

**MUNICIPAL AUTHORITY OF THE
BOROUGH OF ORWIGSBURG**

ORWIGSBURG, PENNSYLVANIA

FOR THE YEAR ENDED APRIL 30, 2011

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INDEPENDENT AUDITOR'S REPORT

Members of the Board
Municipal Authority of the
Borough of Orwigsburg
Orwigsburg, Pennsylvania


We have audited the statutory financial statements of the Municipal Authority of the Borough of Orwigsburg as of and for the year ended April 30, 2011. These financial statements are the responsibility of the Municipal Authority of the Borough of Orwigsburg's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Municipal Authority of the Borough of Orwigsburg prepares its financial statements on the Commonwealth of Pennsylvania, Annual Report of Municipal Authorities, which is comprehensive basis of accounting other than accounting principles, generally accepted in the United States of America.

In our opinion, because of the Authority's policy to prepare its financial statements on a basis of accounting discussed in the preceding paragraph, the financial statements referred to in the first paragraph do not present fairly, in conformity with generally accepted accounting principles, the financial position of the Municipal Authority of the Borough of Orwigsburg as of April 30, 2011 or the results of its operations.

However in our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Municipal Authority of the Borough of Orwigsburg as of April 30, 2011, and the results of its operations for the year then ended on the basis of accounting described above.


September 23, 2011
Pottsville, Pennsylvania

MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG

BALANCE SHEET - CASH BASIS

APRIL 30, 2011

ASSETS

CASH	
Demand Deposit	\$ 317,398
Other Receivables	250
NET INVESTMENT IN DIRECT FINANCING LEASE	<u>3,976,425</u>
TOTAL ASSETS	<u>\$ 4,294,073</u>

LIABILITIES AND FUND BALANCES

CURRENT LIABILITIES	
Loan Payable - Penn Vest - Year 2002	\$ 288,854
Loan Payable - PennVest - Year 2000	<u>13,137</u>
TOTAL CURRENT LIABILITIES	<u>301,991</u>
LONG-TERM LIABILITIES	
Loan Payable - PennVest - Year 2002	3,573,197
Loan Payable - PennVest - Year 2000	<u>101,237</u>
TOTAL LONG-TERM LIABILITIES	<u>3,674,434</u>
TOTAL LIABILITIES	<u>3,976,425</u>
FUND BALANCE - UNRESERVED	<u>317,648</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 4,294,073</u>

See notes to financial statements
which are an integral part of this statement.

MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - CASH BASIS**

FOR THE YEAR ENDED APRIL 30, 2011

REVENUES

Rental, Borough of Orwigsburg	\$	49,607
Other Rents		1,000
Investment Income		47,936
TOTAL REVENUES		<u>98,543</u>

EXPENDITURES

Interest Expense Paid		47,874
Secretarial Service		2,153
Manager Service		6,459
Maintenance Expense to Borough		50,148
Audit Fees		1,200
Dues		225
Office Expenses		27
TOTAL EXPENDITURES		<u>108,086</u>

(DEFICIENCY) OF REVENUES OVER EXPENDITURES (9,543)

FUND BALANCE - BEGINNING 327,191

FUND BALANCE - ENDING \$ 317,648

See notes to financial statements
which are an integral part of this statement.

MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG

NOTES TO FINANCIAL STATEMENTS - CASH BASIS

FOR THE YEAR ENDED APRIL 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

DESCRIPTION OF ENTITY

The Municipal Authority of the Borough of Orwigsburg was formed by the Borough of Orwigsburg for the purpose of providing long-term financing to construct and equip its sewer plant and facilities. The Plant facilities acquired by the Authority are operated and maintained by the Borough under the provisions of a long-term capital lease with the Authority dated May 16, 2002. The Authority is a component unit of the Borough of Orwigsburg.

Because the Authority merely acts as a conduit for the receipts of rents and the payment of interest and principal of the loans and the related executory expenses and may, upon provision for the retirement of its debt, convey title to the facilities to the Borough, the "direct-financing method" of accounting for long-term capital leases is utilized on the Authority's balance sheet. Under this method, the present value of the net minimum lease payments applicable to the debt service requirements of the loans is shown as a receivable and the cost of the facilities financed by the Authority is considered to be an asset of the Borough.

ACCOUNTING METHOD

The Authority's policy is to prepare its financial statements on the basis of cash receipts and disbursements; consequently, certain revenues are recognized when received rather than when earned, and certain expenses are recognized when paid rather than when the obligation is incurred. In addition, the Authority has elected to prepare its financial statements using the format required by the Commonwealth of Pennsylvania for Municipal Authorities, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG
NOTES TO FINANCIAL STATEMENTS - CASH BASIS - continued
FOR THE YEAR ENDED APRIL 30, 2011

NOTE 2 - COSTS OF SEWER SYSTEM CONSTRUCTED:

A summary of the accumulated costs of the sewer system, leased to the Borough of Orwigsburg from the inception of the Authority to April 30, 2011 follows:

	<u>Project Cost</u>
Land and Right of Way	\$ 39,532.
Engineering Fees and State Supervision	386,767.
Plant Costs	543,278.
Collection System	1,130,396.
Legal and Bond Issuance Costs	46,582.
Miscellaneous Costs	5,551.
Office Equipment	2,960.
2003 Expansion and Upgrade	6,169,607.
Construction Period Interest Expense - 2003 Expansion	27,091.
Total Investments in Leased Facilities	\$8,351,764. =====

The above costs reflect expenditures from funds of the Authority only, and exclude costs which may have been expended by the lessee Borough.

