

**UPPER MERION SANITARY AND STORMWATER  
AUTHORITY  
(A Component Unit of Upper Merion Township)**

**FINANCIAL STATEMENTS**

*Year Ended December 31, 2023*

# **INTRODUCTORY SECTION**

**UPPER MERION SANITARY AND STORMWATER AUTHORITY**  
**(A Component Unit of Upper Merion Township)**

TABLE OF CONTENTS  
YEAR ENDED DECEMBER 31, 2023

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	<b>Page</b>
<b>Introductory Section</b>	
Table of Contents	1
<b>Financial Section</b>	
Independent Auditors' Report	2
Management's Discussion and Analysis (Unaudited)	5
Basic Financial Statements	
Statement of Net Position	9
Statement of Revenues, Expenses and Changes in Net Position	10
Statement of Cash Flows	11
Notes to the Basic Financial Statements	12

## **FINANCIAL SECTION**

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

To the Board of Directors  
Upper Merion Sanitary and Stormwater Authority  
King of Prussia, Pennsylvania

### ***Opinion***

We have audited the accompanying financial statements of the Upper Merion Sanitary and Stormwater Authority, a component unit of Upper Merion Township, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Upper Merion Sanitary and Stormwater Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Upper Merion Sanitary and Stormwater Authority as of December 31, 2023, 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.

### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Upper Merion Sanitary and Stormwater Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Responsibilities of Management for the Financial Statements***

Upper Merion Sanitary and Stormwater Authority's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Upper Merion Sanitary and Stormwater Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

To the Board of Directors  
Upper Merion Sanitary and Stormwater Authority  
King of Prussia, Pennsylvania

### ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Upper Merion Sanitary and Stormwater Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Upper Merion Sanitary and Stormwater Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

To the Board of Directors  
Upper Merion Sanitary and Stormwater Authority  
King of Prussia, Pennsylvania

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 5 through 8 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 sufficient evidence to express an opinion or provide any assurance.

*Maillie LLP*

Limerick, Pennsylvania  
July 10, 2024

**UPPER MERION SANITARY AND STORMWATER AUTHORITY**  
**(A Component Unit of Upper Merion Township)**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED DECEMBER 31, 2023

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Our discussion and analysis of the Upper Merion Sanitary and Stormwater 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, 2023. 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 SANITARY AND STORMWATER AUTHORITY**  
**(A Component Unit of Upper Merion Township)**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED DECEMBER 31, 2023

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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, 2023 and 2022*

	<u>2023</u>	<u>2022</u>
<b>ASSETS</b>		
Cash and investments	\$ 13,608,188	\$ 11,558,156
Capital assets, net of accumulated depreciation	<u>13,569,097</u>	<u>13,975,734</u>
<b>TOTAL ASSETS</b>	<u><u>27,177,285</u></u>	<u><u>25,533,890</u></u>
<b>LIABILITIES</b>		
Other liabilities	<u>192,155</u>	<u>186,969</u>
<b>NET POSITION</b>		
Net investment in capital assets	13,569,097	13,975,734
Unrestricted	<u>13,416,033</u>	<u>11,371,187</u>
<b>TOTAL NET POSITION</b>	<u><u>\$ 26,985,130</u></u>	<u><u>\$ 25,346,921</u></u>

**UPPER MERION SANITARY AND STORMWATER AUTHORITY**  
**(A Component Unit of Upper Merion Township)**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED DECEMBER 31, 2023

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**Table 2**  
**Condensed Statements of Revenues, Expenses and Changes in Net Position**  
*Years Ended December 31, 2023 and 2022*

	2023	2022
REVENUES		
Tapping fees	\$ 1,961,227	\$ 2,243,935
Upper Merion Township appropriation	960,000	960,000
Investment income	554,985	117,929
TOTAL REVENUES	3,476,212	3,321,864
EXPENSES		
Administrative	22,114	24,263
Professional fees	116,180	89,641
Depreciation	1,598,110	1,516,676
Reimbursement to Township	80,423	75,980
Road construction	21,176	33,854
TOTAL EXPENSES	1,838,003	1,740,414
CHANGE IN NET POSITION	1,638,209	1,581,450
NET POSITION, BEGINNING	25,346,921	23,765,471
NET POSITION, ENDING	\$ 26,985,130	\$ 25,346,921

**REPORTING**

The Upper Merion Sanitary and Stormwater Authority consists of a seven-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 Authority provides financing for capital construction of the Township's sewage collection and treatment facilities and owns two waste treatment plants, 12 pumping stations and 125 miles of sewer lines. The Township has the responsibility for daily operations through an agreement with the Authority. The Authority is also responsible for the planning, management, and implementation of stormwater systems and the assessment of any fee.

