

**EAST GOSHEN MUNICIPAL AUTHORITY**  
**ANNUAL FINANCIAL REPORT**  
*Year Ended December 31, 2016*



Certified Public Accountants and Business Consultants

# **INTRODUCTORY SECTION**

# **EAST GOSHEN MUNICIPAL AUTHORITY**

## **TABLE OF CONTENTS**

**YEAR ENDED DECEMBER 31, 2016**

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	<b>Page</b>
<b>Introductory Section</b>	
Table of Contents	1
<b>Financial Section</b>	
Independent Auditors' Report	2
Management's Discussion and Analysis (Unaudited)	4
Basic Financial Statements	
Statement of Net Position	7
Statement of Revenues, Expenses and Changes in Net Position	8
Statement of Cash Flows	9
Notes to the Basic Financial Statements	10

## **FINANCIAL SECTION**

## ***Independent Auditors' Report***

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

We have audited the accompanying financial statements of the East Goshen Municipal Authority (a component unit of East Goshen Township), which comprise the statement of net position as of December 31, 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

The East Goshen Municipal Authority's 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.

### ***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 of the Board  
East Goshen Municipal Authority  
West Chester, Pennsylvania

***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, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 6 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 LLP*

West Chester, Pennsylvania  
March 14, 2017

**EAST GOSHEN MUNICIPAL AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**  
**YEAR ENDED DECEMBER 31, 2016**

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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, 2016. Please read it in conjunction with the Authority's financial statements, which begin with the statement of net position.

**FINANCIAL HIGHLIGHTS**

Cash represents 13% of the Authority's total assets, and the net investment in lease accounts for 87% of the total assets.

The Authority has \$9,671,000 in outstanding debt compared to \$10,177,000 last year. The Series of 1998 debt matures annually through 2018. The Series of 2008 matures annually through 2032. The Series of 2013 debt matures annually through 2033.

The total assets of the Authority exceeded its liabilities by \$912,658 (net position).

During the year ended December 31, 2016, total revenues of the Authority were \$934,542, and total expenses and transfers, net, were \$560,428. This resulted in an increase in net position for the year of \$374,114.

Included in expenses for 2016 was \$429,000 of net transfers to East Goshen Township. This included funds expended for payments to West Goshen Township for sewage treatment and other operating expenses.

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

**Table 1 - Net Position**

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash	\$ 1,415,651	\$ 1,461,277
Net investment in lease	<u>9,176,609</u>	<u>9,260,809</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>10,592,260</u></b>	<b>\$ <u>10,722,086</u></b>
<b>LIABILITIES AND NET POSITION</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 8,602	\$ 6,542
Guaranteed notes payable	<u>9,671,000</u>	<u>10,177,000</u>
<b>TOTAL LIABILITIES</b>	<b>9,679,602</b>	<b>10,183,542</b>
<b>NET POSITION</b>	<u>912,658</u>	<u>538,544</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ <u>10,592,260</u></b>	<b>\$ <u>10,722,086</u></b>

**EAST GOSHEN MUNICIPAL AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**  
**YEAR ENDED DECEMBER 31, 2016**

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**Table 2 - Change in Net Position**

	<u>2016</u>	<u>2015</u>
REVENUES	\$ 934,542	\$ 963,145
EXPENSES	<u>560,428</u>	<u>551,605</u>
CHANGE IN NET POSITION	374,114	411,540
NET POSITION AT BEGINNING OF YEAR	<u>538,544</u>	<u>127,004</u>
NET POSITION AT END OF YEAR	<u>\$ 912,658</u>	<u>\$ 538,544</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 position, statement of revenues, expenses and changes in net position, statement of cash flows and the notes to the basic financial statements.

- The statement of net position 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 position 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)  
YEAR ENDED DECEMBER 31, 2016

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**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 one sewage treatment plant, four pumping stations and 86 miles of sewer lines. The Township has the responsibility for daily operations through a leaseback arrangement with the Authority. One sewage treatment plant, the Lockwood Plant, was taken off-line in 2012, and capital improvements largely completed by the end of 2013 resulted in the closure of two pump stations, with the flows diverted to the Township's remaining sewage treatment plant.

Since 1979, the Authority has connected approximately 700 Equivalent Dwelling Units (EDUs) to the Township sewer system. Since the inception of the Authority, developers have connected roughly 1,700 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 1,720 dwelling units, Village Square Shopping Center and Wellington Hall life care facility, all of which are located within Hershey's Mill Village.) Of the 8,000 households in the Township, only 524 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 POSITION

DECEMBER 31, 2016

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### ASSETS

#### CURRENT ASSETS

Cash and cash equivalents \$ 1,415,651

#### NONCURRENT ASSETS

Net investment in lease 9,176,609

TOTAL ASSETS \$ 10,592,260

### LIABILITIES AND NET POSITION

#### CURRENT LIABILITIES

Accounts payable \$ 2,547

Accrued interest payable 6,055

Current portion of guaranteed notes payable 527,000

TOTAL CURRENT LIABILITIES 535,602

GUARANTEED NOTES PAYABLE, less current portion 9,144,000

TOTAL LIABILITIES 9,679,602

#### NET POSITION

Unrestricted 912,658

TOTAL LIABILITIES AND NET POSITION \$ 10,592,260

*See accompanying notes to the basic financial statements.*

**EAST GOSHEN MUNICIPAL AUTHORITY**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET POSITION**  
**YEAR ENDED DECEMBER 31, 2016**