NOTE 3 - NET INVESTMENT IN DIRECT FINANCING LEASE:

The sewer system constructed and equipped by the Authority is operated and maintained by the Borough of Orwigsburg under an April 15, 1964 lease agreement which expired on May 16, 2002. The Borough of Orwigsburg elected to prepay all remaining lease payments, which were calculated by the trustee. The remaining outstanding bonds were called on April 16, 2002, causing the 1964 Bonds Series to be terminated. The Authority received excess funds from the trustee accounts of \$64,119. in July 2003.

Beginning May 1, 2002, a new lease was executed within the Borough to encompass the \$250,000. PennVest - Year 2000 loan and the \$6,223,645. PennVest - Year 2002 loan. Terms of the lease call for monthly payments sufficient to pay all liabilities and expenses of the Authority including but not limited to the 2002 PennVest Loan and other PennVest obligations of the Authority. The rent shall increase or decrease dependent upon the Authority's liabilities at a given time. Initial rent payments of \$10,000. per month have been established to August 2003 and \$33,000. per month beginning September 2003 until June 2023.

MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG
NOTES TO FINANCIAL STATEMENTS - CASH BASIS - continued
FOR THE YEAR ENDED APRIL 30, 2011

NOTE 4 - NOTES PAYABLE:

The following is an analysis of long-term debt:

<u>Lender</u>	<u>Code</u>	<u>Interest Rate</u>	<u>Amount</u>
PennVest - Year 2000	(A)	1.18%	\$ 114,374.
PennVest - Year 2002	(B)	1.156%	\$3,862,051.

(A) The Authority obtained a note payable from the Pennsylvania Infrastructure Investment Authority (PennVest) in the amount of \$250,000. The proceeds from the note were used for capital improvements to the sewer system. Terms of the loan call for monthly payments of \$1,202. with interest at 1% for the first five years and 1.18% for fifteen years. The Borough of Orwigsburg has guaranteed the loan and the Borough's Sewer Fund will be servicing the debt through its rental payments to the Authority.

(B) During March 2002, the Authority obtained a note payable for \$6,223,645. from PennVest. The loan is being used for expansion and upgrade of the Sewer System. Substantial completion is expected in the fall of 2003. Terms of the loan call for interest only during construction and monthly payments of \$27,664. with interest at 1% for the first five years and 1.156% for fifteen years. The Borough of Orwigsburg has guaranteed the loan and the Borough's Sewer Fund will be servicing the debt through its rental payments to the Authority.

NOTE 5 - ANNUAL REQUIREMENTS TO AMORTIZE LONG-TERM DEBT:

A summary of annual requirements to amortize long-term debt follows:

<u>Year Ending</u> <u>April 30,</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 301,991	\$ 44,401
2013	305,505	40,888
2014	309,059	37,334
2015	312,654	33,738
2016	316,292	30,098
2017-2021	1,613,257	94,672
2022-2014	817,667	12,265
Total	\$ 3,976,425	\$ 293,396

MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG
NOTES TO FINANCIAL STATEMENTS - CASH BASIS - continued
FOR THE YEAR ENDED APRIL 30, 2011

NOTE 6 - CASH:

Pennsylvania law requires the collateralization of all municipal deposits by banks in accordance with Act 72 of the Commonwealth of Pennsylvania.

Custodial credit risk for deposits is the risk that in the event of a failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. As of April 30, 2011, the recorded amount of the Authority's deposits was \$317,398. and the bank balances were \$317,398. Of the bank statement balances, \$250,000. was covered by federal depository insurance.

NOTE 7 - CAPITAL CONTRIBUTION:

During the year ended April 30, 2003, the Authority received an estimated capital contribution from West Brunswick Township in the amount of \$160,954. in exchange for the reservation of 2.514% of the sewage plant reserve capacity or 22,625 gallons per day. Terms of the agreement also call for the Township to reimburse the Authority for the Townships proportionate share of the Authority's new operating costs during each calendar year beginning after the Township first discharges sewage into the treatment plant.

NOTE 8 - RISK MANAGEMENT:

The Authority is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Authority is covered under the Borough of Orwigsburg's insurance policies to safeguard its assets from risk of loss. Insurance coverage appears to be consistent with previous years. During the year ended April 30, 2011 and the two previous fiscal years, no settlement exceeded insurance coverage.