

**East Brandywine Township
Municipal Authority
(A Component Unit of
East Brandywine Township,
Chester County,
Pennsylvania)**

Financial Statements
Years Ended December 31, 2018 and 2017



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EAST BRANDYWINE TOWNSHIP MUNICIPAL AUTHORITY
(A Component Unit of East Brandywine Township, Chester County, Pennsylvania)

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INDEPENDENT AUDITOR'S REPORT

**East Brandywine Township Municipal Authority Board
East Brandywine Township Municipal Authority
Downingtown, Pennsylvania**

We have audited the accompanying cash basis financial statements of East Brandywine Township Municipal Authority, a component unit of East Brandywine Township, Chester County, Pennsylvania, as of and for the years ended December 31, 2018 and 2017, and the related notes to the 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 the cash basis of accounting described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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. 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.

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 cash basis financial position of East Brandywine Township Municipal Authority, as of December 31, 2018 and 2017, and the changes in its cash basis financial position for the year then ended in accordance with the cash basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter

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 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

BBD, LLP

**Philadelphia, Pennsylvania
April 11, 2019**

EAST BRANDYWINE TOWNSHIP MUNICIPAL AUTHORITY

(A Component Unit of East Brandywine Township, Chester County, Pennsylvania)

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

December 31, 2018

Management's discussion and analysis ("**MD&A**") of the East Brandywine Township Municipal Authority (the "**Authority**") provides an overview of the Authority's financial performance for 2018. Readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Authority's financial performance.

The Authority was established through Ordinance Number 99-02 of East Brandywine Township (the "**Township**") on March 16, 1999. The Township created the Authority for the purpose of acquiring, holding, constructing, financing, improving, maintaining and operating a sewerage system for the collection and treatment of wastewater for the benefit of approximately 870 customers in the communities of Keats Glen/Delaware County Community College, Hopewell/Guthriesville, and Applecross Country Club ("**Applecross**"). The activities of the Authority are accounted for as an enterprise fund of the proprietary fund type. An enterprise fund accounts for the operations that are financed and operated in a manner similar to private enterprises where the intent is that the cost of providing goods and services be recovered primarily through user fees and charges. The operating revenues of the Authority consist primarily of charges for services from customers.

FINANCIAL HIGHLIGHTS

- The Authority's assets exceeded its liabilities resulting in total net position of at the close of 2018 of \$1,309,926. All of the Authority's net position as of December 31, 2018 is considered unrestricted. The Authority has internally reserved net position of \$666,107 for a capital reserve for the Applecross wastewater treatment facility, \$58,759 for a capital reserve for the Keats Glen wastewater treatment facility and \$121,308 for reimbursement of debt service to the Township associated with the acquisition of the Applecross wastewater treatment facility.
- During 2018, the Authority's net position increased by \$39,404. Operating income for 2018 was \$330,381 and was offset by net nonoperating expenses of \$290,977 which consisted primarily of a \$310,474 reimbursement to the Township for debt service associated with the acquisition of the Applecross wastewater treatment facility.

OVERVIEW OF THE FINANCIAL STATEMENTS

The MD&A is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements are comprised of two components: 1) basic financial statements and 2) notes to the basic financial statements.

BASIC FINANCIAL STATEMENTS

The Authority's financial statements have been prepared on the cash basis of accounting. Accordingly, revenue is recognized when received rather than when earned, and expenses are recognized when paid rather than when the obligation is incurred.

The *Statement of Net Position – Cash Basis* presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial condition of the Authority is improving or deteriorating.

The *Statement of Revenues, Expenses and Changes in Net Position – Cash Basis* presents information showing how the Authority's net position changed during the most recent fiscal year.

The basic financial statements can be found on Pages 6 and 7 of this report.

EAST BRANDYWINE TOWNSHIP MUNICIPAL AUTHORITY
(A Component Unit of East Brandywine Township, Chester County, Pennsylvania)

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

December 31, 2018

NOTES TO THE FINANCIAL STATEMENTS

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

The notes to the financial statements can be found on Pages 8 through 10 of this report.

