



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

BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

DECEMBER 31, 2018 AND 2017

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

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INDEPENDENT AUDITOR'S REPORT

June 4, 2019

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, 2018 and 2017, 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

To the Officers
West Goshen Sewer Authority

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.

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, 2018 and 2017, 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 4, 2019, 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, 2018. Please read it in conjunction with the Authority's financial statements, which begin on page 10.

FINANCIAL HIGHLIGHTS

- The Authority reported \$6,670,467 of capital improvement projects and equipment purchases during 2018.
- Tapping fees for 2018 were \$277,632; an increase of \$248,138 from 2017.
- Lease rental for 2018 was \$639,098; an increase of \$414,143 from 2017.
- Capital contributions from other townships for 2018 were \$1,463,432.
- Investment income for 2018 was \$258,005; an increase of \$168,919 from 2017.
- As of December 31, 2018, the Authority reported an ending net position of \$24,301,082, an increase of \$1,074,515 as compared to the prior year.
- The Authority incurred \$131,442 in legal fees, including an effort to prevent the United States Environmental Protection Agency and DEP from adopting unachievable 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 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?"

WEST GOSHEN SEWER AUTHORITY

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

FINANCIAL ANALYSIS OF THE AUTHORITY

One of the most important questions asked about the Authority's finances is, "Is the Authority better 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 \$24,301,082, \$23,226,567, and \$22,441,940 at the close of 2018, 2017, and 2016, respectively. Our analysis focuses on the net position (Table 1) and the changes in net position (Table 2) of the Authority.

Table 1

WEST GOSHEN SEWER AUTHORITY'S NET POSITION DECEMBER 31, 2018, 2017, AND 2016			
	2018	2017	2016
Assets:			
Current and Other Assets	\$ 16,215,775	\$ 21,609,087	\$ 6,099,393
Capital Assets	26,636,921	20,799,058	18,033,913
Total Assets	42,852,696	42,408,145	24,133,306
Current Liabilities	1,222,509	1,179,584	1,221,366
Noncurrent Liabilities	17,329,105	18,001,994	470,000
Total Liabilities	18,551,614	19,181,578	1,691,366
Net Position:			
Net Investment in Capital Assets	16,940,256	16,239,000	17,115,913
Unrestricted	7,360,826	6,987,567	5,326,027
Total Net Position	\$ 24,301,082	\$ 23,226,567	\$ 22,441,940

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 net of unspent debt proceeds. 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. 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.

WEST GOSHEN SEWER AUTHORITY

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

The Authority's unrestricted net position in the amount of \$7,360,826, \$6,987,567, and \$5,326,027, for 2018, 2017, and 2016, respectively, may be used to meet the Authority's operating expenses. During 2018, the Authority's operating expenses were \$194,149 less than in 2017. During 2017, the Authority's operating expenses were \$179,890 than 2016.

At the end of 2018, the Authority was able to report a positive balance in net position with an increase of \$1,074,515 from the net position of 2017. The net position for the Authority during this reporting period increased, in large part, due to inter-governmental capital contributions.

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 charges for services, lease rentals, and investment income.

Table 2 shows the changes in net position for the years ended December 31, 2018, 2017, and 2016.

Table 2

WEST GOSHEN SEWER AUTHORITY'S CHANGES IN NET POSITION FOR THE YEARS ENDED DECEMBER 31, 2018, 2017, AND 2016			
	2018	2017	2016
Revenues:			
Program Revenues:			
Charges for Services (Tapping Fees)	\$ 277,632	\$ 29,494	\$ 202,810
Capital Contributions (from other Townships)	1,463,432	2,031,352	532,477
General Revenues:			
Lease Rentals, Township of West Goshen	639,098	224,955	441,112
Investment Income (net of fees)	258,005	89,086	-
Other	142,283	101,385	138,080
Total Revenues	2,780,450	2,476,272	1,314,479
Expenses:			
Operating Expenses	1,115,698	1,309,847	1,129,957
Interest Expense	581,208	173,040	14,111
Nonoperating Expenses	9,029	208,758	-
Total Expenses	1,705,935	1,691,645	1,144,068
Change in Net Position	1,074,515	784,627	170,411
Net Position, January 1	23,226,567	22,441,940	22,271,529
Net Position, December 31	\$ 24,301,082	\$ 23,226,567	\$ 22,441,940

