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**WEST GOSHEN SEWER AUTHORITY**  
**(A Component Unit of West Goshen Township)**  
**WEST CHESTER, PENNSYLVANIA**

**BASIC FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2017 AND 2016**

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WEST GOSHEN SEWER AUTHORITY  
WEST CHESTER, PENNSYLVANIA  
(A Component Unit of West Goshen Township)

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## INDEPENDENT AUDITOR'S REPORT

June 27, 2018

To the Officers  
West Goshen Sewer Authority  
West Chester, Pennsylvania

### Report on the Financial Statements

We have audited the accompanying financial statements of the West Goshen Sewer Authority ("the Authority"), a component unit of West Goshen Township, West Chester, Pennsylvania, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditor's 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.

To the Officers  
West Goshen Sewer Authority

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the West Goshen Sewer Authority, West Chester, Pennsylvania, as of December 31, 2017 and 2016, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 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.

#### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2018, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

*Barbacane, Thornton & Company LLP*  
BARBACANE, THORNTON & COMPANY LLP

**WEST GOSHEN SEWER AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED**

This discussion and analysis of the West Goshen Sewer Authority ("the Authority") of West Goshen, Pennsylvania, provides an overview of the Authority's performance for the year ended December 31, 2017. Please read it in conjunction with the Authority's financial statements, which begin on page 10.

**FINANCIAL HIGHLIGHTS**

- The Authority reported \$3,761,766 of capital improvement projects during 2017.
- Tapping fees for 2017 were \$29,494; a decrease of \$173,316 from 2016.
- Lease rental for 2017 was \$224,955; a decrease of \$216,157 from 2016.
- Capital contributions from other townships for 2017 were \$2,031,352.
- The Authority sold guaranteed sewer revenue bonds to secure \$17,055,000 in additional capital improvement funding in 2017 and to refund the remaining balance of the sewer note.
- Investment income for 2017 was \$89,086; an increase of \$49,767 from 2016.
- As of December 31, 2017, the Authority reported an ending net position of \$23,226,567, an increase of \$784,627 as compared to the prior year.
- The Authority incurred \$164,715 in legal fees, including an effort to prevent the United States Environmental Protection Agency and DEP from adopting unjustified nutrient limits.

**USING THIS ANNUAL REPORT**

This annual report consists of three parts: management's discussion and analysis, financial statements, and notes. The notes explain in more detail some of the information in the financial statements.

**Required Financial Statements**

The financial statements report information about the Authority using full accrual accounting methods as utilized by similar business activities in the private sector. These statements offer short and long-term financial information about its activities.

The statement of net position includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations (liabilities). It also provides the basis for evaluating the capital structure of the Authority and assessing the liquidity and

## WEST GOSHEN SEWER AUTHORITY

### MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)

financial flexibility of the Authority. All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net position. This statement measures the Authority's profitability and creditworthiness. The statement of cash flows provides information about the Authority's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and capital and related financing activities and provides answers to such questions as "From where did cash come?," "For what was cash used?," and "What was the change in cash balance during the reporting period?"

#### FINANCIAL ANALYSIS OF THE AUTHORITY

One of the most important questions asked about the Authority's finances is, "Is the Authority better off or worse off as a result of the year's activities?" The statement of net position and the statement of revenues, expenses, and changes in net position tables supply information about the Authority's activities in a way that will help answer this question. These two statements report the net position of the Authority and changes in them. You can think of the Authority's net position (the difference between assets and liabilities) as one way to measure financial health or financial position. Over time, increases or decreases in the Authority's net position is one indicator of whether its financial health is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, population growth, and new or changed legislation.

The Authority's assets exceeded liabilities by \$23,226,567 at the close of 2017. Our analysis focuses on the net position (Table 1) and the changes in net position (Table 2) of the Authority.

**Table 1**

<b>WEST GOSHEN SEWER AUTHORITY'S NET POSITION DECEMBER 31, 2017, 2016, AND 2015</b>			
	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Assets:</b>			
Current and Other Assets	\$ 21,609,087	\$ 6,099,393	\$ 6,399,536
Capital Assets	20,799,058	18,033,913	17,270,260
Total Assets	<u>42,408,145</u>	<u>24,133,306</u>	<u>23,669,796</u>
<b>Liabilities:</b>			
Current Liabilities	1,179,584	1,221,366	480,267
Noncurrent Liabilities	18,001,994	470,000	918,000
Total Liabilities	<u>19,181,578</u>	<u>1,691,366</u>	<u>1,398,267</u>
<b>Net Position:</b>			
Net Investment in Capital Assets	16,239,000	17,115,913	15,925,260
Unrestricted	6,987,567	5,326,027	6,346,269
Total Net Position	<u>\$ 23,226,567</u>	<u>\$ 22,441,940</u>	<u>\$ 22,271,529</u>

**WEST GOSHEN SEWER AUTHORITY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)**

The largest portion of the Authority's net position reflects its investment in capital assets (land, buildings, equipment, infrastructure, and construction-in-progress) less any related debt used to acquire those assets that is still outstanding. The majority of the outstanding debt of the Authority was incurred for capital investment required to replace aged and deteriorated infrastructure, to improve operations and personnel safety, and to prepare for future treatment requirements. In 2017, the Authority sold sewer revenue and guaranteed sewer revenue bonds to secure \$17,055,000 in additional funding. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The Authority's unrestricted net position in the amount of \$6,987,567 may be used to meet the Authority's operating expenses. During 2017, the Authority's operating expenses were \$179,890 more than in 2016.

