



**TREDYFFRIN TOWNSHIP
VALLEY CREEK TRUNK SEWER
*CHESTER COUNTY, PENNSYLVANIA***

FINANCIAL STATEMENT

DECEMBER 31, 2015

TREDYFFRIN TOWNSHIP VALLEY CREEK TRUNK SEWER

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INDEPENDENT AUDITOR'S REPORT

June 20, 2016

Board of Supervisors
Tredyffrin Township
Berwyn, Pennsylvania

Report on the Financial Statement

We have audited the accompanying statement of actual operating expenses of the Tredyffrin Township Valley Creek Trunk Sewer, as defined in the Valley Creek Trunk Sewer Agreement dated November 1, 1970, for the year ended December 31, 2015, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with financial provisions prescribed in the Valley Creek Trunk Sewer Agreement dated November 1, 1970, in accordance with the accrual basis of accounting described in Note 1; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, 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 statement 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 statement.

Board of Supervisors
Tredyffrin Township

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 accompanying statement of actual operating expenses presents fairly, in all material respects, the actual operating expenses of the Tredyffrin Township Valley Creek Trunk Sewer for the year ended December 31, 2015 in accordance with the accrual basis of accounting described in Note 1.

Basis of Accounting

We draw attention to the basis of accounting, which is described in the second paragraph of this report. The financial statement is prepared on the basis of accounting in accordance with financial provisions prescribed in the Valley Creek Trunk Sewer Agreement dated November 1, 1970, 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 Matters

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the statement of actual operating expenses as defined in the Valley Creek Trunk Sewer Agreement dated November 1, 1970 described in Note 1. The supplementary information presented on pages 7 - 9 is presented for purposes of additional analysis and is not a required part of the financial statement. The supplementary information has not been subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we do not express an opinion or provide any assurance on them.

Restriction of Use

This report is intended solely for the information and use of management, the Board of Supervisors of Tredyffrin Township, and the participating municipalities and is not intended to be and should not be used by anyone other than these specified parties.

Barbacane, Thornton & Company LLP

BARBACANE, THORNTON & COMPANY LLP

**TREDYFFRIN TOWNSHIP VALLEY CREEK TRUNK SEWER
STATEMENT OF ACTUAL OPERATING EXPENSES
(AS DEFINED BY THE VALLEY CREEK TRUNK
SEWER AGREEMENT DATED NOVEMBER 1, 1970)
FOR THE YEAR ENDED DECEMBER 31, 2015**

EXPENSES (SECTION 4.06):

Operations	
Salaries and wages	\$ 110,558
Electric, power, and light	44,058
Maintenance and repairs	84,225
Emergency repairs	9,900
Consulting	173,102
Engineering	4,071
Parts and supplies	5,665
Total Operations	431,579
Administrative	
Indirect cost allocations:	
Allocation - government administration	98,570
Allocation - human resources, including payroll taxes and other fringe benefits	140,346
Allocation - overhead, including property, liability, and workers' compensation insurance	47,222
Allocation - finance, accounting, and reporting	29,389
Allocation - information technology	10,600
	326,127
Professional fees	22,470
Miscellaneous	3,596
Total Administrative	352,193
TOTAL EXPENSES	783,772
DEDUCTIONS (Section 4.07):	
Interest income	249
ACTUAL OPERATING EXPENSES, NET OF DEDUCTIONS	\$ 783,523

The accompanying notes are an integral part of this financial statement.

TREDYFFRIN TOWNSHIP VALLEY CREEK TRUNK SEWER

NOTES TO FINANCIAL STATEMENT

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Valley Creek Trunk Sewer Agreement (the "Agreement") is an agreement entered into on November 1, 1970 between Tredyffrin Township and the Townships of East Whiteland, Willistown, and Easttown; the Borough of Malvern; and the Valley Forge Sewer Authority.

The Agreement defines the initial capital required of each party for the construction of the sanitary sewer collection systems, the determination of allowable costs and the division of net expenses for the construction of the sanitary sewer collection systems, and the waste disposal of the respective municipalities and related authorities into the Valley Forge Treatment Plant operated by the Valley Forge Sewer Authority.

In accordance with Article IV, Tredyffrin Township is responsible for maintaining separate accounting records for the operation of its collection system for the Valley Creek Trunk Sewer (the "VCTS") and shall apportion the costs as outlined in Section 4.01. Tredyffrin Township is responsible for the deposit and investment of monies received by the municipalities and to ensure the investments are insured or secured according to the Agreement.

Each municipality is required to pay, quarterly, its share of the estimated annual operating expenses based on the certified detailed statement of the prior year with adjustments to actual operating expenses to be included and paid forthwith after the actual certified operating expenses reported for that period. The apportionment is determined among the participants in proportion to the volume of sewage emanating from such municipality to the total sewage discharged by all municipalities.