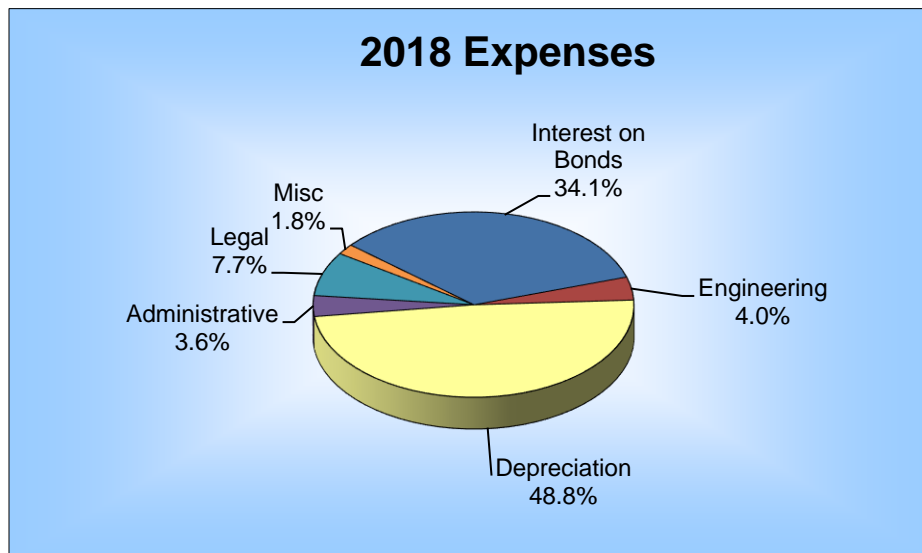
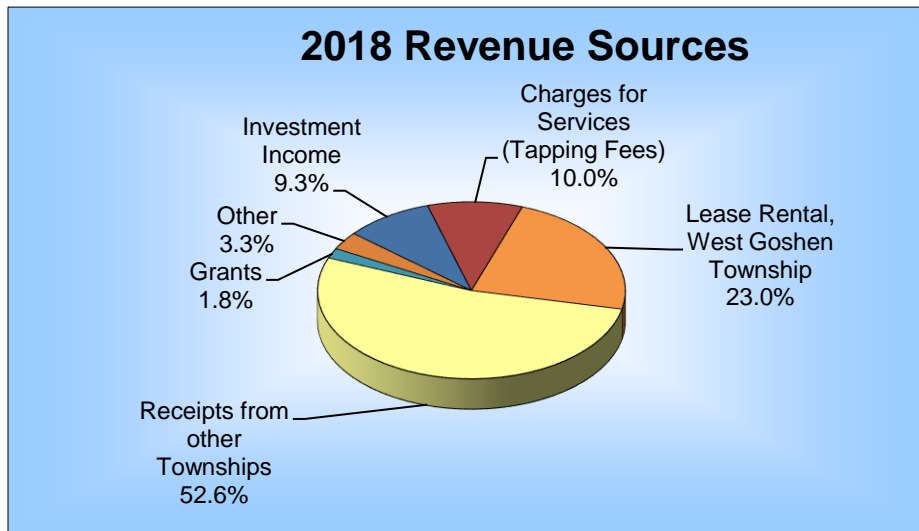
West Goshen Township incorporated the Authority in 1958 for the sole purpose of financing construction of a sewage collection system and treatment plant, which is operated and maintained by the Township

WEST GOSHEN SEWER AUTHORITY

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

under a long-term lease. Revenues for the Authority include lease rentals from 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 (23.0%), charges for services (tapping fees, 10.0%), capital contributions from other townships (52.6%), investment income (9.3%), grants (1.8%), and other income (3.3%). Expenses are composed of depreciation expense (48.8%), interest (34.1%), legal and other fees associated with the EPA lawsuit (7.7%), administrative (3.6%), engineering fees (4.0%), and miscellaneous (1.8%).



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 \$639,098 were paid to the Authority for 2018. In 2018, the West Goshen Board of Supervisors approved an increase in sewer use fees set to begin in 2019.

