

EAST GOSHEN MUNICIPAL AUTHORITY

ANNUAL FINANCIAL REPORT

Year Ended December 31, 2011

INTRODUCTORY SECTION

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INTRODUCTORY SECTION

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FINANCIAL SECTION



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Independent Auditors' Report

To the Members of the Board
East Goshen Municipal Authority
West Chester, Pennsylvania

We have audited the accompanying basic financial statements of the East Goshen Municipal Authority as of December 31, 2011, and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the East Goshen Municipal Authority'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 East Goshen Municipal Authority as of December 31, 2011, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 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 evidence sufficient to express an opinion or provide any assurance.

Maillie, Falconiero & Company, LLP

West Chester, Pennsylvania
May 21, 2012

EAST GOSHEN MUNICIPAL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
December 31, 2011

Our discussion and analysis of the East Goshen Municipal Authority's (the "Authority") financial performance provides an overview of the Authority's financial activities for the fiscal year ended December 31, 2011. Please read it in conjunction with the Authority's financial statements, which begin with the statement of net assets.

FINANCIAL HIGHLIGHTS

Cash represents 0.41% of the Authority's total assets, and the net investment in lease accounts for 99.06% of the total assets.

The Authority has \$9,329,000 in outstanding debt compared to \$9,658,000 last year. The Series of 1998 debt matures annually through 2018. The Series of 2008 matures annually through 2032.

The total assets of the Authority exceeded its liabilities by \$82,357 (net assets).

During the year ended December 31, 2011, total revenues of the Authority were \$713,711, and total expenses and transfers, net, were \$1,146,445. This resulted in a decrease in net assets for the year of \$(432,734).

Included in expenses for 2011 was \$1,028,660 of net transfers to East Goshen Township. This included funds expended for an upgrade and expansion project at the Ridley Creek sewer plant as well as payments to West Goshen Township for sewage treatment.

The following two tables summarize the Authority's net assets and changes in net assets.

Table 1 - Net Assets

| | <u>2011</u> | <u>2010</u> |
|-----------------------------------|---------------------|----------------------|
| ASSETS | | |
| Cash | \$ 38,610 | \$ 725,348 |
| Net investment in lease | 9,329,000 | 9,658,000 |
| Other assets | <u>49,932</u> | <u>52,752</u> |
| TOTAL ASSETS | <u>\$ 9,417,542</u> | <u>\$ 10,436,100</u> |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES | | |
| Accounts payable | \$ 6,185 | \$ 263,009 |
| Guaranteed notes payable | <u>9,329,000</u> | <u>9,658,000</u> |
| TOTAL LIABILITIES | 9,335,185 | 9,921,009 |
| NET ASSETS | <u>82,357</u> | <u>515,091</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 9,417,542</u> | <u>\$ 10,436,100</u> |

EAST GOSHEN MUNICIPAL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
December 31, 2011

Table 2 - Change in Net Assets

| | <u>2011</u> | <u>2010</u> |
|---------------------------------|------------------|-------------------|
| REVENUES | \$ 713,711 | \$ 1,181,879 |
| EXPENSES | <u>1,146,445</u> | <u>1,525,241</u> |
| CHANGE IN NET ASSETS | (432,734) | (343,362) |
| NET ASSETS AT BEGINNING OF YEAR | <u>515,091</u> | <u>858,453</u> |
| NET ASSETS AT END OF YEAR | <u>\$ 82,357</u> | <u>\$ 515,091</u> |

OVERVIEW OF THE FINANCIAL STATEMENTS

The Authority's annual financial report consists of several sections. Taken together, they provide a comprehensive financial look at the Authority. The components of the report include the independent auditors' report, management's discussion and analysis, financial statements and notes to the basic financial statements.

The independent auditors' report briefly describes the audit engagement and also renders an opinion as to the material components of the Authority's financial statements.

