



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

BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2015

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

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INDEPENDENT AUDITOR'S REPORT

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May 20, 2016

Board of Directors
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, 2015, 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.

Board of Directors
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, 2015, 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.

Report on Summarized Comparative Information

We have previously audited the Upper Uwchlan Township Municipal Authority's 2014 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated April 23, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

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)
STATEMENTS OF NET POSITION
DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 3,324,446	\$ 3,867,199
Restricted cash	16,174	16,158
Restricted investments	255,278	-
Investments	256,464	-
Accounts receivable	201,197	282,504
Prepaid expenses	6,895	3,453
Total Current Assets	<u>4,060,454</u>	<u>4,169,314</u>
Noncurrent Assets:		
Investments	-	253,801
Restricted investments	-	252,638
Construction-in-progress	3,443,116	-
Capital assets, net of accumulated depreciation	827,203	859,340
Total Noncurrent Assets	<u>4,270,319</u>	<u>1,365,779</u>
TOTAL ASSETS	<u>\$ 8,330,773</u>	<u>\$ 5,535,093</u>
LIABILITIES AND NET POSITION		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 663,901	\$ 76,755
Due to Upper Uwchlan Township	74,487	31,625
Total Current Liabilities	<u>738,388</u>	<u>108,380</u>
Net Position:		
Net investment in capital assets	4,270,319	859,340
Restricted - tapping fees	271,452	268,796
Unrestricted	3,050,614	4,298,577
Total Net Position	<u>7,592,385</u>	<u>5,426,713</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 8,330,773</u>	<u>\$ 5,535,093</u>

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

UPPER UWCHLAN TOWNSHIP MUNICIPAL AUTHORITY
(A Component Unit of Upper Uwchlan Township)
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
OPERATING REVENUES:		
Usage fees	\$ 1,735,848	\$ 1,731,230
TOTAL OPERATING REVENUES	<u>1,735,848</u>	<u>1,731,230</u>
OPERATING EXPENSES:		
Administrator	126,034	49,519
Administration	124,021	123,979
Advertising	1,341	1,662
Chemicals	4,811	12,121
Contracted services	114,512	115,435
Depreciation	32,137	32,136
Dues and memberships	-	1,609
Engineering services	323,590	262,484
Insurance	14,663	11,764
Lawn maintenance	2,070	7,763
Lease rental expense paid to Upper Uwchlan Township	364,613	37,705
Pumping and sludge hauling	27,374	35,782
Professional fees	42,767	38,135
Reimbursements to Upper Uwchlan Township	-	11,500
Repairs and maintenance	82,031	179,473
Supplies	9,724	8,989
Testing	40,549	42,939
Permits	2,963	10,144
Utilities	235,137	294,931
Utility billing costs	5,746	7,421
Vegetation management	19,734	14,530
Miscellaneous	4,424	2,869
TOTAL OPERATING EXPENSES	<u>1,578,241</u>	<u>1,302,890</u>
OPERATING INCOME	<u>157,607</u>	<u>428,340</u>
NONOPERATING REVENUES:		
Interest income	8,065	13,651
Contribution from Upper Uwchlan Township	2,000,000	-
TOTAL NONOPERATING REVENUES	<u>2,008,065</u>	<u>13,651</u>
CHANGE IN NET POSITION	<u>2,165,672</u>	<u>441,991</u>
NET POSITION, BEGINNING OF YEAR	<u>5,426,713</u>	<u>4,984,722</u>
NET POSITION, END OF YEAR	<u>\$ 7,592,385</u>	<u>\$ 5,426,713</u>

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

UPPER UWCHLAN TOWNSHIP MUNICIPAL AUTHORITY
(A Component Unit of Upper Uwchlan Township)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 1,817,155	\$ 1,706,880
Payments to suppliers for goods and services	(919,538)	(1,283,819)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>897,617</u>	<u>423,061</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital improvements	(3,443,116)	-
Contribution from Township	2,000,000	-
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(1,443,116)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income	8,065	13,651
Purchase of investments	(5,303)	(5,258)
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>2,762</u>	<u>8,393</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(542,737)	431,454
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>3,883,357</u>	<u>3,451,903</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 3,340,620</u>	<u>\$ 3,883,357</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 157,607	\$ 428,340
Adjustments:		
Depreciation	32,137	32,136
Decrease (Increase) in accounts receivable	81,307	(24,350)
(Increase) Decrease in prepaid expenses	(3,442)	2,622
Increase in accounts payable and accrued expenses	587,146	10,503
Decrease (Increase) in due to Upper Uwchlan Township	42,862	(26,190)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 897,617</u>	<u>\$ 423,061</u>
CASH AND CASH EQUIVALENTS:		
Cash and cash equivalents	\$ 3,324,446	\$ 3,867,199
Restricted cash	16,174	16,158
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 3,340,620</u>	<u>\$ 3,883,357</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 recording the operations 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 performed by contracted third parties and 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:

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)

- **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.
- **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, infrastructure lease rental payments, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

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)

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:

Capital improvements	40 years
Equipment	10 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.

