

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

FINANCIAL STATEMENTS

Year Ended December 31, 2021

INTRODUCTORY SECTION

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

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YEAR ENDED DECEMBER 31, 2021

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FINANCIAL SECTION

Independent Auditors' Report

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

Report on the Audit of the Financial Statements

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, 2021, 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, 2021, 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 one year after the financial statement date.

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.

Mailli LLP

Limerick, Pennsylvania
June 15, 2022

UPPER MERION SANITARY AND STORMWATER AUTHORITY
(A Component Unit of Upper Merion Township)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2021

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, 2021. 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, 2021

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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and investments	\$ 10,736,318	\$ 11,422,682
Capital assets, net of accumulated depreciation	<u>13,574,649</u>	<u>13,243,437</u>
TOTAL ASSETS	<u>24,310,967</u>	<u>24,666,119</u>
LIABILITIES		
Other liabilities	<u>545,496</u>	<u>106,072</u>
NET POSITION		
Net investment in capital assets	13,574,649	13,243,437
Unrestricted	<u>10,190,822</u>	<u>11,316,610</u>
TOTAL NET POSITION	<u>\$ 23,765,471</u>	<u>\$ 24,560,047</u>

UPPER MERION SANITARY AND STORMWATER AUTHORITY
(A Component Unit of Upper Merion Township)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED DECEMBER 31, 2021

Table 2
Condensed Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2021 and 2020

	2021	2020
REVENUES		
Tapping fees	\$ 806,391	\$ 711,646
Lease payments	-	960,000
Investment income	7,234	83,875
TOTAL REVENUES	813,625	1,755,521
EXPENSES		
Administrative	6,408	8,927
Professional fees	84,448	60,936
Depreciation	1,426,469	1,362,621
Reimbursement to Township	72,836	70,918
Road construction	18,040	105,830
TOTAL EXPENSES	1,608,201	1,609,232
CHANGE IN NET POSITION	(794,576)	146,289
NET POSITION, BEGINNING	24,560,047	24,413,758
NET POSITION, ENDING	\$ 23,765,471	\$ 24,560,047

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, 2021

Cash and investments represent 44.2% of the Authority's total assets. By far the largest portion of the Authority's assets, 55.8%, reflects its investment in capital assets (e.g., property and equipment). Accumulated depreciation reflects 76.9% 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 2021 collection of UMSAR totals \$806,391. UMSAR revenues from the program's inception to December 31, 2021, equate to \$29,433,698.

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, 2021, the Authority's investments had an approximate value of \$4,657,254. Please see Note B to the financial statements for additional information on the Authority's investments.

For 2021 budget planning purposes, the Authority Board voted to forgive, from the Township Sewer Fund, the annual \$960,000 lease agreement payment. This action was intended to assist the Township Sewer Fund alleviate any possible budget funding issues that could result from any undetermined and possible economic factors stemming from the volatility of the economy emerging from Covid-19.

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, 2021

ASSETS

CURRENT ASSETS

Cash	\$ 6,079,064
Investments	4,657,254
TOTAL CURRENT ASSETS	<u>10,736,318</u>

NONCURRENT ASSETS

Capital assets	
Building and improvements	58,679,115
Accumulated depreciation	<u>(45,104,466)</u>
TOTAL CAPITAL ASSETS	<u>13,574,649</u>

TOTAL ASSETS	<u>24,310,967</u>
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LIABILITIES

CURRENT LIABILITIES

Accounts payable	472,660
Due to Upper Merion Township	72,836
TOTAL CURRENT LIABILITIES	<u>545,496</u>

NET POSITION

Net investments in capital assets	13,574,649
Unrestricted	<u>10,190,822</u>

TOTAL NET POSITION	<u>\$ 23,765,471</u>
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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, 2021

OPERATING EXPENSES	
Administrative	\$ 6,408
Professional fees	84,448
Depreciation	1,426,469
Reimbursement to Upper Merion Township	72,836
Road construction	18,040
TOTAL OPERATING EXPENSES	<u>1,608,201</u>
OPERATING LOSS	<u>(1,608,201)</u>
NONOPERATING REVENUES	
Investment income	7,234
Tapping fees	806,391
TOTAL NONOPERATING REVENUES	<u>813,625</u>
CHANGE IN NET POSITION	(794,576)
NET POSITION AT BEGINNING OF YEAR	<u>24,560,047</u>
NET POSITION AT END OF YEAR	<u>\$ 23,765,471</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, 2021

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash payments to suppliers for services	\$ (129,858)
Cash payments to other governments	<u>(72,836)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>(202,694)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital acquisitions	(1,299,213)
Tapping fees	<u>806,391</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(492,822)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment income	7,234
Sale of investments, net	<u>630,977</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>638,211</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Due to Upper Merion Township	<u>1,918</u>
NET DECREASE IN CASH	(55,387)
CASH AT BEGINNING OF YEAR	<u>6,134,451</u>
CASH AT END OF YEAR	<u>\$ 6,079,064</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	\$ (1,608,201)
Adjustments to reconcile operating loss to net cash used by operating activities	
Depreciation	1,426,469
Changes in assets and liabilities	
Accounts payable	<u>(20,962)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (202,694)</u>
NONCASH INVESTING AND FINANCING ACTIVITIES	
Noncash capital acquisitions	\$ 458,468

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, 2021

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, 2021

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, 2021, \$5,486,259 of the Authority's \$6,090,197 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 \$103,938 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, 2021

NOTE B - CASH AND INVESTMENTS (Continued)

Investments

As of December 31, 2021, 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>4,657,254</u>	\$ <u>4,657,254</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, 2021, is \$4,657,254. 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, 2021

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, 2021.

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, 2021, 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, 2021	Additions	Deletions	Balance December 31, 2021
Treatment plant and improvements	\$ 56,921,434	\$ 1,757,681	\$ -	\$ 58,679,115
Accumulated depreciation	<u>(43,677,997)</u>	<u>(1,426,469)</u>	<u>-</u>	<u>(45,104,466)</u>
	<u>\$ 13,243,437</u>	<u>\$ 331,212</u>	<u>\$ -</u>	<u>\$ 13,574,649</u>

UPPER MERION SANITARY AND STORMWATER AUTHORITY
(A Component Unit of Upper Merion Township)
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

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 Authority elected to waive the annual lease payment due from the Township in 2021.