

**UPPER UWCHLAN TOWNSHIP MUNICIPAL AUTHORITY  
CHESTER SPRINGS, PENNSYLVANIA**

**A COMPONENT UNIT OF UPPER UWCHLAN TOWNSHIP**

**BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2010**

UPPER UWCHLAN TOWNSHIP MUNICIPAL AUTHORITY  
CHESTER SPRINGS, PENNSYLVANIA  
A COMPONENT UNIT OF UPPER UWCHLAN TOWNSHIP

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INDEPENDENT AUDITORS' REPORT

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March 23, 2011

To the Board of Supervisors  
Upper Uwchlan Township Municipal Authority  
Chester Springs, Pennsylvania

We have audited the accompanying basic financial statements of the Upper Uwchlan Township Municipal Authority, a component unit of Upper Uwchlan Township, as of and for the year ended December 31, 2010, which collectively comprise the Authority's basic financial statements listed in the foregoing table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements 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 statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Upper Uwchlan Township Municipal Authority as of December 31, 2010, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. The Authority has not presented the management's discussion and analysis information that accounting principles generally accepted in the United States of America have determined to be necessary to supplement, although not required to be a part of, the basic financial statements.

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

**UPPER UWCHLAN TOWNSHIP MUNICIPAL AUTHORITY**  
**(A Component Unit of Upper Uwchlan Township)**  
**STATEMENT OF NET ASSETS**  
**DECEMBER 31, 2010**

**ASSETS**

**Current Assets:**

Cash and cash equivalents	\$ 1,718,123
Restricted cash	260,105
Accounts receivable	200,352
<b>Total Current Assets</b>	<u><u>2,178,580</u></u>

**Noncurrent Assets:**

Capital assets	695,499
Accumulated depreciation	(79,838)
<b>Total Noncurrent Assets</b>	<u><u>615,661</u></u>

**TOTAL ASSETS**

\$ 2,794,241

**LIABILITIES AND NET ASSETS**

**Current Liabilities:**

Accounts payable	\$ 55,343
Due to Upper Uwchlan Township	92,724
<b>Total Current Liabilities</b>	<u><u>148,067</u></u>

**Net Assets:**

Invested in capital assets	615,661
Restricted - tapping fees	260,105
Unrestricted	1,770,408
<b>Total Net Assets</b>	<u><u>2,646,174</u></u>

**TOTAL LIABILITIES AND NET ASSETS**

\$ 2,794,241

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

**UPPER UWCHLAN TOWNSHIP MUNICIPAL AUTHORITY**  
**(A Component Unit of Upper Uwchlan Township)**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

<b>OPERATING REVENUES:</b>	
Usage fees	\$ 1,526,917
<b>TOTAL OPERATING REVENUES</b>	<u>1,526,917</u>
 <b>OPERATING EXPENSES:</b>	
Administrator	24,251
Administration	126,431
Chemicals	18,375
Contracted services	125,054
Depreciation	17,387
Engineering services	109,154
Insurance	15,290
Lawn maintenance	879
Pumping and sludge hauling	71,331
Professional fees	12,766
Repairs and maintenance	47,946
Supplies	12,659
Tapping fee reimbursement	1,395
Testing	49,012
Utilities	257,861
<b>TOTAL OPERATING EXPENSES</b>	<u>889,791</u>
 <b>OPERATING INCOME</b>	 <u>637,126</u>
 <b>NONOPERATING REVENUES:</b>	
Interest income	4,394
<b>TOTAL NONOPERATING REVENUES</b>	<u>4,394</u>
 <b>CHANGE IN NET ASSETS</b>	 641,520
 <b>NET ASSETS, BEGINNING OF YEAR</b>	 <u>2,004,654</u>
 <b>NET ASSETS, END OF YEAR</b>	 <u>\$ 2,646,174</u>

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

**UPPER UWCHLAN TOWNSHIP MUNICIPAL AUTHORITY**  
**(A Component Unit of Upper Uwchlan Township)**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Receipts from customers	\$ 1,456,503
Payments to suppliers for goods and services	<u>(913,145)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u><b>543,358</b></u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>	
Capital improvements	<u>(60,410)</u>
<b>NET CASH USED BY FINANCING ACTIVITIES</b>	<u><b>(60,410)</b></u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Interest income	<u>4,394</u>
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<u><b>4,394</b></u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>487,342</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u><b>1,490,886</b></u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u><u><b>\$ 1,978,228</b></u></u>
<b>RECONCILIATION OF OPERATING INCOME PROVIDED BY OPERATING ACTIVITIES:</b>	
Operating income	\$ 637,126
Adjustments:	
Depreciation	17,387
(Increase) in accounts receivable	(70,414)
(Decrease) in accounts payable	(4,767)
(Decrease) in due to Upper Uwchlan Township	<u>(35,974)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u><u><b>\$ 543,358</b></u></u>