The actual operating expenses as defined in the Agreement are determined in accordance with Sections 4.06 and 4.07. Interest earned on funds deposited in the operating expense fund, and governmental contributions and grants applicable to the VCTS, as well as reimbursements, are deducted from total operating expenses in determining actual annual operating expenses.

Basis of Accounting

The accounting records of the VCTS are maintained on the accrual basis of accounting. Expenses are recorded when incurred and deductions from expenses, consisting primarily of interest income, are recorded when earned.

Indirect Cost Allocations

Section 4.06(f) of the Agreement provides that the actual annual operating expenses of the VCTS shall include reasonable expenses in providing service pursuant to the Agreement and attributable to the VCTS under sound accounting practices. Pursuant to its interpretation of this section, management of Tredyffrin Township has included the following indirect cost allocations in actual annual operating expenses:

TREDYFFRIN TOWNSHIP VALLEY CREEK TRUNK SEWER

NOTES TO FINANCIAL STATEMENT

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

- *Government Administration:* Represents a portion of Tredyffrin Township's Township Manager's wages and benefits.
- *Human Resources, including payroll taxes and other fringe benefits:* Represents costs associated with employee benefits of personnel directly dedicated to the VCTS.
- *Overhead, including property, liability, and workers' compensation insurance:* Represents a portion of the Township's costs for municipal building (utilities, maintenance, general office supplies, and equipment rental) allocated by employees dedicated to the VCTS in relation to total employees of the Township.
- *Finance, Accounting, and Reporting:* Represents costs of the Township's finance staff to provide assessment and collection, disbursement and cash management, and accounting and management reporting for the VCTS.
- *Information Technology:* Represents costs of the Township's information technology staff and associated infrastructure (servers, firewalls, etc.) as well as direct telecommunication costs (telephone land lines to pump stations and cell phones to the VCTS staff).

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements 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 expenditures or expenses during the reporting period. Actual amounts could differ from those estimates.

NOTE 2 DEPOSIT OF FUNDS

Per Section 4.04 of the Agreement, Tredyffrin Township shall deposit operating funds received in a special Valley Creek Trunk Sewer Operating Fund. Such operating fund monies shall be invested by Tredyffrin Township and, to the extent not insured by the Federal Deposit Insurance Corporation or other federal agencies, shall be continuously secured by a pledge of direct obligations of the United States of America or the Commonwealth of Pennsylvania, having an aggregate market value at all times at least equal to the amount of such monies.

The Township has deposited operating and capital funds together, and the interest earned on these funds has been deducted from the total operating expenses in determining actual annual operating expenses.

TREDYFFRIN TOWNSHIP VALLEY CREEK TRUNK SEWER

NOTES TO FINANCIAL STATEMENT

NOTE 3 CONTINGENCY

The allocation percentages used for the Emergency Rehabilitation of the Wilson Road Force Main are derived from a settlement agreement between the participants which will not be finalized and approved until after the issuance of the financial statements. All parties reserve the right to object to these allocations should a settlement not be finalized and approved.

NOTE 4 SUBSEQUENT EVENTS

The Township has evaluated all subsequent events through June 20, 2016, the date the financial statement was available to be issued.

SUPPLEMENTARY INFORMATION

**TREDYFFRIN TOWNSHIP VALLEY CREEK TRUNK SEWER
SCHEDULE OF APPORTIONMENT OF ACTUAL OPERATING EXPENSES AMONG THE PARTICIPANTS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Column 1		Column 2		Column 3	Column 4	Column 5	Column 6
	Apportionment Percentages (a)		Share of Actual Operating Expenses		Cash Payments Received in 2015	Excess (Deficit) Payment for 2015 (Col 3 - Col 2)	2014 Prior Years Excess (Deficiency) Cumulative Payments	2015 Cumulative Excess (Deficit) Payments Carryforward (Col 4 + Col 5)
	Budgeted	Actual	Budgeted	Actual				
Valley Forge Sewer Authority	0.36%	0.28%	\$ 3,630	\$ 2,194	\$ 3,630	\$ 1,436	\$ (18,184)	\$ (16,748)
Tredyffrin Township	15.97%	16.52%	159,262	129,438	159,262	29,824	(131,637)	(101,813)
Easttown Township	22.86%	20.58%	228,079	161,249	171,059	9,810	(294,989)	(285,179)
Borough of Malvern	6.00%	6.52%	59,821	51,086	59,821	8,735	(67,152)	(58,417)
Willistown Township	20.57%	22.24%	205,192	174,256	205,192	30,936	(242,179)	(211,243)
East Whiteland Township	34.24%	33.86%	341,566	265,300	341,566	76,266	(434,508)	(358,242)
Total	100.00%	100.00%	\$ 997,550	\$ 783,523	\$ 940,530	\$ 157,007	\$ (1,188,649)	\$ (1,031,642)

Note (a) Apportionment percentages were computed by the Valley Forge Sewer Authority as follows:

- (1) Raw flows are as metered and reported to the Valley Forge Sewer Authority. In the case of missing metered flow data for a given month, flow was calculated by the approved method outlined in the Buchart-Horn memorandum dated January 1, 1985. The calculation is based on historical flow data, and adjustment is made for growth in Equivalent Dwelling Units (EDUs).
- (2) For the Valley Forge Sewer Authority, only the Valley Creek Trunk Sewer portion of the Valley Forge Sewer Authority raw flow was included.

