

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

FINANCIAL STATEMENTS

Year Ended December 31, 2020



INTRODUCTORY SECTION

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

TABLE OF CONTENTS

YEAR ENDED DECEMBER 31, 2020

	Page
Introductory Section	
Table of Contents	1
Financial Section	
Independent Auditors' Report	2
Management's Discussion and Analysis (Unaudited)	4
Basic Financial Statements	
Statement of Net Position	8
Statement of Revenues, Expenses and Changes in Net Position	9
Statement of Cash Flows	10
Notes to the Basic Financial Statements	11

FINANCIAL SECTION

Independent Auditors' Report

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

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, 2020, 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.

Management's Responsibility for the Financial Statements

The Upper Merion Sanitary and Stormwater 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 Sanitary and Stormwater 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 Sanitary and Stormwater Authority as of December 31, 2020, 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 sufficient evidence to express an opinion or provide any assurance.

Maillie LLP

Limerick, Pennsylvania
June 2, 2021

UPPER MERION SANITARY AND STORMWATER AUTHORITY

(A Component Unit of Upper Merion Township)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

YEAR ENDED DECEMBER 31, 2020

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, 2020. 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, 2020

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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash and investments	\$ 11,422,682	\$ 10,347,197
Other receivables	-	1,029
Capital assets, net of accumulated depreciation	<u>13,243,437</u>	<u>14,139,288</u>
TOTAL ASSETS	<u>24,666,119</u>	<u>24,487,514</u>
LIABILITIES		
Other liabilities	<u>106,072</u>	<u>73,756</u>
NET POSITION		
Net investment in capital assets	13,243,437	14,139,288
Unrestricted	<u>11,316,610</u>	<u>10,274,470</u>
TOTAL NET POSITION	<u>\$ 24,560,047</u>	<u>\$ 24,413,758</u>

UPPER MERION SANITARY AND STORMWATER AUTHORITY
(A Component Unit of Upper Merion Township)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2020

Table 2
Condensed Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
REVENUES		
Tapping fees	\$ 711,646	\$ 545,396
Lease payments	960,000	960,000
Investment income	83,875	171,606
TOTAL REVENUES	<u>1,755,521</u>	<u>1,677,002</u>
EXPENSES		
Administrative	8,927	8,339
Professional fees	60,936	62,399
Depreciation	1,362,621	1,334,780
Reimbursement to Township	70,918	67,960
Road construction	105,830	-
TOTAL EXPENSES	<u>1,609,232</u>	<u>1,473,478</u>
CHANGE IN NET POSITION	146,289	203,524
NET POSITION, BEGINNING	<u>24,413,758</u>	<u>24,210,234</u>
NET POSITION, ENDING	<u>\$ 24,560,047</u>	<u>\$ 24,413,758</u>

REPORTING

The Upper Merion Sanitary and Stormwater Authority consists of 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 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 a leaseback arrangement 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, 2020

Cash and investments represent 46.3% of the Authority's total assets. By far the largest portion of the Authority's assets, 53.7%, reflects its investment in capital assets (e.g., property and equipment). Accumulated depreciation reflects 76.7% 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 2020 collection of UMSAR totals \$711,646. UMSAR revenues from the program's inception to December 31, 2020, equate to \$28,627,307.

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, 2020, the Authority's investments had an approximate value of \$5,288,231. Please see Note B to the financial statements for additional information on the Authority's investments.

ECONOMIC FACTORS

In March 2020, the World Health Organization declared the outbreak of the COVID-19 coronavirus as a pandemic. The spread of the COVID-19 coronavirus could have an impact on Upper Merion Township's operational and financial performance, which has the potential to impact the Authority because the Township is financially accountable for the Authority.

The spread of the COVID-19 coronavirus has led to a government-mandated shutdown of many nonessential businesses in the area. These closures have the potential to impact construction and development within the Township. If construction and development is slowed, the Authority could see delays in its own projects as well as delays in its ability to charge and collect tapping fees.

The Authority was not significantly impacted by COVID-19 in 2020.

