

**UPPER MERION TRANSPORTATION AUTHORITY  
(A Component Unit of Upper Merion Township)**

**ANNUAL FINANCIAL REPORT**

*Year Ended December 31, 2015*



Expertise Beyond The Numbers®

Certified Public Accountants and Business Consultants

## **INTRODUCTORY SECTION**

**UPPER MERION TRANSPORTATION AUTHORITY**  
**(A Component Unit of Upper Merion Township)**

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YEAR ENDED DECEMBER 31, 2015

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## **FINANCIAL SECTION**

## ***Independent Auditors' Report***

To the Board of Directors  
Upper Merion Transportation Authority  
King of Prussia, Pennsylvania

We have audited the accompanying financial statements of the Upper Merion Transportation Authority (a component unit of Upper Merion Township), which comprise the statement of net position as of December 31, 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

The Upper Merion Transportation Authority's 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.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 auditors' 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.

To the Board of Directors  
Upper Merion Transportation Authority  
King of Prussia, Pennsylvania

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Upper Merion Transportation 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 (GAAP).

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 7 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

*Maullio LLP*

Oaks, Pennsylvania  
June 22, 2016

**UPPER MERION TRANSPORTATION AUTHORITY**  
**(A Component Unit of Upper Merion Township)**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED DECEMBER 31, 2015

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Our discussion and analysis of the Upper Merion Transportation Authority's (a component unit of Upper Merion Township) financial performance provides an overview of the Authority's financial activities for the fiscal year ended December 31, 2015. Please read it in conjunction with the Authority's financial statements, which begin with the statement of net position.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The Authority's annual financial report consists of several sections. Taken together, they provide a comprehensive financial look at the Authority. The components of the report include the independent auditors' report, management's discussion and analysis, financial statements and notes to the basic financial statements.

The independent auditors' report briefly describes the audit engagement and also renders an opinion as to the material components of the Authority's financial position.

Management's discussion and analysis (MD&A), prepared by Authority/Township management, provides a narrative introduction and overview that users of the financial statements need to interpret the basic financial statements. The MD&A also provides analysis of some key data that is presented in the basic financial statements. It also addresses any other currently known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations.

The basic financial statements include the statement of net position, statement of revenues, expenses and changes in net position, statement of cash flows and the notes to the basic financial statements.

- The *statement of net position* shows the financial condition of the Authority at the end of the fiscal period or a specific snapshot in time.
- The *statement of revenues, expenses and changes in net position* measures the results of operations of the Authority during the fiscal period.
- The *statement of cash flows* measures the resources provided during the fiscal period and the uses to which they are put.
- The *notes to the basic financial statements* provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the Authority's financial condition.

**UPPER MERION TRANSPORTATION AUTHORITY**  
**(A Component Unit of Upper Merion Township)**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED DECEMBER 31, 2015

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The analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the Authority.

**Table 1**  
**Condensed Statements of Net Position**  
*December 31, 2015 and 2014*

	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
Cash and investments	\$ 2,312,894	\$ 3,593,619
Other assets	<u>340,727</u>	<u>427,372</u>
<b>TOTAL ASSETS</b>	<u>2,653,621</u>	<u>4,020,991</u>
<b>LIABILITIES</b>		
Other liabilities	416,133	455,033
Long-term liabilities	<u>2,167,348</u>	<u>2,508,526</u>
<b>TOTAL LIABILITIES</b>	<u>2,583,481</u>	<u>2,963,559</u>
<b>NET POSITION</b>		
Unrestricted	<u>\$ 70,140</u>	<u>\$ 1,057,432</u>

**UPPER MERION TRANSPORTATION AUTHORITY**  
**(A Component Unit of Upper Merion Township)**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED DECEMBER 31, 2015

**Table 2**  
**Condensed Statements of Revenues, Expenses and Changes in Net Position**  
*Years Ended December 31, 2015 and 2014*

	<u>2015</u>	<u>2014</u>
REVENUES		
Assessments	\$ 80,805	\$ 359,296
Grants	266,863	378,444
Reimbursements	-	-
Investment income	7,428	7,663
	<u>355,096</u>	<u>745,403</u>
EXPENSES		
Professional fees	8,564	11,013
Miscellaneous	1,333	2,810
Road construction	1,158,424	572,022
Interest on long-term debt	46,221	49,766
Reimbursement to Upper Merion Township	127,846	132,103
TOTAL EXPENSES	<u>1,342,388</u>	<u>767,714</u>
CHANGE IN NET POSITION	(987,292)	(22,311)
NET POSITION, BEGINNING	<u>1,057,432</u>	<u>1,079,743</u>
NET POSITION, ENDING	<u>\$ 70,140</u>	<u>\$ 1,057,432</u>