Accounts Receivable

Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Authority provides for losses on accounts receivable using the allowance method. The allowance is based on experience and knowledge about the collectability of individual accounts. Receivables are considered impaired if full principal payments are not received in accordance with the repayment terms. It is the Authority's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. The allowance for uncollectible accounts is \$0 as of December 31, 2015.

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.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 2 DEPOSITS AND INVESTMENTS

Deposits

Custodial Credit Risk

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, 2015, the carrying amount of the Authority's deposits was \$3,340,620, and the bank balance was \$3,829,309. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$458,929 was subject to custodial credit risk. The remaining balance of \$3,120,380 was held in the Pennsylvania School District Liquid Asset Fund ("PSDLAF"). Although not registered with the Securities Exchange Commission and not subject to regulatory oversight, PSDLAF acts like money market mutual funds in that their objective is to maintain a stable net asset value of \$1 per share, are rated by a nationally recognized statistical rating organization, and are subject to an independent annual audit. As of December 31, 2015, PSDLAF was rated AAA by a nationally recognized statistical rating organization.

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.

As of December 31, 2015, the Authority had the following investments:

Certificates of deposit due within one year	<u>\$ 511,742</u>
Total investments	<u>\$ 511,742</u>

The bank balance of these certificates at December 31, 2015 was \$505,580, of which \$500,000 was covered by FDIC federal depository insurance and \$5,580 was subject to custodial credit risk.

Interest Rate Risk

The Authority 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.

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

NOTES TO FINANCIAL STATEMENTS

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:

	<u>Balance</u>			<u>Balance</u>
	<u>01/01/15</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/15</u>
Capital assets not being depreciated:				
Construction-in-progress	\$ -	<u>\$ 3,443,116</u>	\$ -	<u>\$ 3,443,116</u>
Total capital assets not being depreciated	<u>-</u>	<u>3,443,116</u>	<u>-</u>	<u>3,443,116</u>
 Capital assets being depreciated:				
Improvements to Stonehedge	488,646	-	-	488,646
Equipment	78,050	-	-	78,050
Sewer infrastructure improvements	<u>484,608</u>	-	-	<u>484,608</u>
	1,051,304	-	-	1,051,304
Accumulated depreciation	<u>(191,964)</u>	<u>(32,137)</u>	<u>-</u>	<u>(224,101)</u>
 Total assets being depreciated, net	<u>859,340</u>	<u>(32,137)</u>	<u>-</u>	<u>827,203</u>
 NET CAPITAL ASSETS	<u>\$ 859,340</u>	<u>\$ 3,410,979</u>	<u>\$ -</u>	<u>\$ 4,270,319</u>

Depreciation expense for the year ended December 31, 2015 totaled \$32,137.

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 in 2015 have not exceeded insurance coverage in any of the past three years. There were no significant reductions in coverage in 2015 compared to the prior year.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 5 RELATED-PARTY TRANSACTIONS

The Authority reappointed ARRO Consulting, Inc. as the Authority's engineer for the year ended December 31, 2015. The Authority's 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 \$323,590, and expenses for the services of the Authority administrator totaled \$126,034 for the year ended December 31, 2015. At December 31, 2015, the Authority owed ARRO Consulting, Inc. \$48,403.

In 2014, Upper Uwchlan Township issued bonds for the purposes of capital improvements to the sewer system, which is operated by the Authority, and has agreed to make lease rental payments sufficient to cover the debt payments and to cover certain costs associated with the borrowing. For the year ended December 31, 2015, the Authority paid \$364,613 for lease rental expense to the Township.

NOTE 6 CONSTRUCTION COMMITMENTS

As of December 31, 2015, the Authority had infrastructure projects yet to be completed. The commitments and amounts completed are as follows:

	Project Amount	Amount Completed	Committed
Sewer infrastructure upgrade – Phase II	\$ 6,123,924	\$ 3,401,193	\$ 2,722,731

In addition, the Authority has incurred costs totaling \$41,923 that were not under a formal contract.

NOTE 7 SUBSEQUENT EVENTS

The Authority has evaluated all subsequent events through May 20, 2016, the date the financial statements were available to be issued.