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

**FINANCIAL STATEMENT**

**DECEMBER 31, 2017**

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TREDYFFRIN TOWNSHIP VALLEY CREEK TRUNK SEWER

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1 - 2
FINANCIAL STATEMENT	
Statement of Actual Operating Expenses	3
Notes to Financial Statement	4 - 5
SUPPLEMENTARY INFORMATION	
Schedule of Apportionment of Actual Operating Expenses Among the Participants	6
Schedule of Apportionment of Actual Capital Expenditures Among the Participants	7
Schedule of Summary of Excess Cumulative Payments Carryforward	8

## INDEPENDENT AUDITOR'S REPORT

August 3, 2018

Board of Supervisors  
Tredyffrin Township  
Berwyn, Pennsylvania

### Report on the Financial Statement

We have audited the accompanying statement of actual operating expenses ("the financial statement") 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, 2017, 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 to demonstrate compliance with the reporting provisions of that agreement. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a 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, 2017 in accordance with the 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. As discussed in Note 1, the Tredyffrin Township Valley Creek Trunk Sewer prepares its financial statement in accordance with the financial provisions prescribed in the Valley Creek Trunk Sewer Agreement dated November 1, 1970 to demonstrate compliance with the reporting provisions of that agreement, which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statement of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. 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 6 - 8 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 it.

#### Purpose of Report

This report is intended solely for the information and use of management, the Board of Supervisors of Tredyffrin Township, and the participating municipalities as identified in the Valley Creek Trunk Sewer Agreement, 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, 2017**

EXPENSES (SECTION 4.06):

Operations	
Salaries and wages	\$ 138,463
Electric, power, and light	42,492
Maintenance and repairs	37,081
Emergency repairs	8,377
Consulting	6,279
Parts and supplies	17,642
Total Operations	250,334
Administrative	
Indirect cost allocations:	
Allocation - government administration	16,025
Allocation - human resources, including payroll taxes and other fringe benefits	31,330
Allocation - overhead, including property, liability, and workers' compensation insurance	24,638
Allocation - finance, accounting, and reporting	43,500
	115,493
Professional fees	15,216
Miscellaneous	3,551
Total Administrative	134,260
<b>TOTAL EXPENSES</b>	<b>384,594</b>
DEDUCTIONS (Section 4.07):	
Interest income	(9,286)
<b>ACTUAL OPERATING EXPENSES, NET OF DEDUCTIONS</b>	<b>\$ 375,308</b>

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 ("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 are deducted from total operating expenses in determining actual annual operating expenses.

Basis of Accounting

The accounting records of the VCTS are maintained on an 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 VCTS.
- *Overhead, including property, liability, and workers' compensation insurance:* Represents a portion of the Township costs for municipal building (utilities, maintenance, general office supplies, and equipment rental) allocated by employees dedicated to 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.

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.

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 August 3, 2018, the date the financial statements were available to be issued.

**SUPPLEMENTARY INFORMATION**



**TREDYFFRIN TOWNSHIP  
VALLEY CREEK TRUNK SEWER  
SCHEDULE OF APPORTIONMENT OF ACTUAL OPERATING EXPENSES AMONG THE PARTICIPANTS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Column 1		Column 2		Column 3	Column 4	Column 5	Column 6	Column 7
	Apportionment Percentages (a)	Share of Actual Operating Expenses	Cash Payments Received in 2017	Prior Years Excess (Deficiency) Cumulative Credits	Excess (Deficit) Payment for 2017 (Col 3 - Col 2)	2016 Prior Years Excess (Deficiency) Cumulative Payments	2017 Cumulative Excess (Deficit) Payments Carryforward (Col 4 + Col 5 + Col 6)		
	Budgeted	Actual	Budgeted	Actual					
Valley Forge Sewer Authority	0.25%	0.26%	\$ 1,534	\$ 976	\$ 1,534	\$ -	\$ 558	\$ (16,055)	\$ (15,497)
Tredyffrin Township	18.25%	11.91%	113,147	44,699	113,147	89,902	68,448	(89,902)	68,448
Easttown Township	20.55%	20.36%	127,423	76,413	127,423	(92,618)	51,010	92,618	51,010
Borough of Malvern	6.54%	7.09%	40,587	26,609	40,587	(6,295)	13,978	6,295	13,978
Willistown Township	20.73%	21.78%	128,603	81,742	128,603	-	46,861	(163,391)	(116,530)
East Whiteland Township	33.68%	38.60%	208,831	144,869	208,832	-	63,963	(104,077)	(40,114)
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>\$ 620,125</b>	<b>\$ 375,308</b>	<b>\$ 620,126</b>	<b>\$ (9,011)</b>	<b>\$ 244,818</b>	<b>\$ (274,512)</b>	<b>\$ (38,705)</b>

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  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Column 1	Column 2	Column 3	Column 4	Column 5	Column 6	Column 7	Column 8
	Act 537 Update (a)	Share of Actual Expenses Lines and Act 537 Update	Total Expenses (Col 2)	Cash Payments Received in 2016	Prior Years Excess (Deficiency) Cumulative Credits	Excess (Deficit) Payment for 2017 (Col 4 - Col 3)	2016 Prior Years Excess Cumulative Payments	2017 Cumulative Excess Payments Carryforward (Col 5 + Col 6 + Col 7)
Valley Forge Sewer Authority	5.27%	\$ 3,924	\$ 3,924	\$ -	\$ 24,360	\$ (3,924)	\$ (34,569)	\$ (14,133)
Tredyffrin Township	22.54%	16,785	21,063	-	-	(21,063)	282,134	261,071
Easttown Township	18.64%	13,881	25,204	-	(706,660)	(25,204)	706,660	(25,204)
Borough of Malvern	3.96%	2,949	2,949	-	2,950	(2,949)	(2,950)	(2,949)
Willistown Township	14.88%	11,081	12,613	-	533,787	(12,613)	(539,185)	(18,011)
East Whiteland Township	34.71%	25,847	25,847	-	(91,567)	(25,847)	91,567	(25,847)
<b>Total</b>	<b>100.00%</b>	<b>\$ 74,467</b>	<b>\$ 91,600</b>	<b>\$ -</b>	<b>\$ (237,130)</b>	<b>\$ (91,600)</b>	<b>\$ 503,657</b>	<b>\$ 174,927</b>

Notes:

- (a) Apportionment percentages for the Act 537 Update are from the Valley Creek Trunk Sewer 2017 Capital and Operating Budget.

**TREDYFFRIN TOWNSHIP  
VALLEY CREEK TRUNK SEWER  
SCHEDULE OF SUMMARY OF EXCESS CUMULATIVE PAYMENTS CARRYFORWARD  
DECEMBER 31, 2017**

	Excess (Deficit) Cumulative Payments - Operating (Page 5)	Excess (Deficit) Cumulative Payments - Capital (Page 6)	Totals Amounts Due To (From) Participants
Valley Forge Sewer Authority	\$ (15,497)	\$ (14,133)	\$ (29,630)
Tredyffrin Township	68,448	261,071	329,519
Easttown Township	51,010	(25,204)	25,806
Borough of Malvern	13,978	(2,949)	11,029
Willistown Township	(116,530)	(18,011)	(134,541)
East Whiteland Township	(40,114)	(25,847)	(65,961)
	<u>\$ (38,705)</u>	<u>\$ 174,927</u>	<u>\$ 136,222</u>