



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

BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2016

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 30, 2017

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, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic 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 entity'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 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 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 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, 2016, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Authority has adopted the requirements of GASB Statement No. 72, "Fair Value Measurement and Application." This statement improves the disclosures related to the Authority's investments. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Upper Uwchlan Township Municipal Authority's 2015 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated May 20, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 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, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 957,270	\$ 3,324,446
Restricted cash	134,575	16,174
Restricted investments	257,684	255,278
Investments	259,164	256,464
Accounts receivable	257,340	201,197
Prepaid expenses	6,933	6,895
Total Current Assets	<u>1,872,966</u>	<u>4,060,454</u>
Noncurrent Assets:		
Construction-in-progress	-	3,443,116
Capital assets, net of accumulated depreciation	1,004,976	827,203
Total Noncurrent Assets	<u>1,004,976</u>	<u>4,270,319</u>
TOTAL ASSETS	<u>\$ 2,877,942</u>	<u>\$ 8,330,773</u>
LIABILITIES AND NET POSITION		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 237,069	\$ 663,901
Due to Upper Uwchlan Township	58,067	74,487
Total Current Liabilities	<u>295,136</u>	<u>738,388</u>
Net Position:		
Net investment in capital assets	1,004,976	4,270,319
Restricted - tapping fees	392,259	271,452
Unrestricted	1,185,571	3,050,614
Total Net Position	<u>2,582,806</u>	<u>7,592,385</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 2,877,942</u>	<u>\$ 8,330,773</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, 2016 AND 2015

	2016	2015
OPERATING REVENUES:		
Usage fees	\$ 1,877,075	\$ 1,735,848
Tapping fees	861,271	-
TOTAL OPERATING REVENUES	2,738,346	1,735,848
OPERATING EXPENSES:		
Administrator	105,693	126,034
Administration	180,080	124,021
Advertising	-	1,341
Chemicals	8,362	4,811
Contracted services	256,371	114,512
Depreciation	34,794	32,137
Dues and memberships	2,110	-
Engineering services	168,122	323,590
Insurance	8,452	14,663
Lawn maintenance	8,337	2,070
Lease rental expense paid to Upper Uwchlan Township	367,963	364,613
Pumping and sludge hauling	398,819	27,374
Professional fees	17,876	42,767
Repairs and maintenance	105,290	82,031
Supplies	22,481	9,724
Testing	38,148	40,549
Permits	2,704	2,963
Utilities	254,571	235,137
Utility billing costs	10,697	5,746
Vegetation management	8,362	19,734
Miscellaneous	5,847	4,424
TOTAL OPERATING EXPENSES	2,005,079	1,578,241
OPERATING INCOME	733,267	157,607
NONOPERATING REVENUES:		
Interest income	10,473	8,065
Contribution from Upper Uwchlan Township	1,073,959	2,000,000
TOTAL NONOPERATING REVENUES	1,084,432	2,008,065
INCOME BEFORE CAPITAL CONTRIBUTIONS	1,817,699	2,165,672
Capital contribution to Upper Uwchlan Township	(6,827,278)	-
CHANGE IN NET POSITION	(5,009,579)	2,165,672
NET POSITION, BEGINNING OF YEAR	7,592,385	5,426,713
NET POSITION, END OF YEAR	\$ 2,582,806	\$ 7,592,385

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, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 2,682,203	\$ 1,817,155
Payments to suppliers for goods and services	(2,413,575)	(919,538)
NET CASH PROVIDED BY OPERATING ACTIVITIES	268,628	897,617
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital improvements	(3,596,729)	(3,443,116)
Contribution from Township	1,073,959	2,000,000
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(2,522,770)	(1,443,116)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income	10,473	8,065
Purchase of investments	(5,106)	(5,303)
NET CASH PROVIDED BY INVESTING ACTIVITIES	5,367	2,762
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,248,775)	(542,737)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,340,620	3,883,357
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,091,845	\$ 3,340,620
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 733,267	\$ 157,607
Adjustments:		
Depreciation	34,794	32,137
(Increase) Decrease in accounts receivable	(56,143)	81,307
Increase in prepaid expenses	(38)	(3,442)
(Decrease) Increase in accounts payable and accrued expenses	(426,832)	587,146
(Decrease) Increase in due to Upper Uwchlan Township	(16,420)	42,862
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 268,628	\$ 897,617
CASH AND CASH EQUIVALENTS:		
Cash and cash equivalents	\$ 957,270	\$ 3,324,446
Restricted cash	134,575	16,174
TOTAL CASH AND CASH EQUIVALENTS	\$ 1,091,845	\$ 3,340,620
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital contribution to Upper Uwchlan Township	\$ 6,827,278	\$ -

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 governmental 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 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:

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

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 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 Cash Equivalents

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments

Investments are recorded at fair value.

In establishing the fair value of investments, the Authority uses the following hierarchy. The lowest available level of valuation available is used for all investments.

Level 1 – Valuations based on quoted market prices in active markets for identical assets or liabilities that the entity has the ability to access.