At the end of 2017, the Authority was able to report a positive balance in net position with an increase of \$784,627 from the net position of 2016. The revenues for the Authority during this reporting period increased, in large part, due to an increase in inter-governmental capital contributions.

Table 2 shows the changes in net position for the years ended December 31, 2017, 2016, and 2015.

**Table 2**

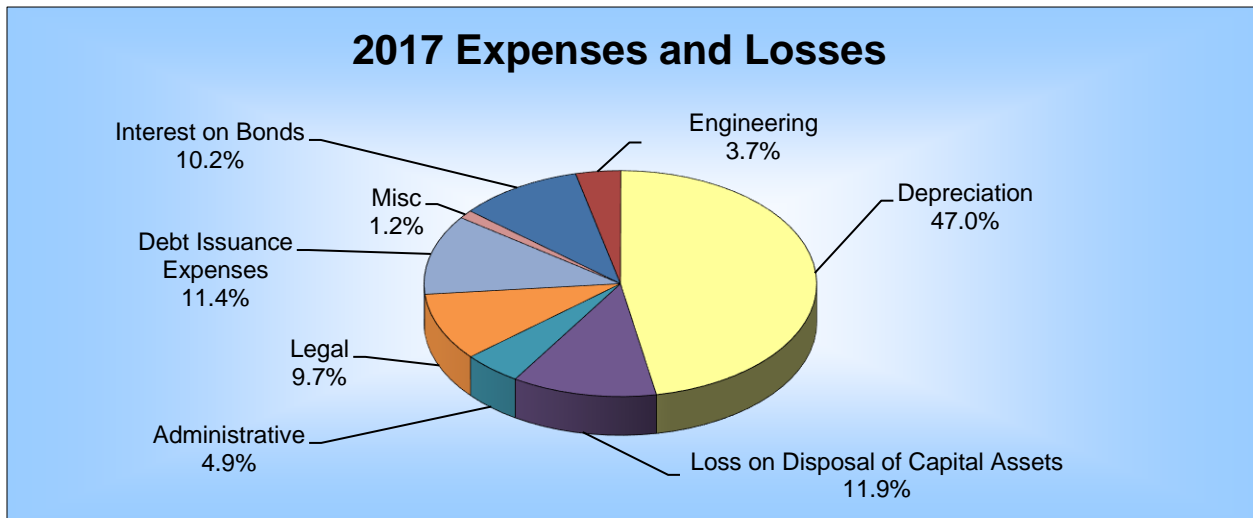
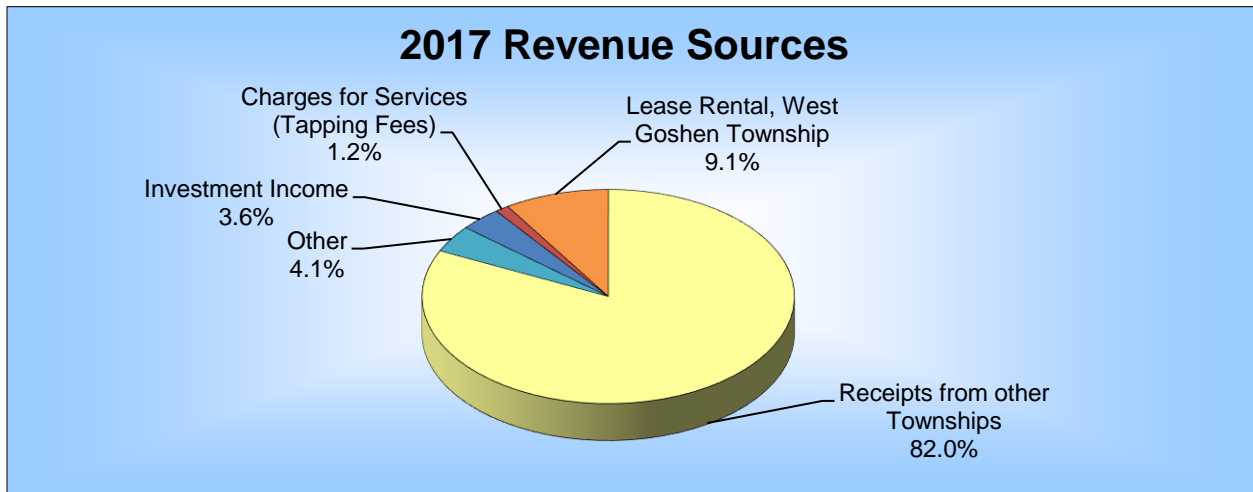
<b>WEST GOSHEN SEWER AUTHORITY'S CHANGES IN NET POSITION FOR THE YEARS ENDED DECEMBER 31, 2017, 2016, AND 2015</b>			
	2017	2016	2015
<u>Revenues</u>			
Program Revenues:			
Charges for Services (Tapping Fees)	\$ 29,494	\$ 202,810	\$ 68,403
Capital Contributions (from other Townships)	2,031,352	532,477	-
General Revenues:			
Lease Rentals, West Goshen Township	224,955	441,112	422,007
Other	190,471	138,080	146,545
Total Revenues	2,476,272	1,314,479	636,955
<u>Expenses and Losses</u>			
Operating Expenses	1,309,847	1,129,957	1,102,057
Interest Expense	173,040	14,111	14,995
Nonoperating Expenses and Losses	208,758	-	-
Total Expenses and Losses	1,691,645	1,144,068	1,117,052
Change in Net Position	784,627	170,411	(480,097)
Net Position, January 1	22,441,940	22,271,529	22,751,626
Net Position, December 31	\$ 23,226,567	\$ 22,441,940	\$ 22,271,529

