

EAST GOSHEN MUNICIPAL AUTHORITY

FINANCIAL STATEMENTS

Year Ended December 31, 2021

INTRODUCTORY SECTION

EAST GOSHEN MUNICIPAL AUTHORITY

TABLE OF CONTENTS

YEAR ENDED DECEMBER 31, 2021

	Page
Introductory Section	
Table of Contents	1
Financial Section	
Independent Auditors' Report	2
Management's Discussion and Analysis (Unaudited)	5
Basic Financial Statements	
Statement of Net Position	8
Statement of Revenues, Expenses and Changes in Net Position	9
Statement of Cash Flows	10
Notes to the Basic Financial Statements	11

FINANCIAL SECTION

Independent Auditors' Report

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

Opinion

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, 2021, 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.

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, 2021, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of East Goshen Municipal Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note E to the financial statements, the 2020 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

East Goshen Municipal Authority's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about East Goshen Municipal Authority's ability to continue as a going concern for one year after the financial statement date.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 East Goshen Municipal Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about East Goshen Municipal Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 5 through 7 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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
March 8, 2022

EAST GOSHEN MUNICIPAL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2021

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, 2021. Please read it in conjunction with the Authority's financial statements, which begin with the statement of net position.

FINANCIAL HIGHLIGHTS

Cash represents 0.2% of the Authority's total assets, and the net investment in lease accounts for 98.8% of the total assets.

The Authority has \$7,142,000 in outstanding debt compared to \$7,645,000 last year. The Series of 2008 matures annually through 2032. The Series of 2013 debt matures annually through 2033.

The total liabilities of the Authority exceeded its assets by \$19,356 (net position).

During the year ended December 31, 2021, total revenues of the Authority were \$1,081,309, and total expenses were \$1,102,198. This resulted in an decrease in net position for the year of \$(20,889).

Included in expenses for 2021 was \$990,039 of capital contributions 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>2021</u>	<u>RESTATED 2020</u>
ASSETS		
Cash and cash equivalents	\$ 11,620	\$ 6,372
Net investment in lease	<u>7,142,000</u>	<u>7,645,000</u>
TOTAL ASSETS	<u>\$ 7,153,620</u>	<u>\$ 7,651,372</u>
LIABILITIES AND NET POSITION		
LIABILITIES		
Accounts payable	\$ 26,518	\$ 66
Accrued interest payable	4,458	4,773
Guaranteed notes payable	<u>7,142,000</u>	<u>7,645,000</u>
TOTAL LIABILITIES	<u>7,172,976</u>	<u>7,649,839</u>
NET POSITION	<u>(19,356)</u>	<u>1,533</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 7,153,620</u>	<u>\$ 7,651,372</u>

EAST GOSHEN MUNICIPAL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2021

Table 2 - Change in Net Position

	<u>2021</u>	<u>RESTATED 2020</u>
REVENUES	\$ 1,081,309	\$ 1,156,589
EXPENSES	<u>1,102,198</u>	<u>1,161,478</u>
CHANGE IN NET POSITION	(20,889)	(4,889)
NET POSITION AT BEGINNING OF YEAR, RESTATED*	<u>1,533</u> *	<u>6,422</u>
NET POSITION AT END OF YEAR	<u>\$ (19,356)</u>	<u>\$ 1,533</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, 2021

DEBT ADMINISTRATION

At the end of the year, the Authority had total long-term debt of \$7,142,000. This debt consists of two guaranteed notes payable to the Delaware Valley Regional Finance Authority (DVRFA) and backed by the full faith and credit of the Township. Details of the Authority's debt holding and related long-term debt service requirements can be found in Note D to the financial statements.

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.

Currently, the Township sewer system services 6,495 residential units and 134 commercial units with 519 units utilizing on-lot systems. An average of 1.0 million gallons of waste water flows through the system each day. 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.)

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.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Authority is part of the Township's annual budget. Information regarding economic factors and next year's budget and rates for the Township are included in the Township's financial statements.

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, 2021

ASSETS

CURRENT ASSETS

Cash and cash equivalents \$ 11,620

NONCURRENT ASSETS

Net investment in lease 7,142,000

TOTAL ASSETS \$ 7,153,620

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Accounts payable \$ 26,518

Accrued interest payable 4,458

Current portion of guaranteed notes payable 522,000

TOTAL CURRENT LIABILITIES 552,976

GUARANTEED NOTES PAYABLE, less current portion 6,620,000

TOTAL LIABILITIES 7,172,976

NET POSITION

Unrestricted (19,356)

TOTAL LIABILITIES AND NET POSITION \$ 7,153,620

See accompanying notes to the basic financial statements.

EAST GOSHEN MUNICIPAL AUTHORITYSTATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2021

OPERATING REVENUES

Lease rental collections \$ 780,791

OPERATING EXPENSES

East Goshen Township administrative charge 30,920

Engineering fees 59,400

Legal and accounting fees 19,734

Other administrative expenses 2,105TOTAL OPERATING EXPENSES 112,159OPERATING INCOME 668,632

NONOPERATING REVENUES (EXPENSES)

Investment income 3

Tapping fees 30,585

Payments from East Goshen Township 269,930

Capital contribution to East Goshen Township (990,039)TOTAL NONOPERATING REVENUES (EXPENSES) (689,521)

CHANGE IN NET POSITION (20,889)

NET POSITION AT BEGINNING OF YEAR, RESTATED 1,533NET POSITION AT END OF YEAR \$ (19,356)*See accompanying notes to the basic financial statements.*

EAST GOSHEN MUNICIPAL AUTHORITY

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2021

CASH FLOWS FROM OPERATING ACTIVITIES	
Lease rental payments	\$ 780,791
Payments to suppliers	(85,707)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>695,084</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Net investment in lease	502,685
Payments from East Goshen Township	269,930
Capital contribution to East Goshen Township	(990,039)
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	<u>(217,424)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Tapping fees received	30,585
Principal payments on debt	(503,000)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(472,415)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment income	<u>3</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,248
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>6,372</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 11,620</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 668,632
Adjustments to reconcile operating income to net cash provided by operating activities	
Decrease in accounts payable	<u>26,452</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 695,084</u>

See accompanying notes to the basic financial statements.