# **UPPER MERION SANITARY AND STORMWATER AUTHORITY**

## **(A Component Unit of Upper Merion Township)**

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2023

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Cash and investments represent 50.1% of the Authority's total assets. The Authority's investment in capital assets (e.g., property and equipment), net of accumulated depreciation, represent 49.9% of the Authority's total assets. Accumulated depreciation reflects 78% 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 2023 collection of UMSAR totals \$1,954,379. UMSAR revenues from the program's inception to December 31, 2023, equate to \$33,632,012.

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, 2023, the Authority's investments had an approximate value of \$3,170,285. Please see Note B to the financial statements for additional information on the Authority's investments.

### **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 SANITARY AND STORMWATER AUTHORITY**  
**(A Component Unit of Upper Merion Township)**

STATEMENT OF NET POSITION  
DECEMBER 31, 2023

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ASSETS

CURRENT ASSETS

Cash	\$ 10,437,903
Investments	<u>3,170,285</u>
TOTAL CURRENT ASSETS	<u>13,608,188</u>

NONCURRENT ASSETS

Capital assets	
Building and improvements	61,788,349
Accumulated depreciation	<u>(48,219,252)</u>
TOTAL CAPITAL ASSETS	<u>13,569,097</u>

TOTAL ASSETS	<u>27,177,285</u>
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LIABILITIES

CURRENT LIABILITIES

Accounts payable	25,219
Escrow Payable	86,513
Due to Upper Merion Township	<u>80,423</u>
TOTAL CURRENT LIABILITIES	<u>192,155</u>

NET POSITION

Net investments in capital assets	13,569,097
Unrestricted	<u>13,416,033</u>
TOTAL NET POSITION	<u>\$ 26,985,130</u>

*See accompanying notes to the basic financial statements.*

**UPPER MERION SANITARY AND STORMWATER AUTHORITY  
(A Component Unit of Upper Merion Township)**

**STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION  
YEAR ENDED DECEMBER 31, 2023**

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OPERATING REVENUES	
Upper Merion Township appropriation	\$ 960,000
Tapping fees	1,961,227
TOTAL OPERATING REVENUES	<u>2,921,227</u>
OPERATING EXPENSES	
Administrative	\$ 22,114
Professional fees	116,180
Depreciation	1,598,110
Reimbursement to Upper Merion Township	80,423
Road construction	21,176
TOTAL OPERATING EXPENSES	<u>1,838,003</u>
OPERATING INCOME	1,083,224
NONOPERATING REVENUES	
Investment income	<u>554,985</u>
CHANGE IN NET POSITION	1,638,209
NET POSITION AT BEGINNING OF YEAR	<u>25,346,921</u>
NET POSITION AT END OF YEAR	<u>\$ 26,985,130</u>

*See accompanying notes to the basic financial statements.*

**UPPER MERION SANITARY AND STORMWATER AUTHORITY**  
**(A Component Unit of Upper Merion Township)**

STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2023

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from Upper Merion Township appropriation	\$ 960,000
Cash received from tapping fees	1,961,227
Cash payments to suppliers for services	(158,727)
Cash payments to other governments	(80,423)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>2,682,077</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital acquisitions	<u>(1,191,473)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment income	554,985
Purchase of investments, net	(159,895)
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>395,090</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Due to Upper Merion Township	<u>4,443</u>
NET INCREASE IN CASH	1,890,137
CASH AT BEGINNING OF YEAR	<u>8,547,766</u>
CASH AT END OF YEAR	<u>\$ 10,437,903</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 1,083,224
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	1,598,110
Changes in assets and liabilities	
Accounts payable	(85,770)
Escrow Payable	86,513
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 2,682,077</u>