# WEST GOSHEN SEWER AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)

West Goshen Township incorporated the Authority in 1958 for the sole purpose of financing construction of a sewage collection system and treatment plant, which is operated and maintained by the Township under a long-term lease. Revenues for the Authority include lease rentals from the West Goshen Township, tapping fees, and capital contributions from other townships.

As indicated by the following charts, revenue is composed of rent paid by West Goshen Township (9.1 percent), charges for services (tapping fees, 1.2 percent), capital contributions from other townships (82.0 percent), investment income (3.6 percent), and other (4.1 percent). Expenses are composed of depreciation expense (47.0 percent), disposal of capital assets (11.9 percent), debt issuance expenses (11.4 percent), interest (10.2 percent), legal and other fees associated with the EPA lawsuit (9.7 percent), administrative (4.9 percent), engineering fees (3.7 percent), and miscellaneous (1.2 percent).





## WEST GOSHEN SEWER AUTHORITY

### MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)

#### Summary of Organization and Business

The West Goshen Sewer Authority, at the request of the Township Board of Supervisors, constructed the West Goshen Township Sewerage System. Although the Authority retains ownership of the system, it is leased to the Township through the Board of Supervisors. West Goshen Township is responsible for operating the entire system, for maintenance and repair, and for establishing and collecting sewer rentals from users of the system. All sewer revenues of the Township are pledged for the payment of the sewer system operating expenses and lease rentals. Lease rentals in the amount of \$224,955 were paid to the Authority for 2017.

The sewerage system, particularly the pumping stations, force mains, interceptors, and treatment plant, was constructed with sufficient capacity to take care of the Township needs many years into the future. When new developments are constructed and/or the service is extended to existing homes, developers and residents are charged a tapping fee to connect to the system. Revenue generated from tapping fees for 2017 amounted to \$29,494. Tapping fee revenue can be used to pay down debt or to pay for capital projects.

In 2012, the Authority filed Civil Action against the United States Environmental Protection Agency ("EPA"), to challenge action taken by the EPA in its establishment of a TMDL (phosphorus) for Goose Creek. In December 2013, the Authority entered into an Interim Settlement Agreement with the EPA for the reassessment and reconsideration of Goose Creek. The Settlement Agreement requires this process to be complete by the end of 2018.

In addition to taking care of the needs of the Township, there is sufficient capacity available in the present system to permit the Authority to provide a limited amount of sewerage service outside of the Township. The Authority currently has written agreements with West Whiteland Township, East Goshen Township, Westtown Township, and Thornbury Township to purchase sewerage capacity in the Treatment Plant. The agreements also require the contributing townships to share in costs relating to capital improvements to the plant, pump stations, and collection system. Revenue generated from capital projects for 2017 amounted to \$2,031,352.

#### CAPITAL ASSETS AND DEBT ADMINISTRATION

##### *Capital Assets*

The Authority's investment in capital assets as of December 31, 2017 amounted to \$20,799,058, net of accumulated depreciation. This investment in capital assets includes land and land improvements, the wastewater treatment plant, the pumping stations, the sewer interceptors and force mains, the machinery and equipment, and any construction-in-progress. The total increase in the Authority's investment in capital assets for the current fiscal year was \$2,765,145, net of accumulated depreciation. The amount of accumulated depreciation to date is \$22,559,186.