**TREDYFFRIN TOWNSHIP VALLEY CREEK TRUNK SEWER
SCHEDULE OF APPORTIONMENT OF ACTUAL CAPITAL EXPENDITURES AMONG THE PARTICIPANTS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Column 1	Column 2	Column 3	Column 4	Column 5	Column 6	Column 7	Column 8	Column 9	Column 10	Column 11	Column 12	Column 13
	Apportionment Percentages Wilson Road Pumping Station (a)	Share of Actual Expenses Wilson Road Pumping Station	Apportionment Percentages N, P, and R Darby Pumping Station Capacity Upgrades (b)	Share of Actual Expenses Lines and Station Capacity Upgrades	Act 537 Update (c)	Share of Actual Expenses Lines and Act 537 Update	Apportionment Percentages Valley Forge Force Main Improvement (d)	Share of Actual Expenses Lines and Valley Forge Force Main Improvement	Total Expenses (Col 2 + Col 4 + Col 6 + Col 8)	Cash Payments Received in 2015	Excess (Deficit) Payment for 2015 (Col 10 - Col 9)	2014 Prior Years Excess Cumulative Payments	2015 Cumulative Excess Payments Carryforward (Col 11 + Col 12)
Valley Forge Sewer Authority	5.27%	\$ 2,874	0.00%	\$ -	5.27%	\$ 8,668	0.14%	\$ 1,932	\$ 13,474	\$ 16,864	\$ 3,390	\$ (9,788)	\$ (6,398)
Tredyffrin Township	22.54%	12,292	24.97%	31,800	22.54%	37,074	85.49%	1,179,542	1,260,708	321,828	(938,880)	1,166,700	227,820
Easttown Township	18.64%	10,165	66.09%	84,169	18.64%	30,659	0.00%	-	124,993	-	(124,993)	1,726,880	1,601,887
Borough of Malvern	3.96%	2,160	0.00%	-	3.96%	6,513	0.00%	-	8,673	12,672	3,999	68,626	72,625
Willistown Township	14.88%	8,115	8.94%	11,385	14.88%	24,474	14.37%	198,269	242,243	137,016	(105,227)	98,963	(6,264)
East Whiteland Township	34.71%	18,928	0.00%	-	34.71%	57,091	0.00%	-	76,019	111,072	35,053	82,372	117,425
Total	100.00%	\$ 54,534	100.00%	\$ 127,353	100.00%	\$ 164,479	100.00%	\$ 1,379,743	\$ 1,726,110	\$ 599,452	\$ (1,126,658)	\$ 3,133,753	\$ 2,007,095

Notes:

- (a) Apportionment percentages for capital expenditures for the Wilson Road Pumping Station are from the Valley Creek Trunk Sewer 2015 Capital and Operating Budget.
- (b) Apportionment percentages for the N, P, and R Lines and Darby Pumping Station Capacity Upgrades are from the Valley Creek Trunk Sewer 2015 Capital and Operating Budget.
- (c) Apportionment percentages for the Act 537 Update are from the Valley Creek Trunk Sewer 2015 Capital and Operating Budget.
- (d) As stipulated in the intermunicipal agreement, Tredyffrin has agreed to loan any municipality money in order to cover their share of the costs. Easttown, Malvern, and East Whiteland have elected to borrow funds and, therefore, their shares will be included under the Tredyffrin apportionment. The Valley Forge Sewer Authority and Willistown have elected to pay their share. The apportionment percentages are derived from Exhibit B of the 1970 Agreement.

**TREDYFFRIN TOWNSHIP VALLEY CREEK TRUNK SEWER
SCHEDULE OF SUMMARY OF EXCESS CUMULATIVE PAYMENTS CARRYFORWARD (UNAUDITED)
DECEMBER 31, 2015**

	Excess (Deficit) Cumulative Payments - Operating <u>(Page 7)</u>	Excess (Deficit) Cumulative Payments - Capital <u>(Page 8)</u>	Totals Amounts Due To (From) Participants
Valley Forge Sewer Authority	\$ (16,748)	\$ (6,398)	\$ (23,146)
Tredyffrin Township	(101,813)	227,820	126,007
Easttown Township	(285,179)	1,601,887	1,316,708
Borough of Malvern	(58,417)	72,625	14,208
Willistown Township	(211,243)	(6,264)	(217,507)
East Whiteland Township	<u>(358,242)</u>	<u>117,425</u>	<u>(240,817)</u>
	<u>\$ (1,031,642)</u>	<u>\$ 2,007,095</u>	<u>\$ 975,453</u>