**REPORTING**

For the past 30 years, Upper Merion Township has been in a period of substantial residential, industrial and commercial development due mostly to convenient accessibility via the Pennsylvania Turnpike, the Schuylkill Expressway (I-76) to Philadelphia and Routes 202 and 422. Many of the Township's roads were experiencing heavy congestion because of development as well as regional traffic. Local roads were quickly becoming inadequate. In 1985, the Upper Merion Transportation Authority was established to allow a greater degree of control over the scheduling and funding of highway improvements. In addition, the program identifies and prioritizes current highway and intersection flow problems and establishes a starting point for future improvements. Most importantly, the program provides a mechanism and source of revenue to fund various local improvements and reduces dependence on uncertain and untimely federal and state funding. A five-member board, appointed by the Township's Board of Supervisors, governs the Transportation Authority. Although legally separate, the Authority is considered a component unit of the Township because the Township is financially accountable for it.

**UPPER MERION TRANSPORTATION AUTHORITY**  
**(A Component Unit of Upper Merion Township)**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED DECEMBER 31, 2015

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The Transportation Authority is funded by assessments charged to developers whose projects would impact Upper Merion Township traffic. The assessment is a one-time payment based on the estimated cost of construction for road improvements to handle peak hour traffic. Revenue from traffic assessments for 2015 totals \$80,805. Historically, from its inception, the Transportation Authority has taken in revenues in the form of traffic assessment fees totaling \$12,824,350.

Cash and investments represent 87% of the Authority's total assets.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the funds it receives and disburses. If you have questions about this report or need additional information, please contact the Director of Finance and Administration at 175 West Valley Forge Road, King of Prussia, PA 19406-1802.

**UPPER MERION TRANSPORTATION AUTHORITY**  
**(A Component Unit of Upper Merion Township)**  
STATEMENT OF NET POSITION  
DECEMBER 31, 2015

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ASSETS

CURRENT ASSETS

Cash	\$ 501,721
Investments	1,811,173
Loan receivable, current portion	8,742
Interest receivable	1,525
Grant receivable	<u>314,569</u>

TOTAL CURRENT ASSETS 2,637,730

NONCURRENT ASSETS

Loan receivable, less current portion	<u>15,891</u>
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TOTAL ASSETS 2,653,621

LIABILITIES

CURRENT LIABILITIES

Accounts payable	41,382
Due to Upper Merion Township	17,871
Accrued interest payable	15,702
Current portion of loan payable	<u>341,178</u>

TOTAL CURRENT LIABILITIES 416,133

NONCURRENT LIABILITIES

Loan payable, less current portion	<u>2,167,348</u>
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TOTAL LIABILITIES 2,583,481

NET POSITION

Unrestricted	<u>\$ 70,140</u>
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*See accompanying notes to the basic financial statements.*

**UPPER MERION TRANSPORTATION AUTHORITY**  
**(A Component Unit of Upper Merion Township)**  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION  
YEAR ENDED DECEMBER 31, 2015

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OPERATING REVENUES	
Assessments	\$ 80,805
Grants	<u>266,863</u>
TOTAL OPERATING REVENUES	<u>347,668</u>
OPERATING EXPENSES	
Professional fees	8,564
Miscellaneous	1,333
Road construction	1,158,424
Reimbursement to Upper Merion Township	<u>127,846</u>
TOTAL OPERATING EXPENSES	<u>1,296,167</u>
OPERATING LOSS	<u>(948,499)</u>
NONOPERATING REVENUES (EXPENSES)	
Investment income	7,428
Interest expense	<u>(46,221)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(38,793)</u>
CHANGE IN NET POSITION	(987,292)
NET POSITION AT BEGINNING OF YEAR	<u>1,057,432</u>
NET POSITION AT END OF YEAR	<u>\$ 70,140</u>