**WEST GOSHEN SEWER AUTHORITY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)**

**Table 3**

<b>WEST GOSHEN SEWER AUTHORITY'S CAPITAL ASSETS DECEMBER 31, 2017, 2016, AND 2015</b>			
	2017	2016	2015
Buildings and improvements	\$ 12,450,427	\$ 12,693,602	\$ 12,660,768
Equipment	9,737,928	8,750,586	8,750,586
Land improvements	606,360	606,360	606,360
Land	82,083	82,083	82,083
Infrastructure	16,883,150	16,387,299	16,387,299
Construction-in-progress	3,598,296	1,522,155	-
Total Capital Assets	43,358,244	40,042,085	38,487,096
Less Accumulated Depreciation	(22,559,186)	(22,008,172)	(21,216,836)
Capital Assets, Net of Depreciation	\$ 20,799,058	\$ 18,033,913	\$ 17,270,260

In 2015, a comprehensive review of the wastewater collection, conveyance, and treatment system was conducted. The result indicated that significant improvements and capital investments were required to replace aged and deteriorated infrastructure, to improve operations and personnel safety, and to prepare for future treatment requirements. These recommendations were detailed in the 2015 Capital Improvement Plan ("CIP") that was presented to and subsequently adopted by the Authority in 2016. Major capital additions for the current fiscal year included the following:

- Pump station by-pass connections,
- Sanitary sewer system rehabilitation project - 2016,
- Various construction-in-progress projects:
  - Sanitary sewer system rehabilitation project - 2017,
  - Sanitary sewer system rehabilitation project - 2018,
  - Sludge facility upgrade,
  - Pump station No. 2 upgrade,
  - Pump station No. 10 upgrade,
  - Pump station No. 11 upgrade,
  - Pump station No. 13 upgrade,
  - Digesters replacement,
  - Headworks improvements,
  - Entrance improvements,
  - Enhanced chemical system upgrade,
  - CoMag tertiary treatment project

Additional information about the Authority's capital assets is presented in Note 4 to the financial statements.

## WEST GOSHEN SEWER AUTHORITY

### MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)

#### *Long-term Debt*

The Authority identified that their capital improvement campaign was going to require additional funding outside of their existing reserve funds. As a result, the Authority sold sewer revenue and guaranteed sewer revenue bonds to secure \$17,055,000 in additional capital improvement funding in 2017. As of December 31, 2017, the Authority had \$18,059,883 in long-term debt outstanding (including the unamortized premium) versus \$918,000 in 2016. Additional information about the Authority's long-term debt can be found in Note 5 to the financial statements.

#### **NEXT YEAR'S PROJECTS**

Based, in part, on the 2015 CIP, the Authority has begun implementing a program of systematic upgrades and improvements to the wastewater system where appropriate. Projects listed previously as major capital additions for the current fiscal year and identified as construction-in-progress are planned to continue into the coming year.

#### **REQUEST FOR INFORMATION**

This financial report was designed to provide a general overview of the West Goshen Sewer Authority's finances for those with an interest in the government's finances. Questions concerning any of the information provided herein or requests for additional financial information should be addressed to: Secretary, West Goshen Sewer Authority, 848 South Concord Road, West Chester, PA 19382.

**WEST GOSHEN SEWER AUTHORITY**  
**(A Component Unit of West Goshen Township)**  
**STATEMENTS OF NET POSITION**  
**DECEMBER 31, 2017 AND 2016**

	2017	2016
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 2,904,053	\$ 1,075,819
Cash and cash equivalents - restricted	9,842,110	-
Cash and cash equivalents - developer deposits	53,302	34,567
Investments	1,468,158	-
Investments - restricted	489,630	3,712,395
Accounts receivable	2,226,043	535,135
Accrued interest	13,793	7,775
Total Current Assets	16,997,089	5,365,691
Noncurrent Assets:		
Investments	1,443,913	733,702
Investments - restricted	3,168,085	-
Total Noncurrent Investments	4,611,998	733,702
Capital Assets:		
Depreciable capital assets, net	17,118,679	16,429,675
Land	82,083	82,083
Construction-in-progress	3,598,296	1,522,155
Net Capital Assets	20,799,058	18,033,913
Total Noncurrent Assets	25,411,056	18,767,615
<b>TOTAL ASSETS</b>	<b>\$ 42,408,145</b>	<b>\$ 24,133,306</b>
<b>LIABILITIES AND NET POSITION</b>		
Current Liabilities:		
Developers' deposits	\$ 53,302	\$ 34,567
Accounts payable	1,068,393	738,799
Long term debt, current portion	57,889	448,000
Total Current Liabilities	1,179,584	1,221,366
Noncurrent Liabilities:		
Long term debt	18,001,994	470,000
Total Noncurrent Liabilities	18,001,994	470,000
Total Liabilities	19,181,578	1,691,366
Net Position:		
Net investment in capital assets	16,239,000	17,115,913
Unrestricted	6,987,567	5,326,027
Total Net Position	23,226,567	22,441,940
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 42,408,145</b>	<b>\$ 24,133,306</b>