FINANCIAL ANALYSIS

As noted above, net position may serve over time as a useful indicator of an entity's financial health. In the case of the Authority, assets exceeded liabilities by \$1,309,926 at December 31, 2018. A summary of the Statement of Net Position – Cash Basis as of December 31, 2018 and 2017 is presented below.

Statements of Net Position

	<u>2018</u>	<u>2017</u>
Assets		
Current assets	\$1,447,269	\$1,393,988
Liabilities		
Current liabilities	<u>137,343</u>	<u>123,466</u>
Net Position		
Unrestricted	<u>\$1,309,926</u>	<u>\$1,270,522</u>

The Authority's total assets as of December 31, 2018 were \$1,447,269 which consisted solely of the Authority's cash. The Authority's total liabilities as of December 31, 2018 were \$137,343 which consisted solely of developer escrow liabilities.

The Authority had unrestricted net position of \$1,309,926 at December 31, 2018. The Authority's unrestricted net position increased by \$39,404 during 2018.

The Authority's net position increased by \$39,404 during 2018. A summary of the Statement of Revenues, Expenses and Changes in Net Position – Cash Basis for the years ending December 31, 2018 and 2017 is presented below.

Statements of Revenues, Expenses and Changes in Net Position

	<u>2018</u>	<u>2017</u>
Operating revenues	\$ 900,156	\$ 833,243
Operating expenses	<u>569,775</u>	<u>427,816</u>
Operating income	<u>330,381</u>	<u>405,427</u>
Nonoperating revenues (expenses)		
Interest income	8,487	4,606
Refund of prior year expenditures	30,000	-
Reimbursement to developer	-	(70,000)
Capital purchases	(18,990)	-
Reimbursement to Township for debt service	<u>(310,474)</u>	<u>(306,227)</u>
	<u>(290,977)</u>	<u>(371,621)</u>
Change in net position	<u>\$ 39,404</u>	<u>\$ 33,806</u>

**EAST BRANDYWINE TOWNSHIP MUNICIPAL AUTHORITY
(A Component Unit of East Brandywine Township, Chester County, Pennsylvania)**

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

December 31, 2018

The Authority's operating revenues for 2018 and 2017 consisted of user fees for wastewater treatment services, tapping fees in connection with new construction and administrative fees charged for developer escrow management. Operating expenses for 2018 increased by \$141,959 when compared to 2017 primarily due to an increase in engineering fees of \$87,211.

During 2018, the Authority reimbursed the Township in the amount of \$310,474 for debt service associated with the acquisition of the Applecross development wastewater treatment facility and excess sewage treatment capacity described below.

REIMBURSEMENT AND REPAYMENT AGREEMENT BETWEEN TOWNSHIP AND AUTHORITY

On January 25, 2017, the Township issued \$4,385,000 of general obligation bonds, Series of 2017 (the "**2017 Bonds**"), the proceeds from which were used for the acquisition of the Applecross development wastewater treatment facility and excess sewage treatment capacity and to pay for the costs of issuance. The 2017 Bonds are payable annually in varying amounts from December 2017 through December 2036, interest is payable semi-annually at rates ranging from 1.20% to 4.00% and are secured by the guaranty of the Township. In conjunction, with the issuance of the 2017 Bonds, the Authority accepted dedication and acquired the Applecross wastewater treatment facility and excess sewage treatment capacity and the Authority and Township entered into a repayment agreement for the 2017 Bonds. Pursuant to the repayment agreement, the Authority has pledged sewer revenues sufficient to retire the 2017 Bonds as they become due.

FACTORS BEARING ON THE AUTHORITY'S FUTURE

The Township's current sewerage system is sufficient to meet the Township's current needs. As new and/or extended service to existing or new development is required the Authority will evaluate the need to enhance the sewerage system and accommodate future growth in the Township. In 2018, the Authority awarded the bid for the Effluent Pumping System and SBR #3 Modifications project at the Applecross Wastewater Treatment Plant to Eastern Environmental Contractors, Inc. Hydraterra Professionals, LLC serves as the project engineer. The project began in November 2018 and is expected to be completed in 2019.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Authority's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Authority Manager, East Brandywine Township Municipal Authority, 1214 Horseshoe Pike, Downingtown, PA 19335.