The Management's Discussion and Analysis (MD&A), prepared by the Township staff, provides a narrative introduction and overview that users of the financial statements need to interpret the basic financial statements. The MD&A also provides analysis of some key data that is presented in the basic financial statements. It also addresses any other currently known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations.

The basic financial statements include the statement of net assets, statement of revenues, expenses and changes in net assets, statement of cash flows and the notes to the basic financial statements.

- The statement of net assets shows the financial condition of the Authority at the end of the fiscal period or a specific snapshot in time.
- The statement of revenues, expenses and changes in net assets measures the results of operations of the Authority during the fiscal period.
- The statement of cash flows measures the resources provided during the fiscal period and the uses to which they are put.
- The notes to the basic financial statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the Authority's financial condition.

EAST GOSHEN MUNICIPAL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
December 31, 2011

REPORTING

East Goshen Municipal Authority was established in 1967 to finance the construction of the Township's sewage collection and treatment facilities. A five-member board, appointed by the Township's Board of Supervisors, governs the Authority. Although legally separate, the Authority is considered a component unit of the Township because the Township is financially accountable for it. The major function of the Authority is to provide financing for capital construction, expansion and upgrades to the Township's sewage collection and treatment facilities. The Authority owns two sewage treatment plants, six pumping stations and 86 miles of sewer lines. The Township has the responsibility for daily operations through a leaseback arrangement with the Authority.

Since 1979, the Authority has connected 662 Equivalent Dwelling Units (EDUs) to the Township sewer system. Since the inception of the Authority, developers have connected in excess of 1,650 EDUs to the system. Currently all of the business and commercial establishments in the Township are connected to either the public sewer system or to a community sewer system that serves Hershey's Mill Village. (Note: The Green Hill Sewer Association provides sewer service to the 1,702 dwelling units, Village Square Shopping Center and Wellington Hall life care facility, all of which are located within Hershey's Mill Village.) Of the 7,500 households in the Township, only 541 households (7%) utilize on-lot systems.

The Authority funded the construction costs for improvements to serve the homes connected by the Authority through a combination of tapping fees paid by property owners at the time of connection, a federal grant and debt incurred by the Authority.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the funds it receives and disburses. If you have questions about this report or need additional information, please contact the Director of Finance at East Goshen Township, 1580 Paoli Pike, West Chester, PA 19380.

EAST GOSHEN MUNICIPAL AUTHORITY**STATEMENT OF NET ASSETS***December 31, 2011***ASSETS****CURRENT ASSETS**Cash and cash equivalents \$ 38,610**NONCURRENT ASSETS**

Deferred charges, note issues costs 49,932

Net investment in lease 9,329,000TOTAL NONCURRENT ASSETS 9,378,932TOTAL ASSETS \$ 9,417,542**LIABILITIES AND NET ASSETS****CURRENT LIABILITIES**

Accrued interest payable \$ 6,185

Current portion of guaranteed notes payable 343,000

TOTAL CURRENT LIABILITIES 349,185

GUARANTEED NOTES PAYABLE, less current portion 8,986,000

TOTAL LIABILITIES 9,335,185

NET ASSETSUnrestricted 82,357TOTAL LIABILITIES AND NET ASSETS \$ 9,417,542*See accompanying notes to the basic financial statements.*

EAST GOSHEN MUNICIPAL AUTHORITY**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS***Year Ended December 31, 2011***OPERATING REVENUES**Lease rental collections \$ 707,614**OPERATING EXPENSES**East Goshen Township administrative charge 33,568Engineering fees 33,499Lease rental rebate 26,244Legal and accounting fees 19,820Loan costs 2,820Other administrative expenses 1,834**TOTAL OPERATING EXPENSES** 117,785**OPERATING INCOME** 589,829**NONOPERATING REVENUES**Investment income 474Tapping fees 5,623**TOTAL NONOPERATING REVENUES** 6,097**INCOME BEFORE TRANSFERS** 595,926**TRANSFERS IN** 177,094**TRANSFERS OUT** (1,205,754)**CHANGE IN NET ASSETS** (432,734)**NET ASSETS AT BEGINNING OF YEAR** 515,091**NET ASSETS AT END OF YEAR** \$ 82,357*See accompanying notes to the basic financial statements.*