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

**WEST GOSHEN SEWER AUTHORITY**  
**(A Component Unit of West Goshen Township)**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES:		
Lease rentals, West Goshen Township	\$ 224,955	\$ 441,112
Tapping fees	29,494	202,810
Transfer from sewer revenue account - primary government	48,380	51,833
Other income	53,005	42,396
<b>TOTAL OPERATING REVENUES</b>	<u>355,834</u>	<u>738,151</u>
OPERATING EXPENSES:		
Administrative expenses	80,932	63,878
Debt issuance expenses	192,946	-
Depreciation expense	795,382	791,336
Engineering fees	63,062	122,983
Miscellaneous expenses	12,810	-
Professional fees	164,715	151,760
<b>TOTAL OPERATING EXPENSES</b>	<u>1,309,847</u>	<u>1,129,957</u>
<b>OPERATING LOSS</b>	<u>(954,013)</u>	<u>(391,806)</u>
NONOPERATING REVENUES (EXPENSES):		
Investment income, net of fees	89,086	39,319
Interest expense	(173,040)	(14,111)
Unrealized (loss) gain on investments	(7,519)	4,532
Loss on disposal of capital assets	(201,239)	-
<b>TOTAL NONOPERATING REVENUE (EXPENSES)</b>	<u>(292,712)</u>	<u>29,740</u>
Capital contributions	<u>2,031,352</u>	<u>532,477</u>
<b>CHANGE IN NET POSITION</b>	784,627	170,411
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>22,441,940</u>	<u>22,271,529</u>
<b>NET POSITION, END OF YEAR</b>	<u><u>\$ 23,226,567</u></u>	<u><u>\$ 22,441,940</u></u>

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

**WEST GOSHEN SEWER AUTHORITY**  
**(A Component Unit of West Goshen Township)**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Lease rentals and transfers received from West Goshen Township	\$ 224,955	\$ 441,112
Received from customers	471,323	341,204
Paid to suppliers for goods and services	(1,197,307)	(250,018)
<b>NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES</b>	<u>(501,029)</u>	<u>532,298</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
(Sales) purchases of investments	(2,131,208)	1,349,999
Investment income, net of fees	83,069	42,799
<b>NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES</b>	<u>(2,048,139)</u>	<u>1,392,798</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Proceeds of debt issuance	18,112,772	-
Debt retirements	(918,000)	(427,000)
Interest paid	(225,929)	(14,111)
Cash paid for the acquisition and construction of capital assets	(2,730,596)	(923,493)
<b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>14,238,247</u>	<u>(1,364,604)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	11,689,079	560,492
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>1,110,386</u>	<u>549,894</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 12,799,465</u>	<u>\$ 1,110,386</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating loss	\$ (954,013)	\$ (391,806)
Adjustments to reconcile operating loss to net cash (used) provided by operating activities:		
Depreciation	795,382	791,336
Changes in assets and liabilities:		
Decrease in accounts receivable	340,444	38,466
Increase in due from developers	-	5,699
(Decrease) Increase in accounts payable	(701,577)	78,644
Increase in developers' deposits	18,735	9,959
<b>NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ (501,029)</u>	<u>\$ 532,298</u>
Cash and cash equivalents - unrestricted	\$ 2,904,053	\$ 1,075,819
Cash and cash equivalents - restricted	9,842,110	-
Cash and cash equivalents - developer deposits	53,302	34,567
	<u>\$ 12,799,465</u>	<u>\$ 1,110,386</u>
<b>NONCASH INVESTING, AND CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Unrealized (loss) gain on investments	\$ (7,519)	\$ 4,532
Capital contributions receivable from participating townships	<u>\$ 2,031,352</u>	<u>\$ 532,477</u>
Capital asset acquired through the incurrence of accounts payable	<u>\$ 1,031,170</u>	<u>\$ 631,496</u>
Amortization of bond premium	<u>\$ 52,889</u>	<u>\$ -</u>

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

WEST GOSHEN SEWER AUTHORITY  
(A Component Unit of West Goshen Township)

NOTES TO FINANCIAL STATEMENTS

NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the West Goshen Sewer Authority ("the Authority") have been prepared in conformity with generally accepted accounting principles ("GAAP") as applied to government units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by the Authority are described below.

Reporting Entity

The Authority was incorporated by West Goshen Township, West Chester, Pennsylvania, for the purpose of financing construction of a sewage collection system and treatment plant, which is operated and maintained by the Township under a long-term lease. The Authority's operations are monitored by Township personnel and, therefore, no personnel service costs are incurred. The Authority is a component unit of the reporting entity of West Goshen Township.

Measurement Focus and Basis of Accounting and Financial Statement Presentation

The term "measurement focus" is used to denote what is being measured and reported in the Authority's operating statement. The Authority is accounted for on the flow of economic resources measurement focus. The fundamental objective of this focus is to measure whether the Authority is better or worse off economically as a result of events and transactions of the period.