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, 2020

ASSETS

CURRENT ASSETS

Cash	\$ 6,134,451
Investments	5,288,231
	<hr/>
TOTAL CURRENT ASSETS	11,422,682

NONCURRENT ASSETS

Capital assets	
Building and improvements	56,921,434
Accumulated depreciation	(43,677,997)
	<hr/>
TOTAL CAPITAL ASSETS	13,243,437
	<hr/>
	TOTAL ASSETS
	24,666,119

LIABILITIES

CURRENT LIABILITIES

Accounts payable	35,154
Due to Upper Merion Township	70,918
	<hr/>
TOTAL CURRENT LIABILITIES	106,072

NET POSITION

Net investments in capital assets	13,243,437
Unrestricted	11,316,610
	<hr/>
	TOTAL NET POSITION
	\$ 24,560,047

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, 2020

OPERATING REVENUES	
Lease payments	\$ 960,000
OPERATING EXPENSES	
Administrative	8,927
Professional fees	60,936
Depreciation	1,362,621
Reimbursement to Upper Merion Township	70,918
Road construction	105,830
TOTAL OPERATING EXPENSES	<u>1,609,232</u>
OPERATING LOSS	(649,232)
NONOPERATING REVENUES	
Investment income	83,875
Tapping fees	711,646
TOTAL NONOPERATING REVENUES	<u>795,521</u>
CHANGE IN NET POSITION	146,289
NET POSITION AT BEGINNING OF YEAR	<u>24,413,758</u>
NET POSITION AT END OF YEAR	\$ <u>24,560,047</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, 2020

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from lease payments	\$ 960,000
Cash payments to suppliers for services	(145,306)
Cash payments to other governments	(70,918)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>743,776</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Capital acquisitions	(466,769)
Tapping fees	711,646
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>244,877</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment income	83,875
Sale of investments, net	984,388
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>1,068,263</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Due to Upper Merion Township	<u>2,957</u>
NET INCREASE IN CASH	<u>2,059,873</u>
CASH AT BEGINNING OF YEAR	<u>4,074,578</u>

CASH AT END OF YEAR	<u>\$ 6,134,451</u>
----------------------------	----------------------------

RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating loss	\$ (649,232)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation	1,362,621
Changes in assets and liabilities	
Accounts receivable	1,029
Accounts payable	29,358
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 743,776</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, 2020

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 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 SANITARY AND STORMWATER AUTHORITY

(A Component Unit of Upper Merion Township)

NOTES TO THE BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2020

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, 2020, \$4,390,216 of the Authority's \$5,678,607 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 \$788,391 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, 2020

NOTE B - CASH AND INVESTMENTS (Continued)

Investments

As of December 31, 2020, the Authority had the following investments and maturities:

Investment Type	Amortized Cost	Investment Maturities
		Less Than One Year
State investment pools	\$ 5,288,231	\$ 5,288,231

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, 2020, is \$5,288,231. 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, 2020

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, 2020.

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, 2020, the Authority's investment in the state investment pool was rated AAA 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, 2020	Additions	Deletions	Balance December 31, 2020
Treatment plant and improvements	\$ 56,454,665	\$ 466,769	\$ -	\$ 56,921,434
Accumulated depreciation	(42,315,377)	(1,362,620)	-	(43,677,997)
	<u>\$ 14,139,288</u>	<u>\$ (895,851)</u>	<u>\$ -</u>	<u>\$ 13,243,437</u>

UPPER MERION SANITARY AND STORMWATER AUTHORITY

(A Component Unit of Upper Merion Township)

NOTES TO THE BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2020

NOTE D - 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.

NOTE E - RISKS AND UNCERTAINTIES

On March 11, 2020, the World Health Organization declared the novel coronavirus (“COVID-19”) outbreak a pandemic which has impacted the global economy. The COVID-19 pandemic is still on-going and the duration and extent of any future financial impact on the Authority’s financial position, operations and cash flows is uncertain and cannot be reasonably estimated at this time.