EAST BRANDYWINE TOWNSHIP MUNICIPAL AUTHORITY
(A Component Unit of East Brandywine Township, Chester County Pennsylvania)

STATEMENTS OF NET POSITION - CASH BASIS

December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 1,447,269	\$ 1,393,988
LIABILITIES		
CURRENT LIABILITIES		
Developer escrows	<u>137,343</u>	<u>123,466</u>
NET POSITION		
Unrestricted	<u>\$ 1,309,926</u>	<u>\$ 1,270,522</u>

See accompanying notes

EAST BRANDYWINE TOWNSHIP MUNICIPAL AUTHORITY
(A Component Unit of East Brandywine Township, Chester County Pennsylvania)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - CASH BASIS

Years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
OPERATING REVENUES		
Charges for services	\$ 868,056	\$ 833,243
Tapping fees	31,250	-
Other	850	-
Total operating revenues	<u>900,156</u>	<u>833,243</u>
OPERATING EXPENSES		
Administrative expenses	69,971	62,026
Engineering services	139,898	52,687
Insurance	23,360	3,724
Miscellaneous	384	-
Professional services	78,348	84,789
Repairs and maintenance	56,567	65,659
Chemicals and lab supplies/testing	42,426	32,626
Sludge removal	63,440	44,903
Utilities	77,246	63,199
Wastewater treatment services	<u>18,135</u>	<u>18,203</u>
Total operating expenses	<u>569,775</u>	<u>427,816</u>
OPERATING INCOME	<u>330,381</u>	<u>405,427</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	8,487	4,606
Refund of prior year expenditures	30,000	-
Reimbursement to developer	-	(70,000)
Capital purchases	(18,990)	-
Reimbursement to Township for debt service	<u>(310,474)</u>	<u>(306,227)</u>
Total nonoperating revenues (expenses)	<u>(290,977)</u>	<u>(371,621)</u>
CHANGE IN NET POSITION	39,404	33,806
NET POSITION		
Beginning of year	<u>1,270,522</u>	<u>1,236,716</u>
End of year	<u>\$ 1,309,926</u>	<u>\$ 1,270,522</u>

See accompanying notes

EAST BRANDYWINE TOWNSHIP MUNICIPAL AUTHORITY
(A Component Unit of East Brandywine Township, Chester County, Pennsylvania)

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the East Brandywine Township Municipal Authority (the "**Authority**") have been prepared in conformity with the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America 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, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards. The significant accounting principles and policies utilized by the Authority are described below:

Organization and Reporting Entity

East Brandywine Township (the "**Township**"), a Second Class Township of the Commonwealth of Pennsylvania, adopted Resolution Number 99-02 on March 16, 1999, under the provisions of the Municipality Authorities Act of 1945, as amended, to organize the Authority for the purpose of acquiring, holding, constructing financing, improving, maintaining and operating a sewerage system for the collection and treatment of wastewater for the benefit of approximately 700 customers in the communities of Keats Glen/Delaware County Community College, Hopewell/Guthriesville, and Applecross Country Club ("**Applecross**"). A Certification of Incorporation for the Authority was filed and recorded with the Office of the Secretary of the Commonwealth of Pennsylvania on April 28, 1999. The Authority's Board consists of five members appointed for a five-year term by the Township Board of Supervisors.

The Authority is a component unit of the Township. The Authority is reported as if it were part of the primary government because its sole purpose is to operate a sewer system for the benefit of the residents of the Township.

Measurement Focus and Basis of Accounting and Financial Statement Presentation

The financial statements are presented using the cash basis of accounting. Accordingly, revenue is recognized when received rather than when earned, and expenses are recognized when paid rather than when the obligation is incurred.

