020	835,000	612,942	1,447,942
2021 to 2025	4,480,000	2,755,274	7,235,274
2026 to 2030	5,245,000	2,052,657	7,297,657
2031 to 2035	6,290,000	1,083,274	7,373,274
2036	1,425,000	59,850	1,484,850
	<u>\$ 21,405,000</u>	<u>\$ 9,224,185</u>	<u>\$ 30,629,185</u>

Changes in Long-Term Debt

Long-term debt activity was as follows:

	<u>Balance January 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2015</u>	<u>Amount Due Within One Year</u>
GUARANTEED SEWER REVENUE BONDS					
Series of 2011	\$ 9,590,000	\$ -	\$ (210,000)	\$ 9,380,000	\$ 215,000
Series of 2012	5,235,000	-	(20,000)	5,215,000	25,000
Series of 2013	2,170,000	-	(25,000)	2,145,000	25,000
Series of 2014	4,900,000	-	(235,000)	4,665,000	490,000
	<u>\$ 21,895,000</u>	<u>\$ -</u>	<u>\$ (490,000)</u>	<u>\$ 21,405,000</u>	<u>\$ 755,000</u>

EASTTOWN MUNICIPAL AUTHORITY
(A Component Unit of Easttown Township)
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE F - SEWER SYSTEM LEASE

The Authority leases sewer system facilities to the Township under a lease agreement dated November 1, 1998, amended January 1, 2004 and February 15, 2004. The lease calls for the Township to maintain the sewer system and to pay, from revenues of the sewer system and other available funds, rentals in such amounts as shall be sufficient to pay the principal and interest on the bonds issued by the Authority. The lease commenced November 1, 1998 and expires December 1, 2027. Lease rental income was \$1,155,705 for the year ended December 31, 2015.

NOTE G - SEWERAGE PROCESSING AGREEMENTS

The Authority entered into a sewerage processing agreement with the Valley Forge Joint Sewer Authority (comprised of the Valley Forge Sewer Authority, Tredyffrin Authority, Malvern Authority, Willistown Authority, East Whiteland Authority and Easttown Authority) and the Valley Creek Trunk Sewer agreement (comprised of the Valley Forge Joint Sewer Authority members listed above). These agreements were in effect through 2011. The members have agreed to continue operating under the existing agreement until such time as the Act 537 plans for each of the agreements are approved by the DEP. The new Act 537 plans will re-establish the members' operating costs based upon revised flows being acquired through the rehabilitation of the infrastructure.

NOTE H - SUBSEQUENT EVENTS

Tredyffrin Township and the Tredyffrin Township Municipal Authority have filed a declaratory judgment action against a number of Chester County municipalities and municipal authorities, including Easttown Township and the Easttown Township Municipal Authority. The claim seeks a court-approved process to sell the Valley Creek Trunk Sewer (VCTS) system, which consists of a series of sewer lines, pump stations, and force mains which convey sewage flows from the Easttown entities and other municipal bodies. The Tredyffrin lawsuit seeks court approval to sell the VCTS, and to provide for a distribution of proceeds from any sale.

This dispute centers, in part, on a means of allocating responsibilities for an estimated \$15 million repair/replacement of the main VCTS line; determining the equitable rights of the municipal bodies named in the suit; and calculating the proper method of distributing asset proceeds should there be a sale. Easttown Township and the Easttown Township Municipal Authority have jointly budgeted for possible estimated repair responsibilities; however, at this time, the final amounts of payments to be potentially sent, or proceeds to be received, are unknown as the parties work to see if there are mutually agreeable methods to settle the litigation, or to reach conclusions through the lawsuit process. As of July 2016, the civil action has been taken off the trial list at the request of all parties, and a settlement template has been developed for potential resolution of the litigation which, if successful, would potentially address cost allocations and equitable proceeds if the asset is sold.