EAST GOSHEN MUNICIPAL AUTHORITY

STATEMENT OF CASH FLOWS

Year Ended December 31, 2011

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|-------------------------------------------|------------------|
| Lease rental payments | \$ 707,614 |
| Payments to suppliers | <u>(118,597)</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>589,017</u> |

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

| | |
|--------------------------------------------------|--------------------|
| Net investment in lease | 75,808 |
| Transfers from other funds | 177,094 |
| Transfers to other funds | <u>(1,205,754)</u> |
| NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES | <u>(952,852)</u> |

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

| | |
|-----------------------------------------------------------|------------------|
| Tapping fees received | 5,623 |
| Principal payments on debt | <u>(329,000)</u> |
| NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES | <u>(323,377)</u> |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|-------------------|------------|
| Investment income | <u>474</u> |
|-------------------|------------|

NET DECREASE IN CASH AND CASH EQUIVALENTS (686,738)

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 725,348

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 38,610

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

| | |
|----------------------------------------------------------------------------------------|----------------|
| Operating income | \$ 589,829 |
| Adjustments to reconcile operating income to net cash provided by operating activities | |
| Loan costs | 2,820 |
| Decrease in accounts payable | <u>(3,632)</u> |

NET CASH PROVIDED BY OPERATING ACTIVITIES \$ 589,017

See accompanying notes to the basic financial statements.

EAST GOSHEN MUNICIPAL AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2011

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

East Goshen Municipal Authority (the "Authority") is a component unit of the reporting entity of which East Goshen Township (the "Township") is the oversight unit. In preparing its separate financial statements, the Authority applies the following significant accounting policies.

Purpose of the Authority

The Authority was formed by the Township for the purpose of financing the sewage collection system, which is leased back to the Township for operation. The Authority's members are appointed by the Township.

Basis of Presentation

The basic financial statements are prepared on the basis 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.

Basis of Accounting

The accompanying financial statements are presented on the accrual basis.

Applicability of Optional Private-Sector Guidance

The Governmental Accounting Standards Board (GASB) is responsible for establishing generally accepted accounting principles 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. Although the Authority has the option to apply FASB pronouncements issued after that date to its business-type activities and Enterprise Funds, the Authority has chosen not to do so.

Deferred Loan Costs

Deferred loan costs are amortized on a straight-line basis over the life of the related debt.

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.

EAST GOSHEN MUNICIPAL AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2011

NOTE B 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 uses both insurance provided by the Federal Deposit Insurance Corporation and collateralization to guard against custodial credit risk. Under the Authority's current policy, in addition to the insurance provided by the Federal Deposit Insurance Corporation, deposits held by banking institutions are fully collateralized. The Authority requires all of its banking partners to pledge collateral held by an independent third-party institution, not in the Authority's name, in the amount of at least 102% of the deposit value. As of December 31, 2011, all of the Authority's bank balance of \$71,035 was covered by the Federal Deposit Insurance Corporation.

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, that the depository pledge collateral as provided by Pennsylvania law.

NOTE C LEASE AGREEMENT

The sewer system is maintained and operated by the Township under a long-term lease, which expires in 2032.

The lease agreement requires that the Township pay rents to the Authority equal to the amount of the Authority's monthly debt service. The Authority has agreed to rebate 28% of its debt service rental collections on the Guaranteed Note, Series of 1998, to the Township. The amount rebated back to the Township in 2011 was \$26,244.

Lease rental collections for 2011 are comprised of the following:

| | |
|----------------------------------------------|-------------------|
| Payment for Authority debt service principal | \$ 329,000 |
| Payment for Authority debt service interest | <u>378,614</u> |
| | <u>\$ 707,614</u> |

The Authority's net investment in lease is equal to the balances of the Guaranteed Notes, Series of 1998 and Series of 2008. Lease rental payments equal to the annual principal repayment of the notes are applied to reduce the net investment in lease. The balance at December 31, 2011, was \$9,329,000.