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 2018 amounted to \$277,632. 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 total phosphorus ("TP") total maximum daily load ("TMDL") 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. As a result of the reassessment, a second Interim Settlement Agreement was reached in October 2018 to further reduce effluent TP from a monthly average of 0.8 mg/L to a monthly average of 0.1 mg/L by December 2022 with the ultimate goal of demonstrating whether or not a U.S. EPA-approved tertiary treatment system can treat to levels of TP lower than 0.1 mg/L.

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 2018 amounted to \$1,463,432.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Authority's investment in capital assets as of December 31, 2018, 2017, 2016 amounted to \$26,636,921, \$20,799,058, and \$18,033,913, respectively, net of accumulated depreciation. This investment in capital assets includes land and land improvements, the wastewater treatment plant, pumping stations, sewer interceptors and force mains, machinery and equipment, and any construction-in-progress. The total increase in the Authority's investment in capital assets for the current

WEST GOSHEN SEWER AUTHORITY

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

fiscal year was \$5,837,863, net of accumulated depreciation. The amount of accumulated depreciation to date is \$23,391,790.

Table 3

WEST GOSHEN SEWER AUTHORITY'S CAPITAL ASSETS DECEMBER 31, 2018, 2017, AND 2016			
	2018	2017	2016
Buildings and Improvements	\$ 12,464,637	\$ 12,450,427	\$ 12,693,602
Equipment	10,493,223	9,737,928	8,750,586
Land Improvements	606,360	606,360	606,360
Land	82,083	82,083	82,083
Infrastructure	16,883,150	16,883,150	16,387,299
Construction-in-progress	9,499,258	3,598,296	1,522,155
Total Capital Assets	50,028,711	43,358,244	40,042,085
Less Accumulated Depreciation	(23,391,790)	(22,559,186)	(22,008,172)
Capital Assets, Net of Depreciation	<u>\$ 26,636,921</u>	<u>\$ 20,799,058</u>	<u>\$ 18,033,913</u>

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 – 2017,
- Headworks improvement project,
- Enhanced chemical system upgrade,
- Various construction-in-progress projects:
 - 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,
 - Digester replacements,
 - Entrance improvements,
 - CoMag tertiary treatment project

WEST GOSHEN SEWER AUTHORITY

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

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

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, 2018, the Authority had \$18,001,994 in long-term debt outstanding (including the unamortized premium) versus \$18,059,883 in 2017 and \$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, 2018 AND 2017

	2018	2017
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 599,419	\$ 2,904,053
Cash and cash equivalents - restricted	4,352,138	9,842,110
Cash and cash equivalents - developers' deposits	55,515	53,302
Investments	5,016,828	1,468,158
Investments - restricted	1,531,165	489,630
Accounts receivable	1,716,331	2,226,043
Accrued interest	33,573	13,793
Total Current Assets	13,304,969	16,997,089
Noncurrent Assets:		
Investments	488,780	1,443,913
Investments - restricted	2,422,026	3,168,085
Total Noncurrent Investments	2,910,806	4,611,998
Capital Assets:		
Depreciable capital assets, net	17,055,580	17,118,679
Land	82,083	82,083
Construction-in-progress	9,499,258	3,598,296
Net Capital Assets	26,636,921	20,799,058
Total Noncurrent Assets	29,547,727	25,411,056
TOTAL ASSETS	\$ 42,852,696	\$ 42,408,145
LIABILITIES AND NET POSITION		
Current Liabilities:		
Developers' deposits	\$ 55,515	\$ 53,302
Accounts payable	481,255	1,068,393
Accrued interest payable	12,850	-
Long-term debt, current portion	672,889	57,889
Total Current Liabilities	1,222,509	1,179,584
Noncurrent Liabilities:		
Long-term debt	17,329,105	18,001,994
Total Noncurrent Liabilities	17,329,105	18,001,994
Total Liabilities	18,551,614	19,181,578
Net Position:		
Net investment in capital assets	16,940,256	16,239,000
Unrestricted	7,360,826	6,987,567
Total Net Position	24,301,082	23,226,567
TOTAL LIABILITIES AND NET POSITION	\$ 42,852,696	\$ 42,408,145

