

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

(A COMPONENT UNIT OF UPPER UWCHLAN TOWNSHIP)

BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2013

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

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INDEPENDENT AUDITOR'S REPORT

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June 23, 2014

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Upper Uwchlan Township Municipal Authority (the "Authority"), a component unit of Upper Uwchlan Township, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Authority's 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 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 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 Authority'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 Authority'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.

BARBACANE
THORNTON
& COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

Board of Supervisors
Upper Uwchlan Township Municipal Authority

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, 2013, and the changes in its financial position and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Barbacane, Thornton & Company LLP

BARBACANE, THORNTON & COMPANY LLP

UPPER UWCHLAN TOWNSHIP MUNICIPAL AUTHORITY
(A Component Unit of Upper Uwchlan Township)
STATEMENT OF NET POSITION
DECEMBER 31, 2013

ASSETS

Current Assets:

Cash and cash equivalents	\$ 3,435,761
Restricted cash	16,142
Investments	251,045
Accounts receivable	258,154
Prepaid expenses	6,075
Total Current Assets	<u>3,967,177</u>

Noncurrent Assets:

Restricted investments	250,136
Capital assets	1,051,304
Accumulated depreciation	(159,828)
Total Noncurrent Assets	<u>1,141,612</u>

TOTAL ASSETS

\$ 5,108,789

LIABILITIES AND NET POSITION

Current Liabilities:

Accounts payable and accrued expenses	\$ 66,252
Due to Upper Uwchlan Township	57,815
Total Current Liabilities	<u>124,067</u>

Net Position:

Net investment in capital assets	891,476
Restricted - tapping fees	266,278
Unrestricted	3,826,968
Total Net Position	<u>4,984,722</u>

TOTAL LIABILITIES AND NET POSITION

\$ 5,108,789

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 POSITION
FOR THE YEAR ENDED DECEMBER 31, 2013

OPERATING REVENUES:

Usage fees	\$ 1,670,456
TOTAL OPERATING REVENUES	<u>1,670,456</u>

OPERATING EXPENSES:

Administrator	21,118
Administration	116,562
Chemicals	16,110
Contracted services	106,542
Depreciation	31,826
Engineering services	149,725
Insurance	11,279
Lawn maintenance	11,544
Pumping and sludge hauling	44,562
Professional fees	9,658
Repairs and maintenance	106,069
Supplies	4,475
Testing	50,277
Vegetation management	5,646
Permits	583
Utilities	228,304
Utility billing costs	6,007
Miscellaneous	6,211
TOTAL OPERATING EXPENSES	<u>926,498</u>

OPERATING INCOME

OPERATING INCOME	<u>743,958</u>
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NONOPERATING REVENUES:

Interest income	4,602
Miscellaneous revenue	26,827
TOTAL NONOPERATING REVENUES	<u>31,429</u>

CHANGE IN NET POSITION

CHANGE IN NET POSITION	<u>775,387</u>
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NET POSITION, BEGINNING OF YEAR

NET POSITION, BEGINNING OF YEAR	<u>4,209,335</u>
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NET POSITION, END OF YEAR

NET POSITION, END OF YEAR	<u>\$ 4,984,722</u>
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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, 2013

CASH FLOWS FROM OPERATING ACTIVITIES:

Receipts from customers	\$ 1,817,234
Payments to suppliers for goods and services	<u>(846,943)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>970,291</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Capital improvements	(24,800)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(24,800)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest income	4,602
Purchase of investments	<u>(501,181)</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(496,579)</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS	448,912
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CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>3,002,991</u>
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CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 3,451,903</u>
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**RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED
BY OPERATING ACTIVITIES:**

Operating income	\$ 743,958
Adjustments:	
Depreciation	31,826
Decrease in accounts receivable	173,605
Decrease in prepaid expenses	1,791
Decrease in accounts payable and accrued expenses	(3,246)
Increase in due to Upper Uwchlan Township	<u>22,357</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 970,291</u>

CASH AND CASH EQUIVALENTS

Cash and cash equivalents	\$ 3,435,761
Restricted cash	16,142
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 3,451,903</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 arrangement. 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 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 Statement 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 position; a statement of revenues, expenses and changes in net position; and a statement of cash flows. It requires the classification of net position into three components - net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- **Net investment in capital assets** - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation.
- **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.

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)

- **Unrestricted** - This component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets." 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.

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.

Restricted Cash and Investments

Restricted cash and investments represents tapping fees paid for future connection to the sewer system.

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 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:

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)

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.

Implementation of GASB Statements

The Authority has implemented the provisions of GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities." The objective of this statement is to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). The implementation of this statement does not have a significant impact on the changes in net position for the Authority for the year ended December 31, 2013.

NOTE 2 DEPOSITS AND INVESTMENTS

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, 2013, the carrying amount of the Authority's deposits was \$3,451,903 and the bank balance was \$3,448,944. Of the bank balance, \$250,000 was covered by federal depository insurance and the remaining balance of \$3,198,944 was subject to custodial credit risk.

Investments

Statutes authorize the Authority to invest in U.S. Treasury bills, time or share accounts of institutions insured by the Federal Deposit Insurance Corporation or in certificates of deposit when they are secured by proper bond or collateral, repurchase agreements, State Treasurer's investment pools or mutual funds.

UPPER UWCHLAN TOWNSHIP MUNICIPAL AUTHORITY
(A Component Unit of Upper Uwchlan Township)

NOTES TO FINANCIAL STATEMENTS

NOTE 2 DEPOSITS AND INVESTMENTS (cont'd)

As of December 31, 2013, the Authority had the following investments:

Certificates of deposit due within one year	\$ 251,045
Certificates of deposit due between one and five years	<u>250,136</u>
Total investments	<u>\$ 501,181</u>

Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The Authority has no investment policy that would limit its investment choices to those with certain credit ratings.

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.

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

	Balance 01/01/13	Additions	Deletions	Balance 12/31/13
Improvements to Stonehedge	\$ 488,646	\$ -	\$ -	\$ 488,646
Equipment	78,050	-	-	78,050
Sewer infrastructure improvements	<u>459,808</u>	<u>24,800</u>	<u>-</u>	<u>484,608</u>
Accumulated depreciation	<u>1,026,504</u>	<u>24,800</u>	<u>-</u>	<u>1,051,304</u>
	<u>(128,002)</u>	<u>(31,826)</u>	<u>-</u>	<u>(159,828)</u>
NET CAPITAL ASSETS	<u>\$ 898,502</u>	<u>\$ (7,026)</u>	<u>\$ -</u>	<u>\$ 891,476</u>

Depreciation expense for the year ended December 31, 2013 totaled \$31,826.

UPPER UWCHLAN TOWNSHIP MUNICIPAL AUTHORITY
(A Component Unit of Upper Uwchlan Township)

NOTES TO FINANCIAL STATEMENTS

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, 2013. 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 \$149,725 and expenses for the services of the Authority administrator totaled \$21,118 for the year ended December 31, 2013.

NOTE 6 SUBSEQUENT EVENTS

The Authority has evaluated all subsequent events through June 23, 2014, the date the financial statements were available to be issued.