The net position of the Authority represents the difference between assets and liabilities and is classified in one of two components. The net position of the Authority is reported as restricted when constraints placed on net position use is 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. Unrestricted net position is the net position that does not meet the definition of restricted net position.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Revenues and Expenses

Revenues and expenses are segregated into operating and nonoperating items. Operating revenues generally result from providing service in connection with the Authority's principal operations. The principal operating revenues of the Authority are charges for services, tapping fees and administrative fees charged for developer escrow management. Operating expenses include the costs associated with the operation and administration of the sewer system. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

EAST BRANDYWINE TOWNSHIP MUNICIPAL AUTHORITY
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NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

Cash and Cash Equivalents

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Developer Escrows

Escrow accounts are held on behalf of developers within the Township and are custodial in nature and do not involve measurement of results of operations. The Authority has established developer escrows for sewer projects to be completed by the developer and for actuals costs incurred by the Authority's professional consultants. Developer escrows are reflected in the Statement of Net Position – Cash Basis as a liability until development costs are incurred by the Authority or the sewer project is completed and the funds are released to the developer.

Reclassifications

Certain amounts in the 2017 financial statements have been reclassified to conform to the presentation in the 2018 financial statements.

(2) DEPOSITS

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 \$1,447,269 and the bank balance was \$1,471,721. At December 31, 2017, the carrying amount of the Authority's deposits was \$1,393,988 and the bank balance was \$1,398,899. The Authority is required by state statute to deposit funds in depositories that are either banks, banking institutions or trust companies located in the Commonwealth of Pennsylvania. To the extent that such deposits exceed federal insurance, the depositories must pledge as collateral obligations of the United States, Commonwealth of Pennsylvania or any political subdivision. Under Act 72 of 1971, as amended, the depositories may meet this collateralization requirement by pooling appropriate securities to cover all public funds on deposit. At December 31, 2018, of the bank balance, \$1,277,830 was covered by federal depository insurance, and \$193,891 was collateralized by the Authority's depositories in accordance with Act 72 and the collateral was held by the depositories' agent in pooled public funds. At December 31, 2017, of the bank balance, \$250,000 was covered by federal depository insurance, and \$1,148,899 was collateralized by the Authority's depositories in accordance with Act 72 and the collateral was held by the depositories' agent in pooled public funds.

(4) REIMBURSEMENT AND REPAYMENT AGREEMENT BETWEEN TOWNSHIP AND AUTHORITY

On January 25, 2017, the Township issued \$4,385,000 of general obligation bonds, Series of 2017 (the "**2017 Bonds**"), the proceeds from which were used for the acquisition of the Applecross wastewater treatment facility and excess sewage treatment capacity and to pay for the costs of issuance. The 2017 Bonds are payable annually in varying amounts from December 2017 through December 2036, interest is payable semi-annually at rates ranging from 1.20% to 4.00% and are secured by the guaranty of the Township. In conjunction, with the issuance of the 2017 Bonds, the Authority accepted dedication and acquired the Applecross wastewater treatment facility and excess sewage treatment capacity and the Authority and Township entered into a repayment agreement for the 2017 Bonds. Pursuant to the repayment agreement, the Authority has pledged sewer revenues sufficient to retire the 2017 Bonds as they become due.

EAST BRANDYWINE TOWNSHIP MUNICIPAL AUTHORITY
(A Component Unit of East Brandywine Township, Chester County, Pennsylvania)

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

Future minimum payments under this agreement are as follows:

<u>December 31,</u>	
2019	\$ 307,470
2020	309,070
2021	308,820
2022	308,420
2023	307,870
2024-2028	1,544,950
2029-2033	1,547,770
2034-2036	<u>924,200</u>
	<u>\$5,558,570</u>

(5) DUE TO DEVELOPER

During 2016, the Authority by agreement with the developer collected user fees for the Applecross wastewater treatment plant that were due to the developer totaling \$200,000 for the reimbursement of operating costs incurred by the developer prior to the acceptance and dedication of the facilities by the Authority. Under the agreement, the developer reduced the amount due by \$30,000 for any required repairs and maintenance and \$100,000 to reserve additional disposal capacity for the final phase of Applecross. The remaining \$70,000 was returned to the developer in 2017.

(6) CONSTRUCTION COMMITMENT

As of December 31, 2018, the Authority had an outstanding construction commitment totaling \$461,410 for the Effluent Pumping System and SBR #3 Modifications project at the Applecross Wastewater Treatment Plant.

(7) SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 11, 2019, the date on which the financial statements were available to be issued. No material subsequent events have occurred since December 31, 2018 that required recognition or disclosure in the financial statements.