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, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
OPERATING REVENUES:		
Lease rentals, West Goshen Township	\$ 639,098	\$ 224,955
Tapping fees	277,632	29,494
Transfer from sewer revenue account - primary government	44,436	48,380
Other income	46,641	53,005
TOTAL OPERATING REVENUES	<u>1,007,807</u>	<u>355,834</u>
OPERATING EXPENSES:		
Administrative expenses	61,074	80,932
Debt issuance expenses	-	192,946
Depreciation expense	832,604	795,382
Engineering fees	68,520	63,062
Miscellaneous expenses	22,058	12,810
Professional fees	131,442	164,715
TOTAL OPERATING EXPENSES	<u>1,115,698</u>	<u>1,309,847</u>
OPERATING LOSS	<u>(107,891)</u>	<u>(954,013)</u>
NONOPERATING REVENUES (EXPENSES):		
Investment income, net of fees	258,005	89,086
Grants	51,206	-
Interest expense	(581,208)	(173,040)
Unrealized loss on investments	(9,029)	(7,519)
Loss on disposal of capital assets	-	(201,239)
TOTAL NONOPERATING EXPENSES	<u>(281,026)</u>	<u>(292,712)</u>
Capital contributions	<u>1,463,432</u>	<u>2,031,352</u>
CHANGE IN NET POSITION	1,074,515	784,627
NET POSITION, BEGINNING OF YEAR	<u>23,226,567</u>	<u>22,441,940</u>
NET POSITION, END OF YEAR	<u>\$ 24,301,082</u>	<u>\$ 23,226,567</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, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Lease rentals and transfers received from West Goshen Township	\$ 639,098	\$ 224,955
Received from customers	2,341,853	471,323
Paid to suppliers for goods and services	<u>(1,337,630)</u>	<u>(1,197,307)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>1,643,321</u>	<u>(501,029)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale of investments	(2,898,043)	(2,131,208)
Investment income, net of fees	238,226	83,069
NET CASH USED BY INVESTING ACTIVITIES	<u>(2,659,817)</u>	<u>(2,048,139)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds of debt issuance	-	18,112,772
Debt retirements	(5,000)	(918,000)
Interest paid	(621,247)	(225,929)
Grants received	51,206	-
Cash paid for the acquisition and construction of capital assets	<u>(6,200,856)</u>	<u>(2,730,596)</u>
NET CASH (USED) PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(6,775,897)</u>	<u>14,238,247</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(7,792,393)	11,689,079
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>12,799,465</u>	<u>1,110,386</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 5,007,072</u>	<u>\$ 12,799,465</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating loss	\$ (107,891)	\$ (954,013)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation	832,604	795,382
Changes in assets and liabilities:		
Decrease in accounts receivable	1,973,144	340,444
Decrease in accounts payable	(1,056,749)	(701,577)
Increase in developers' deposits	2,213	18,735
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 1,643,321</u>	<u>\$ (501,029)</u>
Cash and cash equivalents - unrestricted	\$ 599,419	\$ 2,904,053
Cash and cash equivalents - restricted	4,352,138	9,842,110
Cash and cash equivalents - developers' deposits	55,515	53,302
	<u>\$ 5,007,072</u>	<u>\$ 12,799,465</u>
NONCASH INVESTING, AND CAPITAL AND RELATED FINANCING ACTIVITIES:		
Unrealized loss on investments	<u>\$ (9,029)</u>	<u>\$ (7,519)</u>
Capital contributions receivable from participating townships	<u>\$ 1,463,432</u>	<u>\$ 2,031,352</u>
Capital asset acquired through the incurrence of accounts payable	<u>\$ 469,611</u>	<u>\$ 1,031,170</u>
Amortization of bond premium	<u>\$ 52,889</u>	<u>\$ 52,889</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 governmental 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 same net position component as unspent proceeds. Net position is reported as restricted when

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

NOTES TO FINANCIAL STATEMENTS

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

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 and 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, 2018, the carrying amount of the Authority's deposits was \$5,007,072, and the bank balance was \$5,016,586. Of the bank balance, \$240,721 was covered by federal depository insurance. The remaining \$4,775,865 of the Authority's deposits were 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, 2018) and is subject to an independent annual audit.