EAST GOSHEN MUNICIPAL AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

East Goshen Municipal Authority (the "Authority") is a body corporate and politic, incorporated under the Municipal Authorities Act of 1945, P. L. 382, as amended, pursuant to ordinances enacted by East Goshen Township (the "Township"). The Authority was established in 1967 to finance construction of the Township's sewage collection and treatment facilities. The major function of the Authority is to provide financing for capital construction, expansion and upgrades to the Township's sewer plants and other facilities. The Township has the responsibility for daily operations of the sewer system through a leaseback arrangement with the Authority which expires in 2033. The Authority's members are appointed by the Township.

In preparing its separate financial statements, the Authority applies the following significant accounting policies:

Measurement Focus and Basis of Accounting

The Authority is a blended component unit of the Township. The Authority's activities are financed and operated as an enterprise fund. The accompanying financial statements of the Authority have been prepared using the economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America applicable to governmental entities as prescribed by the Government Accounting Standards Board (GASB). Under this method, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows. Operating revenues and expenses generally result from providing services and leasing in connection with the Authority's ongoing operations. Operating expenses include engineering fees, legal and accounting fees, repairs and maintenance, and other administrative charges and expenses. All revenues and expenses not meeting this definition are recorded as nonoperating revenues or expenses. When an expense is incurred that can be paid using either restricted or unrestricted resources, it is the Authority's policy to first apply the expense towards restricted resources and then towards unrestricted resources.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Authority considers all highly liquid investments with an original maturity of three months or less and no restrictions on withdraws to be cash equivalents.

Lease Rental Collections

The lease agreement requires that the Township pay rents to the Authority equal to the amount of the Authority's monthly debt service on long-term guaranteed notes payable to the Delaware Valley Regional Finance Authority.

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, 2021

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, 2021, the entire Authority's bank balance of \$11,751 was covered under FDIC insurance.

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. Lease rental collections for 2021 are comprised of the following:

Payment for Authority debt service principal	\$ 503,000
Payment for Authority debt service interest	<u>277,791</u>
	<u>\$ 780,791</u>

The Authority's net investment in lease is equal to the balances of the Guaranteed Notes, Series of 2008, and Series of 2013. 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, 2021, was \$7,142,000.

EAST GOSHEN MUNICIPAL AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE D - GUARANTEED NOTES PAYABLE

The following is a summary of changes in guaranteed notes payable for the year ended December 31, 2021:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
NOTES					
Series of 2008	\$ 5,847,000	\$ -	\$ (389,000)	\$ 5,458,000	\$ 405,000
Series of 2013	<u>1,798,000</u>	<u>-</u>	<u>(114,000)</u>	<u>1,684,000</u>	<u>117,000</u>
	<u>\$ 7,645,000</u>	<u>\$ -</u>	<u>\$ (503,000)</u>	<u>\$ 7,142,000</u>	<u>\$ 522,000</u>

Notes payable consisted of:

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.	\$ 5,458,000
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>1,684,000</u>
	<u>\$ 7,142,000</u>

Annual debt service requirements are as follows:

<u>Year Ending December 31,</u>	<u>Principal Amount</u>	<u>Interest</u>	<u>Totals</u>
2022	\$ 522,000	\$ 267,482	\$ 789,482
2023	542,000	247,877	789,877
2024	563,000	227,516	790,516
2025	584,000	206,359	790,359
2026	606,000	184,408	790,408
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>\$ 7,142,000</u>	<u>\$ 1,734,391</u>	<u>\$ 8,876,391</u>

EAST GOSHEN MUNICIPAL AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE D - GUARANTEED NOTES PAYABLE (Continued)

Funds to repay outstanding notes will be provided from the aforementioned lease agreement. Total interest paid during the year ended December 31, 2021, was \$277,476. None of the interest costs incurred were charged to expenditures for the year ended December 31, 2021. Total interest capitalized in 2021 was \$277,476.

Swap Agreement

The Authority financed the Series of 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, 2021, the market value of the Authority's interest rate swap agreements for fixed rate loans was \$886,966 and for DVRFA bonds was \$776,238. As of December 31, 2021, DVRFA would have received a payment of nearly \$98 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, 2021.

NOTE E - PRIOR PERIOD ADJUSTMENT

During the year, the Authority became aware of an adjustment needed to correct the grant receivable balance. As a result of the adjustment, the beginning net position decreased from \$154,423 to \$1,533 and the grant receivable balance decreased \$152,890.

NOTE F - SUBSEQUENT EVENTS

Events and transactions subsequent to year end have been evaluated for potential recognition in the financial statements or disclosure in the notes to the financial statements. All events and transactions have been evaluated through March 8, 2022, which is the date the financial statements were available to be issued.