

**UPPER MERION MUNICIPAL UTILITY 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 MUNICIPAL UTILITY 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 Municipal Utility Authority  
King of Prussia, Pennsylvania

We have audited the accompanying financial statements of the Upper Merion Municipal Utility 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 Municipal Utility 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 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 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 Municipal Utility 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 Municipal Utility 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 MUNICIPAL UTILITY 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 Municipal Utility 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 MUNICIPAL UTILITY 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	\$ 2,695,074	\$ 5,347,982
Capital assets, net of accumulated depreciation	<u>18,053,138</u>	<u>19,214,627</u>
<b>TOTAL ASSETS</b>	<u>20,748,212</u>	<u>24,562,609</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred charge on refunding	<u>-</u>	<u>142,603</u>
<b>LIABILITIES</b>		
Other liabilities	88,507	1,951,082
Long-term debt outstanding	<u>-</u>	<u>1,900,667</u>
<b>TOTAL LIABILITIES</b>	<u>88,507</u>	<u>3,851,749</u>
<b>NET POSITION</b>		
Net investment in capital assets	18,053,138	15,711,563
Unrestricted	<u>2,606,567</u>	<u>5,141,900</u>
<b>TOTAL NET POSITION</b>	<u>\$ 20,659,705</u>	<u>\$ 20,853,463</u>

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

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

	2015	2014
REVENUES		
Tapping fees	\$ 367,455	\$ 21,200
Lease payments	960,000	720,000
Investment income	11,009	10,177
TOTAL REVENUES	1,338,464	751,377
EXPENSES		
Administrative	5,427	8,138
Professional fees	45,863	50,201
Depreciation	1,248,850	1,197,289
Reimbursement to Township	125,500	125,211
Road construction	611	-
Interest on long-term debt	105,971	137,614
TOTAL EXPENSES	1,532,222	1,518,453
LOSS BEFORE CAPITAL CONTRIBUTIONS	(193,758)	(767,076)
CAPITAL CONTRIBUTIONS	-	-
CHANGE IN NET POSITION	(193,758)	(767,076)
NET POSITION, BEGINNING	20,853,463	21,620,539
NET POSITION, ENDING	\$ 20,659,705	\$ 20,853,463

**REPORTING**

The Upper Merion Municipal Utility Authority was established in 1986 to finance the Township's sewage collection and treatment facilities. A five-member board, appointed by the Township's Board of Supervisors, governs the Authority. Although legally separate, the Authority is considered a component unit of the Township because the Township is financially accountable for it. The major function of the Authority is to provide financing for capital construction of the Township's sewage collection and treatment facilities. The Authority owns two waste treatment plants, 12 pumping stations and 125 miles of sewer lines. The Township has the responsibility for daily operations through a leaseback arrangement with the Authority.

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

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Cash and investments represent 13.0% of the Authority's total assets. By far the largest portion of the Authority's assets, 87.0%, reflects its investment in capital assets (e.g., property and equipment). Accumulated depreciation reflects 67.3% of total capital assets.

The Authority developed a program of advance payments for individuals, developers and businesses to purchase non-allocated and future capacity in the sanitary sewer system. The program was launched due to the need to construct and upgrade sewage treatment capacity. The program is called Upper Merion Sewer Access Rights (UMSAR) and is the primary revenue source for the Authority. It has provided increased sewer capacity for new customers but at the same time has minimized cost increases to present customers. The fee structure is based on the sale of Equivalent Dwelling Units (EDU). Each EDU represents approximately 225 gallons of sewage capacity. The current cost of one EDU is equal to \$6,800. The 2015 collection of UMSAR totals \$367,455. UMSAR revenues from the program's inception to December 31, 2015, equate to \$22,162,264.

The revenue obtained from the sale of sewer capacity is expended to fund continued expansions and upgrades to the two plants and collection system. This arrangement follows an agreement with the Pennsylvania Department of Environmental Protection, which assisted in planning for future improvements. At December 31, 2015, the Authority's investments had an approximate fair value of \$1,524,831. Please see Note B to the financial statements for additional information on the Authority's investments.

To save on interest expense, the debt payment for 2016 was paid off early in 2015, so at December 31, 2015, the Authority had \$0 in outstanding debt compared to \$3,540,000 last year. The debt was paid off in 2015.

**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 MUNICIPAL UTILITY AUTHORITY**  
**(A Component Unit of Upper Merion Township)**  
STATEMENT OF NET POSITION  
DECEMBER 31, 2015

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ASSETS

CURRENT ASSETS

Cash	\$ 1,170,243
Investments	<u>1,524,831</u>
TOTAL CURRENT ASSETS	<u>2,695,074</u>

NONCURRENT ASSETS

Capital assets	
Building and improvements	55,166,641
Accumulated depreciation	<u>(37,113,503)</u>
TOTAL CAPITAL ASSETS	<u>18,053,138</u>

TOTAL ASSETS	<u>20,748,212</u>
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LIABILITIES

CURRENT LIABILITIES

Accounts payable	12,004
Due to Upper Merion Township	<u>76,503</u>
TOTAL CURRENT LIABILITIES	88,507

NONCURRENT LIABILITIES

Note payable, less current portion	<u>-</u>
TOTAL LIABILITIES	<u>88,507</u>

NET POSITION

Net investments in capital assets	18,053,138
Unrestricted	<u>2,606,567</u>
TOTAL NET POSITION	<u>\$ 20,659,705</u>