The term "basis of accounting" is used to determine when a transaction or event is recognized on the Authority's operating statement. The Authority uses the accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

The Authority adheres to the provisions of the *GASB Codification of Governmental Accounting and Financial Reporting Standards* ("the Codification"). The Codification established standards for external financial reporting for all state and local governmental entities, which includes a statement of net position; a statement of revenues, expenses, and changes in net position; and a statement of cash flows. It requires the classification of net position in one of three components. Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowing attributable to acquiring, constructing, or improving those assets. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the

WEST GOSHEN SEWER AUTHORITY  
(A Component Unit of West Goshen Township)

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

same net position component as unspent proceeds. Net position is reported as restricted when constraints placed on their use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Those restrictions affect net position arising from special revenue and capital funds. Unrestricted net position consists of accumulated resources that do not meet the definition of "net investment in capital assets" or "restricted."

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash deposits consist of demand and time deposits and money market funds with financial institutions and are carried at cost. For purposes of the statement of cash flows, all cash deposits and highly liquid investments with an original maturity of three months or less when acquired are considered to be cash equivalents.

Investments

Investments are recorded at fair value.

In establishing the fair value of investments, the Authority uses the following hierarchy. The lowest level of valuation available is used for all investments.

*Level 1* – Valuations based on quoted market prices in active markets for identical assets or liabilities that the entity has the ability to access.

*Level 2* – Valuations based on quoted prices of similar products in active markets or identical products in markets that are not active or for which all significant inputs are observable, directly or indirectly.

*Level 3* – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.



WEST GOSHEN SEWER AUTHORITY  
(A Component Unit of West Goshen Township)

NOTES TO FINANCIAL STATEMENTS

NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Developers' Deposits

Developers' deposits represent cash deposits made by contractors in relation to various construction projects. The Authority acts as an agent for these deposits and, accordingly, no revenue is recorded. Both assets and liabilities are recorded for the initial amount of deposit.

Restricted Assets

Restricted cash and cash equivalents and investments consist of unspent bond proceeds from the Guaranteed Sewer Revenue Bonds, Series of 2017 and developer deposits.

Revenues and Expenses

Revenues and expenses are distinguished between operating and nonoperating items. Operating revenues generally result from providing services in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are lease rentals from West Goshen Township and tapping fees.

Operating expenses include the costs associated with the engineering, administrative expenses, professional fees, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

Use of Restricted/Unrestricted Net Position

When an expense is incurred for purposes for which both restricted and unrestricted net position is available, the Authority's policy is to apply restricted net position first.

Capital Assets

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 one year.

Capital assets of the Authority are recorded at either their actual cost or estimated historical cost. Donated assets are valued at their estimated fair value on the date donated. Depreciation of all exhaustible capital assets is charged as an expense against their operations. Depreciation is computed using the straight-line method over estimated asset lives as follows:

Infrastructure	20 - 40 years
Buildings and building improvements	25 - 40 years
Land improvements	10 - 20 years
Equipment	5 - 20 years

WEST GOSHEN SEWER AUTHORITY  
(A Component Unit of West Goshen Township)

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Major additions and betterments are capitalized while expenses for maintenance and repairs that do not add value to the asset or materially extend asset lives are charged to operations as incurred.

Long-term Obligations

On the statement of net position, long-term obligations are broken out between current and non-current liabilities dependent on when payment will become due. Bond premiums and discounts are netted against outstanding obligation balances and amortized over the life of the debt. All amortized amounts are amortized using the straight-line method. All issuance costs associated with a debt issuance are expensed when incurred.

NOTE 2 DEPOSITS AND INVESTMENTS

***Deposits***

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. The Authority does not have a policy for custodial credit risk on deposits. At December 31, 2017, the carrying amount of the Authority's deposits was \$12,799,465, and the bank balance was \$12,766,418. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$251,660 was exposed to custodial credit risk because it was uninsured and uncollateralized. The remaining \$12,264,758 of the Authority's deposits was invested in money market funds managed by Goldman Sachs. Goldman Sachs is registered with the Securities and Exchange Commission and subject to regulatory oversight. The objective of the fund is to maintain a stable net asset value of \$1 per share. In addition, the fund is rated by nationally recognized rating organizations (Moody's Investors Service rating of Aaa-mf and Standard & Poor's rating of AAAM as of December 31, 2017) and is subject to an independent annual audit.

At December 31, 2016, the carrying amount of the Authority's deposits was \$1,110,386, and the bank balance was \$1,110,621. Of the bank balance, \$70,274 was covered by federal depository insurance. The remaining \$1,040,347 of the Authority's deposits was invested in a domestic money market funds managed by Goldman Sachs. Goldman Sachs is registered with the Securities and Exchange Commission and subject to regulatory oversight. The objective of the fund is to maintain a stable net asset value of \$1 per share. In addition, the fund is rated by nationally recognized rating organizations (Moody's Investors Service rating of Aaa-mf and Standard & Poor's rating of AAAM as of December 31, 2016) and is subject to an independent annual audit.