*See accompanying notes to the basic financial statements.*

**UPPER MERION TRANSPORTATION AUTHORITY**  
**(A Component Unit of Upper Merion Township)**

STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2015

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CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from assessments	\$ 80,805
Cash received from grants	345,459
Cash payments to suppliers for services	(1,212,038)
Cash payments to other governments	(127,846)
NET CASH USED BY OPERATING ACTIVITIES	<u>(913,620)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Payments on loan payable	(335,833)
Payments on loan receivable	8,497
Interest paid	(46,221)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(373,557)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment income	6,980
Maturities of investments, net	1,533,767
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>1,540,747</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Due to Upper Merion Township	<u>(528)</u>
NET INCREASE IN CASH	253,042
CASH AT BEGINNING OF YEAR	<u>248,679</u>
CASH AT END OF YEAR	<u>\$ 501,721</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES	
Operating income	\$ (948,499)
Adjustments to reconcile operating income to net cash used by operating activities	
Changes in assets and liabilities	
Grant receivable	78,596
Accounts payable	(43,717)
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (913,620)</u>

*See accompanying notes to the basic financial statements.*

**UPPER MERION TRANSPORTATION AUTHORITY**  
**(A Component Unit of Upper Merion Township)**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Purpose of the Authority**

The Upper Merion Transportation Authority (the "Authority") is a separate legal entity, which was created for the purpose of acquiring, constructing, improving, maintaining and operating, owning and leasing, either in the capacity of lessor or lessee, projects of the following kind and character: highways, parkways, transportation, traffic distribution centers and other business improvements including street paving, street lighting, parking lots, parking garages and all facilities necessary or incident thereto. The Authority is authorized to set rates and impose charges for such improvements as permitted by law.

**Basis of Presentation**

The financial statements of the Authority include all accounts of Upper Merion Township (the "Township") which relate to the Authority.

For financial reporting purposes, the Authority is a component unit of the Township. There are no component units included in the accompanying financial statements.

**Basis of Accounting**

The measurement focus is on the flow of economic resources and the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recorded when incurred.

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Authority has no items that qualify for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Authority has no items that qualify for reporting in this category.

**UPPER MERION TRANSPORTATION AUTHORITY**  
**(A Component Unit of Upper Merion Township)**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Net Position Flow Assumption**

Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the Proprietary Fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

**Assessments**

Assessments are recorded as revenues in the year the assessments are levied, even if payments are made in installments.

**Investments**

Investments consist of unrestricted investments carried at fair value.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE B - CASH 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 to it. Deposits are insured under Act 72 of the 1971 Session of the Pennsylvania General Assembly, whereby financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined in the Act, to cover all public funds deposited in excess of FDIC limits. As of December 31, 2015, \$251,721 of the Authority's bank balance of \$501,721 was exposed to custodial credit risk.

**Investments**

The Authority's investments consist of deposits with financial institutions and U.S. Government and agency securities.

**UPPER MERION TRANSPORTATION AUTHORITY**  
**(A Component Unit of Upper Merion Township)**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015

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**NOTE B - CASH AND INVESTMENTS (Continued)**

As of December 31, 2015, the Authority had the following investments in an external investment pool:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities Less Than One Year</u>
State investment pools	\$ 1,681,586	\$ 1,681,586
Certificates of deposit	<u>249,230</u>	<u>249,230</u>
	1,930,816	\$ <u>1,930,816</u>
Outstanding checks drawn on state investment pools	<u>(119,643)</u>	
	<u>\$ 1,811,173</u>	

Investment of Authority funds covered by the investment policy is limited to the following investment instruments:

1. U.S. Treasury bills.
2. Treasury bonds or notes with maturities of less than two years.
3. Fully insured or collateralized CDs with maturities of less than one year at commercial banks and savings and loans that have been approved as Authority depositories by the Investment Committee.
4. Investment pools offered by the Commonwealth of Pennsylvania or other entities, which have been approved by the Commonwealth of Pennsylvania for investment by Second Class Townships.
5. Investment instruments offered by the Pennsylvania Local Government Investment Trust (PLGIT).
6. Repurchase agreements with a term of less than five days fully collateralized (minimum 102% of principal at market value) by U.S. Treasury securities.
7. Certain short-term obligations of U.S. Government agencies as approved by the Investment Committee.

**Interest Rate Risk** - The Authority's investment policy limits investment maturities to remain sufficiently liquid to meet all operating requirements that are reasonably anticipated as a means of managing its exposure to fair value losses arising from increasing interest rates. Except where specifically indicated above, or with the approval of the Investment Committee, maturities of investment instruments will be limited to a maximum of two years.