*See accompanying notes to the basic financial statements.*

**UPPER MERION MUNICIPAL UTILITY 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	
Lease payments	\$ <u>960,000</u>
OPERATING EXPENSES	
Administrative	5,427
Professional fees	45,863
Depreciation	1,248,850
Reimbursement to Upper Merion Township	125,500
Road construction	611
TOTAL OPERATING EXPENSES	<u>1,426,251</u>
OPERATING LOSS	<u>(466,251)</u>
NONOPERATING REVENUES (EXPENSES)	
Investment income	11,009
Interest expense	(105,971)
Tapping fees	367,455
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>272,493</u>
CHANGE IN NET POSITION	(193,758)
NET POSITION AT BEGINNING OF YEAR	<u>20,853,463</u>
NET POSITION AT END OF YEAR	<u>\$ 20,659,705</u>

*See accompanying notes to the basic financial statements.*

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

STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from lease payments	\$ 960,000
Cash payments to suppliers for services	(138,770)
Cash payments to other governments	<u>(125,500)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>695,730</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital acquisitions	(87,362)
Principal paid on bonded debt	(3,540,000)
Interest paid	(100,402)
Tapping fees	<u>367,455</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(3,360,309)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment income	11,009
Purchase of investments, net	
Proceeds from sale of investments, net	<u>1,662,524</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>1,673,533</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Due from Upper Merion Township	<u>662</u>
NET DECREASE IN CASH	(990,384)
CASH AT BEGINNING OF YEAR	<u>2,160,627</u>
CASH AT END OF YEAR	<u>\$ 1,170,243</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	
Operating loss	\$ (466,251)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation	1,248,850
Changes in assets and liabilities	
Accounts payable	<u>(86,869)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 695,730</u>

See accompanying notes to the basic financial statements.

**UPPER MERION MUNICIPAL UTILITY 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**

Upper Merion Municipal Utility Authority (the "Authority") is a separate legal entity (incorporated August 6, 1986), which is primarily responsible for bonds issued to finance the expansion of the Matsunk Sewer Treatment Plant and system and the Trout Run Sewer Plant in the Township.

**Basis of Presentation**

The financial statements of the Authority include all accounts of Upper Merion Township (the "Township") which relate to the Authority. The Authority is a component unit of the Township because of its role in financing and constructing Township facilities.

**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.

**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.

**UPPER MERION MUNICIPAL UTILITY 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)**

**Investments**

During 1998, the Authority adopted Statement No. 31 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. This statement requires the Authority to record investments at fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

**Property and Equipment**

Property consists of sewer treatment plants and improvements and sewer equipment recorded at cost and depreciated using the straight-line method over estimated useful lives ranging from 10 to 40 years.

**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.

**Sewer Access Rights**

Sewer access rights consist of advance payments made to the Authority to reserve capacity in the sewage system. Income is recognized as occupancy permits are approved.

**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. Of the bank balance, \$500,000 was covered by federal depository insurance. As of December 31, 2015, \$670,349 of the Authority's bank balance of \$1,170,349 was exposed to custodial credit risk.

**UPPER MERION MUNICIPAL UTILITY 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)**

**Investments**

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities Less Than One Year</u>
State investment pools	\$ 1,028,393	\$ 1,028,393
Certificates of Deposit	<u>496,438</u>	<u>496,438</u>
	<u>\$ 1,524,831</u>	<u>\$ 1,524,831</u>

Investments of the Authority covered by the investment policy are limited to the following investment instruments:

1. All obligations of the U.S. Government or its agencies.
2. Certificates of deposit of U.S. commercial banks insured by the FDIC up to \$250,000. Certificates of deposit in excess of \$250,000 must be secured by a pledge of government securities.
3. Money market funds and other diversified pools of short and intermediate fixed income securities. Only those "dollar denominated" funds that invest only in high quality short- and intermediate-term government securities, essentially as described above.

**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. No issues may be purchased with more than five years to maturity.

**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 the state investment pool 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.

**Concentration of Credit Risk** - Investments in securities of a single issuer (with the exception of the U.S. Government and its agencies) must not exceed 5% of the value (10% if rated AAA). No more than 10% of the securities' par value (excluding issues of the U.S. Government and its agencies) may be invested in the securities of any one issuer or 5% in any one issue (10% if rated AAA).

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

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**NOTE C - CAPITAL ASSETS**

The following is a summary of changes in capital assets during the year:

	Balance January 1, 2015	Additions	Deletions	Balance December 31, 2015
Treatment plant and improvements	\$ 55,079,279	\$ 87,362	\$ -	\$ 55,166,641
Accumulated depreciation	(35,864,652)	(1,248,851)	-	(37,113,503)
	<u>\$ 19,214,627</u>	<u>\$ (1,161,489)</u>	<u>\$ -</u>	<u>\$ 18,053,138</u>

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

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Note payable	\$ 3,540,000	\$ -	\$ (3,540,000)	\$ -	\$ -
Issuance premium	105,667	-	(105,667)	-	-
<b>TOTAL LONG-TERM LIABILITIES</b>	<u>\$ 3,645,667</u>	<u>\$ -</u>	<u>\$ (3,645,667)</u>	<u>\$ -</u>	<u>\$ -</u>

On December 15, 2009, the Township authorized the purchase of General Obligation Bonds, Series A of 2009, for the purpose of providing funds to currently refund the Guaranteed Sewer Revenue Bonds, Series of 2003, and to pay the costs of issuing and insuring the bonds on behalf of the Authority. In order to take advantage of the lower market interest rates under which general obligation bonds are currently trading compared to guaranteed revenue bonds, the Township was required to purchase the bonds rather than the Authority. The debt for 2016 was prepaid by the Township in 2015 to save on interest expense.

**NOTE E - COMMITMENTS AND CONTINGENCIES**

**Lease Management Agreement**

During 1986, the Authority entered into a lease management agreement with the Township to manage and operate the Matsunk Sewer Treatment Plant and collection lines and to perform other functions on behalf of the Authority. The Township makes an annual lease payment of \$960,000 to the Authority.