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

UPPER UWCHLAN TOWNSHIP MUNICIPAL AUTHORITY  
A COMPONENT UNIT OF UPPER UWCHLAN TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS

NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

The Upper Uwchlan Township Municipal Authority was incorporated by Upper Uwchlan Township, Chester Springs, Pennsylvania, for the purpose of financing construction of a sewage collection system and treatment plant, which is operated and maintained by the Authority under a long-term lease. The Authority's operations are monitored by Township personnel and, therefore, no personal service costs are incurred. The Authority is a component unit of the reporting entity for Upper Uwchlan 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 GASB No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments," and GASB Statement No. 38, "Certain Financial Statement Note Disclosures." Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows. It requires the classification of net assets into three components - invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- **Invested in capital assets, net of related debt** - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of 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 invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

UPPER UWCHLAN TOWNSHIP MUNICIPAL AUTHORITY  
A COMPONENT UNIT OF UPPER UWCHLAN TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS

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

- **Restricted** - This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted** - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt." Administrative expenses are paid with the use of unrestricted resources.

The accounting policies of the Authority conform to generally accepted accounting principles applicable to governmental units. The Authority complies with generally accepted accounting principles and applies all relevant GASB pronouncements. Private-sector standards of accounting and financial reporting issued on or before November 30, 1989 are followed, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The Authority has elected not to follow private-sector guidance issued since that date.

Cash and Investments

Cash deposits consist of demand and time deposits 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.

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 for usage fees.

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

Use of Restricted/Unrestricted Net Assets

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

Capital Assets

The Authority defines capital assets as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year.

UPPER UWCHLAN TOWNSHIP MUNICIPAL AUTHORITY  
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NOTES TO FINANCIAL STATEMENTS

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

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:

Capital improvements	25 - 40 years
Equipment	5 - 20 years

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.

Use of Estimates In the Preparation of Financial Statements

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.

NOTE 2      DEPOSITS

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. The Authority does not have a policy for custodial credit risk on deposits. At December 31, 2010, the carrying amount of the Authority's deposits was \$1,978,228 and the bank balance was \$1,979,223. Of the bank balance, \$250,000 was covered by federal depository insurance, and the remaining balance of \$1,729,223 was subject to custodial credit risk.

NOTE 3      CAPITAL ASSETS

The Township has title to the Eaglepointe, Eagle Hunt, Fellowship Road, Greenridge, Lakeridge, Marsh Harbour, Meadow Creek Reserve, Saint Elizabeth's, St. Andrews Brae and Saybrooke sewage treatment plants which were deeded to the Township in accordance with agreements entered between the developers and the Township. Accordingly, these financial statements do not include a value for these plant assets, and no estimates for the remaining lives, future repairs and replacement costs are provided for in these statements, since these assets are assets of the Township.

UPPER UWCHLAN TOWNSHIP MUNICIPAL AUTHORITY  
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NOTES TO FINANCIAL STATEMENTS

NOTE 3 CAPITAL ASSETS (cont'd)

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

	Balance 01/01/10	Additions	Deletions	Balance 12/31/10
Improvements to Stonehedge	\$ 488,646	\$ -	\$ -	\$ 488,646
Capital improvements	146,443	60,410	-	206,853
	635,089	60,410	-	695,499
Accumulated depreciation	(62,451)	(17,387)	-	(79,838)
<b>NET CAPITAL ASSETS</b>	<b>\$ 572,638</b>	<b>\$ 43,023</b>	<b>\$ -</b>	<b>\$ 615,661</b>

Depreciation expense for the year ended December 31, 2010 totaled \$17,387.

NOTE 4 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 5 RELATED PARTY TRANSACTIONS

The Authority appointed ARRO Consulting, Inc. as the Authority engineer for the year ended December 31, 2010. The Authority administrator is the President and Chief Executive Officer of ARRO Consulting, Inc. Engineering fees are paid based on the amount of time and expenses related to services provided. Engineering expenses paid to ARRO Consulting, Inc. totaled \$109,154 and expenses for the services of the Authority administrator totaled \$24,251, for the year ended December 31, 2010.

NOTE 6 SUBSEQUENT EVENTS

The Authority has evaluated all subsequent events through March 23, 2011, the date the financial statements were available to be issued.