EAST GOSHEN MUNICIPAL AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2011

NOTE D GUARANTEED NOTES PAYABLE

The following is a summary of changes in guaranteed notes payable for the year ended December 31, 2011:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|----------------|------------------------------|------------------|---------------------|---------------------------|--------------------------------|
| NOTES | | | | | |
| Series of 1998 | \$ 654,000 | \$ - | \$ (66,000) | \$ 588,000 | \$ 70,000 |
| Series of 2008 | <u>9,004,000</u> | <u>-</u> | <u>(263,000)</u> | <u>8,741,000</u> | <u>273,000</u> |
| | <u>\$ 9,658,000</u> | <u>\$ -</u> | <u>\$ (329,000)</u> | <u>\$ 9,329,000</u> | <u>\$ 343,000</u> |

Notes payable consisted of:

| | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|
| Guaranteed Note, Series of 1998, to the Delaware Valley Regional Finance Authority (DVRFA), interest, payable monthly, at a fixed rate of 3.84%, principal payable annually through 2018, subject to a swap agreement | \$ 588,000 |
| Guaranteed Note, Series of 2008, to the DVRFA, interest, payable monthly, at a fixed rate of 3.96%, principal payable annually through 2032, subject to a swap agreement | <u>8,741,000</u> |
| | <u>\$ 9,329,000</u> |

Annual debt service requirements are as follows:

| <u>Year Ending December 31,</u> | <u>Principal Amount</u> | <u>Interest</u> | <u>Totals</u> |
|-------------------------------------|-----------------------------|---------------------|----------------------|
| 2012 | \$ 343,000 | \$ 368,275 | \$ 711,275 |
| 2013 | 358,000 | 354,751 | 712,751 |
| 2014 | 375,000 | 340,630 | 715,630 |
| 2015 | 391,000 | 325,850 | 716,850 |
| 2016 | 409,000 | 310,427 | 719,427 |
| 2017 to 2021 | 1,995,000 | 1,310,284 | 3,305,284 |
| 2022 to 2026 | 2,192,000 | 913,809 | 3,105,809 |
| 2027 to 2031 | 2,667,000 | 443,757 | 3,110,757 |
| 2032 | <u>599,000</u> | <u>23,720</u> | <u>622,720</u> |
| | <u>\$ 9,329,000</u> | <u>\$ 4,391,503</u> | <u>\$ 13,720,503</u> |

EAST GOSHEN MUNICIPAL AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2011

Funds to repay outstanding notes will be provided from the aforementioned lease agreement. Total interest expense paid during the year ended December 31, 2011, was \$378,614. None of the interest costs incurred were charged to expenditures for the year ended December 31, 2011. Total interest capitalized in 2011 was \$378,614.

Swap Agreement

The Authority financed the Series of 1998 and Series of 2008 notes through the DVRFA. The DVRFA has, in turn, entered into interest rate swap agreements with various counterparties to provide fixed interest rates to borrowers. These agreements may be terminated under the following circumstances: (1) DVRFA and the counterparty mutually consent to termination, (2) the borrower defaults on its loan, or (3) DVRFA or the counterparty default or their financial conditions deteriorate to make a default imminent. Upon termination, DVRFA would receive or make a payment depending on the market value of the related interest rate swap. If DVRFA were obligated to make such a payment and sufficient funds were not available, DVRFA could assess each borrower its allocable share of the termination payment.

At December 31, 2011, the market value of the Township's interest rate swap agreements for fixed rate loans was \$(1,389,903) and for DVRFA bonds was \$2,127,896. As of December 31, 2011, DVRFA would have received a payment of nearly \$115 million if all of the swap agreements were terminated. None of these amounts are reflected in the Authority's statement of net assets or statement of revenues, expenses and changes in net assets at December 31, 2011.