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 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, 2017) 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, 2018, the Authority had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Less Than One Year</u>	<u>One to Five Years</u>
Negotiable certificates of deposit	<u>\$ 9,458,799</u>	<u>\$ 9,458,799</u>	<u>\$ 6,547,993</u>	<u>\$ 2,910,806</u>

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Level 1</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>

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, 2018 and 2017, 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, 2018 and 2017, 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, 2018 and 2017, 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:

	2018				Balance 12/31/18
	Balance 01/01/18	Additions	Deletions	Reclass- ification	
Collection system - infrastructure	\$ 16,883,150	\$ -	\$ -	\$ -	\$ 16,883,150
Land improvements	606,360	-	-	-	606,360
Buildings and building improvements	12,450,427	14,210	-	-	12,464,637
Equipment	9,737,928	-	-	755,295	10,493,223
	39,677,865	14,210	-	755,295	40,447,370
Accumulated depreciation	(22,559,186)	(832,604)	-	-	(23,391,790)
Land	82,083	-	-	-	82,083
Construction-in-progress	3,598,296	6,656,257	-	(755,295)	9,499,258
NET CAPITAL ASSETS	\$ 20,799,058	\$ 5,837,863	\$ -	\$ -	\$ 26,636,921

	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
	38,437,847	-	(445,607)	1,685,625	39,677,865
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
NET CAPITAL ASSETS	\$ 18,033,913	\$ 2,966,384	\$ (201,239)	\$ -	\$ 20,799,058

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. The note was fully paid off in the year ended December 31, 2017.

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	\$ -	\$ -

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:

	2018				
	Outstanding 01/01/18	Additions	Retirements	Outstanding 12/31/18	Amounts Due in One Year
Bonds payable	\$17,055,000	\$ -	\$ 5,000	\$17,050,000	\$ 620,000
Deferred amounts: Issuance premium	1,004,883	-	52,889	951,994	52,889
TOTAL	\$18,059,883	\$ -	\$ 57,889	\$18,001,994	\$ 672,889

	2017				
	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
TOTAL	\$ -	\$18,112,772	\$ 52,889	\$18,059,883	\$ 57,889

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

NOTES TO FINANCIAL STATEMENTS

NOTE 5 LONG-TERM DEBT

The bond matures as follows:

<u>Year Ending December 31,</u>	<u>Series of 2017</u>	
	<u>Principal</u>	<u>Interest</u>
2019	\$ 620,000	\$ 624,775
2020	640,000	605,875
2021	665,000	582,975
2022	685,000	563,681
2023	705,000	543,588
2024-2028	4,060,000	2,175,863
2029-2033	4,995,000	1,239,319
2034-2037	4,680,000	310,213
Totals	<u>\$ 17,050,000</u>	<u>\$ 6,646,289</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. As a result of the reassessment, a second Interim Settlement

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

NOTES TO FINANCIAL STATEMENTS

NOTE 7 CONTINGENT LIABILITIES (cont'd)

Agreement was reached in October 2018 to further reduce effluent TP from a monthly average of 0.8 mg/L to a monthly average of 0.1 mg/L by December 2022 with the ultimate goal of demonstrating whether or not a U.S. EPA-approved tertiary treatment system can treat to levels of TP lower than 0.1 mg/L. These limits will 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, 2018, anticipated construction commitments are as follows:

	<u>Contract Amount</u>	<u>Completed 12/31/2018</u>	<u>Estimated Balance to Complete</u>
Digesters	\$ 5,351,944	\$ 3,300,919	\$ 2,051,025
2017 Sanitary Sewer	1,242,125	973,813	268,312
Headworks	1,562,054	1,562,054	-
Chemical System Upgrade	<u>103,819</u>	<u>103,819</u>	<u>-</u>
	<u>\$ 8,259,942</u>	<u>\$ 5,940,605</u>	<u>\$ 2,319,337</u>

In addition, the Authority has incurred costs totaling \$3,558,653 for project costs that are not under a formal contract as of December 31, 2018.

NOTE 9 SUBSEQUENT EVENTS

The Authority has evaluated all subsequent events through June 4, 2019, 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 4, 2019

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, 2018, 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, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated June 4, 2019.

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.

To the Officers
West Goshen Sewer Authority

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.

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