*See accompanying notes to the basic financial statements.*

**UPPER MERION SANITARY AND STORMWATER AUTHORITY**  
**(A Component Unit of Upper Merion Township)**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2023

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

**Purpose of the Authority**

The Upper Merion Sanitary and Stormwater Authority (the "Authority") is a separate legal entity (originally incorporated August 6, 1986 as the Upper Merion Municipal Utility Authority), which was 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. In 2017 (April 13th), a change of name of the Authority from the Upper Merion Municipal Utility Authority as well as restating and expanding the Authority's purpose was approved by the Commonwealth of Pennsylvania. The Authority's purpose was expanded for the planning, management, and implementation of stormwater systems and the assessment of any fee.

**Basis of Presentation**

The Authority is a component unit of Upper Merion Township (the "Township") because of its role in financing and constructing Township facilities. This financial statement is the separate component unit financial report of the Authority.

**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 SANITARY AND STORMWATER AUTHORITY**  
**(A Component Unit of Upper Merion Township)**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2023

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

**Investments**

The Authority has adopted GASB Statements No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, No. 72, *Fair Value Measurement and Application* and No. 79 *Certain External Investment Pools and Pool Participants*. In accordance with these Statements, investments in marketable securities with readily determinable fair value and all investments in debt securities are reported at their fair values. Investments in qualifying external investment pools are reported at amortized cost basis.

**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 and is reported as tapping fees on the statement of revenues, expenses and changes in net position when earned.

**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, 2023, \$6,306,778 of the Authority's \$10,458,240 bank balance is uninsured and collateralized with securities held by the pledging bank's trust department not in the Authority's name, \$500,000 was insured by FDIC and \$3,651,462 is in the Pennsylvania Local Government Investment Trust (PLGIT) and is uninsured and uncollateralized.



**UPPER MERION SANITARY AND STORMWATER AUTHORITY**  
**(A Component Unit of Upper Merion Township)**  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 DECEMBER 31, 2023

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

**Investments**

As of December 31, 2023, the Authority had the following investments and maturities:

<u>Investment Type</u>	<u>Amortized Cost</u>	<u>Investment Maturities Less Than One Year</u>
State investment pools	\$ <u>3,170,285</u>	\$ <u>3,170,285</u>

A portion of the Township’s investments is in the PLGIT program, of which are funds similar to mutual funds. GASB Statement No. 3, Paragraph 69, provides that certain types of cash and investments, such as cash investments in a State Treasurer’s investment pool or mutual fund, cannot be assigned a credit risk category because the government does not own specific securities. Therefore, the PLGIT cash investments included in these statements will not be assigned a credit risk category. The carrying amount of these investments at December 31, 2023, is \$3,170,285. These assets maintain a stable net asset value of \$1 per share. All investments are monitored weekly by Standard & Poor’s and are subject to an independent audit on an annual basis.

Investments held with qualifying external state investment pools are valued at amortized cost in accordance with GASB Statement No. 79.

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.

**UPPER MERION SANITARY AND STORMWATER AUTHORITY**  
**(A Component Unit of Upper Merion Township)**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2023

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

**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.

**Fair Value Measurement** - The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are those that lack significant observable inputs. The Authority did not have any recurring fair value measurements as of December 31, 2023.

**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, 2023, 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).

**NOTE C - CAPITAL ASSETS**

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

	Balance January 1, 2023	Additions	Deletions	Balance December 31, 2023
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Treatment plant and improvements	\$ 60,596,876	\$ 1,191,473	\$ -	\$ 61,788,349
Accumulated depreciation	<u>(46,621,142)</u>	<u>(1,598,110)</u>	<u>-</u>	<u>(48,219,252)</u>
	<u>\$ 13,975,734</u>	<u>\$ (406,637)</u>	<u>\$ -</u>	<u>\$ 13,569,097</u>

**UPPER MERION SANITARY AND STORMWATER AUTHORITY**  
**(A Component Unit of Upper Merion Township)**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2023

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**NOTE D - CONCENTRATIONS**

For the year ended December 31, 2023, the Authority received 33% of its total operating revenue from appropriations from Upper Merion Township.