WEST GOSHEN SEWER AUTHORITY  
(A Component Unit of West Goshen Township)

NOTES TO FINANCIAL STATEMENTS

NOTE 2 DEPOSITS AND INVESTMENTS (cont'd)

***Investments***

Statutes authorize the Authority to invest in obligations of the U.S. Treasury; agencies and instrumentalities; deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation ("FDIC"), the Federal Savings and Loan Insurance Corporation ("FSLIC") or the National Credit Union Share Insurance Fund ("NCUSIF"). The Authority also is authorized to invest in obligations of the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, or the Commonwealth of Pennsylvania or any of its agencies or instrumentalities.

As of December 31, 2017, the Authority had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Level I</u>	<u>Less Than One Year</u>	<u>One to Five Years</u>
Negotiable certificates of deposit	<u>\$ 6,569,786</u>	<u>\$ 6,569,786</u>	<u>\$ 1,957,788</u>	<u>\$ 4,611,998</u>

As of December 31, 2016, the Authority had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Level I</u>	<u>Less Than One Year</u>	<u>One to Five Years</u>
Negotiable certificates of deposit	<u>\$ 4,446,097</u>	<u>\$ 4,446,097</u>	<u>\$ 3,712,395</u>	<u>\$ 733,702</u>

Interest Rate Risk

The Authority does not have an investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At December 31, 2017 and 2016, all of the Authority's investments had maturity dates of five years or less.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. As of December 31, 2017 and 2016, none of the Authority's investments were subject to custodial credit risk.

Concentration and Credit Risk

The Authority does not have an investment policy to address the concentration and credit risk of its investments. As of December 31, 2017 and 2016, the Authority's investments consisted of certificates of deposit in increments of \$250,000 or less invested in numerous banks.

WEST GOSHEN SEWER AUTHORITY  
(A Component Unit of West Goshen Township)

NOTES TO FINANCIAL STATEMENTS

NOTE 3 GUARANTY AGREEMENT

The sewage collection system and treatment plant is leased to and operated by West Goshen Township, who has guaranteed payment of the Guaranteed Sewer Revenue Bonds, Series of 2017 through a guaranty agreement dated June 27, 2017. All sewer revenues of the Township are pledged for the payment of operating expenses of the system and debt payments.

NOTE 4 CAPITAL ASSETS

A summary of changes in the Authority's capital assets is as follows:

	2017				Balance 12/31/17
	Balance 01/01/17	Additions	Deletions	Reclass- ification	
Collection system - infrastructure	\$ 16,387,299	\$ -	\$ -	\$ 495,851	\$ 16,883,150
Land improvements	606,360	-	-	-	606,360
Buildings and building improvements	12,693,602	-	(243,175)	-	12,450,427
Equipment	8,750,586	-	(202,432)	1,189,774	9,737,928
	<u>38,437,847</u>		<u>(445,607)</u>	<u>1,685,625</u>	<u>39,677,865</u>
Accumulated depreciation	(22,008,172)	(795,382)	244,368	-	(22,559,186)
Land	82,083	-	-	-	82,083
Construction-in-progress	1,522,155	3,761,766	-	(1,685,625)	3,598,296
<b>NET CAPITAL ASSETS</b>	<u>\$ 18,033,913</u>	<u>\$ 2,966,384</u>	<u>\$ (201,239)</u>	<u>\$ -</u>	<u>\$ 20,799,058</u>

	2016				Balance 12/31/16
	Balance 01/01/16	Additions	Deletions	Reclass- ification	
Collection system - infrastructure	\$ 16,387,299	\$ -	\$ -	\$ -	\$ 16,387,299
Land improvements	606,360	-	-	-	606,360
Buildings and building improvements	12,660,768	32,834	-	-	12,693,602
Equipment	8,750,586	-	-	-	8,750,586
	<u>38,405,013</u>	<u>32,834</u>	<u>-</u>	<u>-</u>	<u>38,437,847</u>
Accumulated depreciation	(21,216,836)	(791,336)	-	-	(22,008,172)
Land	82,083	-	-	-	82,083
Construction-in-progress	-	1,522,155	-	-	1,522,155
<b>NET CAPITAL ASSETS</b>	<u>\$ 17,270,260</u>	<u>\$ 763,653</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,033,913</u>

WEST GOSHEN SEWER AUTHORITY  
(A Component Unit of West Goshen Township)

NOTES TO FINANCIAL STATEMENTS

NOTE 5 LONG-TERM DEBT

Delaware Valley Regional Finance Authority — Guaranteed Note, Series of 1998 with interest at variable rates not to exceed 25 percent per annum, as invoiced monthly. Maturity date is July 25, 2018. The note is secured by the sewer plant. Interest rates change on a weekly basis (1.21 percent as of December 31, 2016) and are determined by the Bond Market Association Index.