Level 2 – Valuations based on quoted prices of similar products in active markets or identical products in markets that are not active or for which all significant inputs are observable, directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Restricted Cash and Investments

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

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)

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.

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, 2016.

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 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 GASB Statement No. 72, "Fair Value Measurement and Application." This statement provides guidance for determining a fair value measurement for financial reporting purposes and applying fair value to certain investments, as well as improving disclosures related to all fair value measurements. The effects of this statement have been included in the Authority's 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, 2016, the carrying amount of the Authority's deposits was \$1,091,845, and the bank balance was \$1,095,797. Of the bank balance, \$271,907 was covered by federal depository insurance. The remaining balance of \$823,890 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, 2016, PSDLAF was rated AAA by a nationally recognized statistical rating organization.

Investments

Statutes authorize the Authority to invest in obligations of the U.S. Treasury; agencies and instrumentalities; deposits in savings accounts or time deposits; or share accounts of institutions insured by the Federal Deposit Insurance Corporation ("FDIC"), the Federal Savings and Loan

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

NOTES TO FINANCIAL STATEMENTS

NOTE 2 DEPOSITS AND INVESTMENTS (cont'd)

Insurance Corporation ("FSLIC"), or the National Credit Union Share Insurance Fund ("NCUSIF"). The Authority also is authorized to invest in obligations of the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America or the Commonwealth of Pennsylvania or any of its agencies or instrumentalities.

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Authority has the following recurring fair value measurements as of December 31, 2016:

Investment Type	Fair Value	Level 2	Matures in Less Than One Year
Certificates of deposit	\$ 516,848	\$ 516,848	\$ 516,848
TOTAL	\$ 516,848	\$ 516,848	\$ 516,848

The Authority's Level 2 investments in certificates of deposit are valued based on the value at which the investment could be redeemed as of the report date.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. As of December 31, 2016, \$16,848 of the Authority's \$516,848 in investments were 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>01/01/16</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/16</u>
Capital assets not being depreciated:				
Construction-in-progress	\$ 3,443,116	\$ 3,384,162	\$(6,827,278)	\$ -
Total capital assets not being depreciated	<u>3,443,116</u>	<u>3,384,162</u>	<u>(6,827,278)</u>	<u>-</u>
 Capital assets being depreciated:				
Improvements to Stonehedge	488,646	-	-	488,646
Equipment	78,050	-	-	78,050
Sewer infrastructure improvements	484,608	212,567	-	697,175
	1,051,304	212,567	-	1,263,871
Accumulated depreciation	<u>(224,101)</u>	<u>(34,794)</u>	<u>-</u>	<u>(258,895)</u>
 Total assets being depreciated, net	<u>827,203</u>	<u>177,773</u>	<u>-</u>	<u>1,004,976</u>
 NET CAPITAL ASSETS	<u><u>\$ 4,270,319</u></u>	<u><u>\$ 3,561,935</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,004,976</u></u>

Depreciation expense for the year ended December 31, 2016 totaled \$34,794.

During the year ended December 31, 2016, the Authority completed the construction of significant upgrades and improvements to the sewer infrastructure system. These improvements were then dedicated to Upper Uwchlan Township; accordingly, a capital contribution in the amount of \$6,827,278 has been recorded by the Authority.

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 in 2016 have not exceeded insurance coverage in any of the past three years. There were no significant reductions in coverage in 2016 compared to the prior year.

NOTE 5 RELATED-PARTY TRANSACTIONS

The Authority reappointed ARRO Consulting, Inc. as the Authority's engineer for the year ended December 31, 2016. 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 \$417,334, of which \$190,062 was charged to engineering and other similar expenses, and \$227,272 was capitalized. Expenses for the services of the Authority administrator totaled \$105,693 for the year ended December 31, 2016. At December 31, 2016, the Authority owed ARRO Consulting, Inc. \$25,869.

In 2014, Upper Uwchlan Township issued bonds for the purposes of capital improvements to the sewer system, which is operated by the Authority. On October 20, 2016, the Authority and Township entered into a formal operation and management agreement. The agreement's initial term is through December 31, 2020 with a provision for automatic renewal each year for a one-year term, unless one of the parties provides notice of intent to terminate the agreement. The agreement stipulates that the Authority must 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, 2016, the Authority paid \$367,963 for lease rental expense to the Township. A schedule of the future minimum lease payments required under the agreement follows.

<u>Year Ending December 31,</u>	<u>Total Payment</u>
2017	\$ 364,562
2018	364,562
2019	369,212
2020	366,812
2021	368,012
2022 - 2026	1,829,362
2027 - 2031	1,844,388
2032 - 2036	1,837,000
2037 - 2039	1,167,200
	<u>\$ 8,511,010</u>

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

NOTES TO FINANCIAL STATEMENTS

NOTE 6 SUBSEQUENT EVENTS

On January 24, 2017, the Authority purchased excess sewer disposal capacity from a local developer operating a sewer treatment facility in order to obtain sufficient disposal capacity for the treatment facilities operated by the Authority. The total cost of this excess capacity was \$1,214,111.

The Authority has evaluated all subsequent events through May 30, 2017, the date the financial statements were available to be issued.