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OPERATING REVENUES	
Lease rental collections	\$ <u>881,005</u>
OPERATING EXPENSES	
East Goshen Township administrative charge	30,166
Engineering fees	53,936
Lease rental rebate	28,092
Legal and accounting fees	17,493
Other administrative expenses	<u>1,741</u>
TOTAL OPERATING EXPENSES	<u>131,428</u>
OPERATING INCOME	<u>749,577</u>
NONOPERATING REVENUES	
Investment income	2,545
Tapping fees	<u>50,992</u>
TOTAL NONOPERATING REVENUES	<u>53,537</u>
INCOME BEFORE TRANSFERS	803,114
TRANSFERS FROM EAST GOSHEN TOWNSHIP	77,000
TRANSFERS TO EAST GOSHEN TOWNSHIP	<u>(506,000)</u>
CHANGE IN NET POSITION	374,114
NET POSITION AT BEGINNING OF YEAR	<u>538,544</u>
NET POSITION AT END OF YEAR	<u>\$ <u>912,658</u></u>

*See accompanying notes to the basic financial statements.*

# EAST GOSHEN MUNICIPAL AUTHORITY

## STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2016

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CASH FLOWS FROM OPERATING ACTIVITIES	
Lease rental payments	\$ 881,005
Payments to suppliers	(129,045)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>751,960</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Net investment in lease	83,877
Transfers from East Goshen Township	77,000
Transfers to East Goshen Township	(506,000)
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	<u>(345,123)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Tapping fees received	50,992
Principal payments on debt	(506,000)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(455,008)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment income	<u>2,545</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(45,626)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,461,277</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,415,651</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 749,577
Adjustments to reconcile operating income to net cash provided by operating activities	
Increase in accounts payable	<u>2,383</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 751,960</u>

*See accompanying notes to the basic financial statements.*

**EAST GOSHEN MUNICIPAL AUTHORITY**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2016

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**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.

**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.

**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, 2016, \$291,800 of the Authority's bank balance of \$1,415,651 was covered under FDIC insurance, and the remaining \$1,123,851 was collateralized as described.

**EAST GOSHEN MUNICIPAL AUTHORITY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

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**NOTE B - DEPOSITS AND INVESTMENTS (Continued)**

**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 2033.

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 2016 was \$28,092.

Lease rental collections for 2016 are comprised of the following:

Payment for Authority debt service principal	\$ 506,000
Payment for Authority debt service interest	<u>375,005</u>
	<u>\$ 881,005</u>

The Authority's net investment in lease is equal to the balances of the Guaranteed Notes, Series of 1998, Series of 2008 and Series of 2013, less the reserve for future capital expenditures. 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, 2016, was \$9,176,609.

**EAST GOSHEN MUNICIPAL AUTHORITY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE D - GUARANTEED NOTES PAYABLE**

The following is a summary of changes in guaranteed notes payable for the year ended December 31, 2016:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
NOTES					
Series of 1998	\$ 282,000	\$ -	\$ (89,000)	\$ 193,000	\$ 94,000
Series of 2008	7,580,000	-	(320,000)	7,260,000	333,000
Series of 2013	<u>2,315,000</u>	<u>-</u>	<u>(97,000)</u>	<u>2,218,000</u>	<u>100,000</u>
	<u>\$ 10,177,000</u>	<u>\$ -</u>	<u>\$ (506,000)</u>	<u>\$ 9,671,000</u>	<u>\$ 527,000</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	\$ 193,000
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	7,260,000
Guaranteed Note, Series of 2013, to the DVRFA, interest, payable monthly, at a fixed rate of 3.049%, principal payable annually through 2033, subject to a swap agreement	<u>2,218,000</u>
	<u>\$ 9,671,000</u>

Annual debt service requirements are as follows:

<u>Year Ending December 31,</u>	<u>Principal Amount</u>	<u>Interest</u>	<u>Totals</u>
2017	\$ 527,000	\$ 361,933	\$ 888,933
2018	548,000	342,055	890,055
2019	467,000	322,045	789,045
2020	484,000	304,527	788,527
2021	503,000	286,362	789,362
2022 to 2026	2,817,000	1,133,642	3,950,642
2027 to 2031	3,399,000	561,998	3,960,998
2032 to 2033	<u>926,000</u>	<u>38,751</u>	<u>964,751</u>
	<u>\$ 9,671,000</u>	<u>\$ 3,351,313</u>	<u>\$ 13,022,313</u>

**EAST GOSHEN MUNICIPAL AUTHORITY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

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**NOTE D - GUARANTEED NOTES PAYABLE (Continued)**

Funds to repay outstanding notes will be provided from the aforementioned lease agreement. Total interest expense paid during the year ended December 31, 2016, was \$375,005. None of the interest costs incurred were charged to expenditures for the year ended December 31, 2016. Total interest capitalized in 2016 was \$375,005.

**Swap Agreement**

The Authority financed the Series of 1998, 2008 and 2013 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, 2016, the market value of the Township's interest rate swap agreements for fixed rate loans was \$1,005,399 and for DVRFA bonds was \$1,364,203. As of December 31, 2016, DVRFA would have received a payment of nearly \$137 million if all of the swap agreements were terminated. None of these amounts are reflected in the Authority's statement of net position or statement of revenues, expenses and changes in net position at December 31, 2016.