A schedule of changes in the note payable is as follows:

2017				
	Outstanding 01/01/17	Retirements	Outstanding 12/31/17	Amounts Due in One Year
Sewer Note	\$ 918,000	\$ 918,000	\$ -	\$ -

2016				
	Outstanding 01/01/16	Retirements	Outstanding 12/31/16	Amounts Due in One Year
Sewer Note	\$ 1,345,000	\$ 427,000	\$ 918,000	\$ 448,000

In June 2017, the Authority issued Guaranteed Sewer Revenue Bonds, Series of 2017 for the purpose of the current refunding and redemption of the Authority's Guaranteed Note, Series of 1998, the payment of the costs to construct improvements to the public sanitary sewer system of the Authority leased to the Township, and the payment of all costs and expenses related to the issuing of the bonds. The bonds mature through May 2037 with interest payable semi-annually at interest rates ranging from .90 percent to 3.25 percent.

A schedule of changes in the bonds payable is as follows:

	Outstanding 01/01/17	Additions	Retirements	Outstanding 12/31/17	Amounts Due in One Year
Bonds payable	\$ -	\$17,055,000	\$ -	\$17,055,000	\$ 5,000
Deferred amounts: Issuance premium	-	1,057,772	52,889	1,004,883	52,889
<b>TOTAL</b>	<b>\$ -</b>	<b>\$18,112,772</b>	<b>\$ 52,889</b>	<b>\$18,059,883</b>	<b>\$ 57,889</b>

WEST GOSHEN SEWER AUTHORITY  
(A Component Unit of West Goshen Township)

NOTES TO FINANCIAL STATEMENTS

NOTE 5 LONG-TERM DEBT (cont'd)

The bond matures as follows:

<u>Year Ending December 31,</u>	<u>Series of 2017</u>	
	<u>Principal</u>	<u>Interest</u>
2018	\$ 5,000	\$ 634,098
2019	620,000	624,775
2020	640,000	605,875
2021	665,000	582,975
2022	685,000	563,681
2023-2027	3,880,000	2,357,913
2028-2032	4,805,000	1,431,288
2033-2037	5,755,000	479,781
Totals	<u>\$ 17,055,000</u>	<u>\$ 7,280,386</u>

NOTE 6 RISK MANAGEMENT

The Authority has purchased commercial insurance policies for various risks of loss related to torts; theft, damage, or destruction of assets; errors or omissions; injuries to employees; or acts of God. Payments of premiums for these policies are recorded as expenses of the Authority by the primary government. Insurance settlements have not exceeded insurance coverage in any of the past three years. There were no significant reductions in coverage compared to the prior year.

NOTE 7 CONTINGENT LIABILITIES

The Authority is subject to various disputes and legal proceedings which arise in the normal course of its operations. In the opinion of management, the amount of ultimate liability with respect to these activities will not be material to the Authority's financial condition.

The Authority has been funding a legal effort to prevent the United States Environmental Protection Agency ("EPA") from adopting new nutrient discharge limitations. In 2012, the Authority filed Civil Action against the EPA, to challenge action taken by the EPA in its establishment of a TMDL (phosphorus) for Goose Creek. In December 2013, the Authority entered into an Interim Settlement Agreement with the EPA for the reassessment and reconsideration of Goose Creek. This process should be completed in 2018. These limits will

WEST GOSHEN SEWER AUTHORITY  
(A Component Unit of West Goshen Township)

NOTES TO FINANCIAL STATEMENTS

NOTE 7 CONTINGENT LIABILITIES (cont'd)

affect all stormwater and wastewater dischargers in Chester Creek, including the West Goshen Sewer Authority. The outcome of these efforts could have a substantial impact on the future financial picture of the Authority since significant modifications to the sewage treatment plant may be necessary in the future.

NOTE 8 CAPITAL IMPROVEMENT COMMITMENTS

As of December 31, 2017, anticipated construction commitments are as follows:

	Contract Amount	Completed 12/31/2017	Estimated Balance to Complete
Digesters	\$ 4,424,240	\$ 386,276	\$ 4,037,964
Headworks- Walabax	1,305,217	341,120	964,097
Headworks- PSI Pumping	239,835	186,808	53,027
Chemical System Upgrade	94,938	14,116	80,822
ByPass Connections	579,215	365,939	213,276
2017 Sanitary Sewer	1,224,125	39,969	1,184,156
	<u>\$ 7,867,570</u>	<u>\$ 1,334,228</u>	<u>\$ 6,533,342</u>

In addition, the Authority has incurred costs totaling \$2,264,068 for project costs that are not under a formal contract as of December 31, 2017.

NOTE 9 SUBSEQUENT EVENTS

The Authority has evaluated all subsequent events through June 27, 2018, the date the financial statements were available to be issued.

INDEPENDENT AUDITOR'S  
REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

June 27, 2018

To the Officers  
West Goshen Sewer Authority  
West Chester, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the West Goshen Sewer Authority ("the Authority"), West Chester, Pennsylvania, which comprise the statement of net position as of December 31, 2017 and, 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, and have issued our report thereon dated June 27, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



To the Officers  
West Goshen Sewer Authority

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

  
BARBACANE, THORNTON & COMPANY LLP