**UPPER MERION TRANSPORTATION AUTHORITY**  
**(A Component Unit of Upper Merion Township)**  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 DECEMBER 31, 2015

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**NOTE B - CASH AND INVESTMENTS (Continued)**

**Safekeeping and Custody** - To protect against potential fraud and embezzlement, whenever practical, the investment assets of the Authority will be secured through third-party custody and safekeeping procedures. Bearer instruments will be held only through third-party institutions.

**Credit Risk** - Only debt issues that meet or exceed a credit rating of A from Standard & Poor's and/or an A rating from Moody's may be purchased. As of December 31, 2015, the Authority's investment in state investment pools was rated AAAM by Standard & Poor's.

Although not registered with the Securities and Exchange Commission and not subject to formal regulatory oversight, the state investment pool is subject to an independent annual audit. The fair value in the external investment pool is equivalent to the value of the pool shares.

**NOTE C - GRANT RECEIVABLE**

As part of the ongoing participation in the Federal Aid Highway Program for the Route 23 and Route 422 Transportation Studies, the Authority is reimbursed by federal, state and local governments as stated below. As of December 31, 2015, the Authority was due \$314,569.

**NOTE D - LOAN RECEIVABLE**

The Authority provided a loan to Kings Way Properties, LP on September 30, 2013, with an initial balance of \$43,424. Principal and interest payments in the amount of \$776 shall be made the first of each month beginning October 1, 2013. The terms of the loan are 2.80% interest with the loan receivable in full in 60 months on September 1, 2018. The balance as of December 31, 2015, was \$24,633.

**NOTE E - CHANGES IN LONG-TERM LIABILITIES**

During the year ended December 31, 2015, the following changes in long-term liabilities occurred:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
PA Infrastructure Bank Loan	\$ <u>2,844,359</u>	\$ <u>-</u>	\$ <u>(335,833)</u>	\$ <u>2,508,526</u>	\$ <u>341,178</u>

The Authority entered into a bank loan agreement with Pennsylvania Infrastructure Bank dated July 12, 2012, borrowing \$3,500,000 payable over ten years with interest at 1.625%. The proceeds are to be used by the Authority to widen a portion of South Henderson Road. The first payment of principal and interest was due to Pennsylvania Infrastructure Bank on August 29, 2013.

**UPPER MERION TRANSPORTATION AUTHORITY**  
**(A Component Unit of Upper Merion Township)**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2015

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**NOTE E - CHANGES IN LONG-TERM LIABILITIES (Continued)**

The annual requirement to amortize the loan payable as of December 31, 2015, including interest payments, is as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2016	\$ 341,178	\$ 40,875	\$ 382,053
2017	346,834	35,219	382,053
2018	352,470	29,583	382,053
2019	358,198	23,856	382,054
2020	363,969	18,084	382,053
2021 to 2022	<u>745,877</u>	<u>18,230</u>	<u>764,107</u>
	<u>\$ 2,508,526</u>	<u>\$ 165,847</u>	<u>\$ 2,674,373</u>

**NOTE F - COMMITMENT**

**Authority Agreement**

The Authority has entered into an agreement to participate in a Federal Aid Highway Program for various transportation studies. Under the terms of the reimbursement agreement, the Authority agreed to participate in the studies. The estimated project costs and estimated maximum reimbursement from federal funds are as follows:

	<u>Totals</u>
<b>TRANSPORTATION STUDY</b>	
RT 76 Ramp at Henderson Road Project 064024-B	\$ 2,432,500
S.R. 3051 Section C22 Multi-Use Trail Bridge over the Schuylkill River Project 164046-B	11,961,000
S.R. Section 2NG North Gulph Road Project 164228	1,250,000
National Park Service (Sullivans Trail Pedestrian Signal Project) Project P14AC00287	249,972
East Church Road Bridge over SEPTA Project 064130-C	906,000

The total costs of the projects incurred through December 31, 2015, were \$5,925,590.

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		Share of Costs					
Federal		State and County		Authority			
\$	1,946,000	80%	\$ 486,500	20%	\$ -		0%
	11,961,000	100%	-	0%	-		0%
	1,000,000	80%	250,000	20%	-		0%
	249,972	100%	-	0%	-		0%
	724,800	80%	135,900	15%	45,300	*	5%

\* Note -- The local share for the East Church Road Bridge over SEPTA Project 064130-C is shared as 2.5% Authority and 2.5% Montgomery County.