

**MUNICIPAL AUTHORITY OF THE
BOROUGH OF ORWIGSBURG
FINANCIAL STATEMENTS
AND
AUDITOR'S REPORT
APRIL 30, 2014**

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INDEPENDENT AUDITOR'S REPORT

September 15, 2014

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

We have audited the accompanying financial statements of the Municipal Authority of the Borough of Orwigsburg, which comprise the statement of assets, liabilities, and net position – cash basis as of April 30, 2014, and the related statement of revenues, expenditures, and changes in net position – cash basis for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of the Commonwealth of Pennsylvania, Annual Report of Municipal Authorities. Management is also responsible 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.

Auditor's 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 auditor's 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.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1, the financial statements are prepared by the Municipal Authority of the Borough of Orwigsburg on the basis of the financial reporting provisions of the Commonwealth of Pennsylvania, Annual Report of Municipal Authorities, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet with the requirements of the Commonwealth of Pennsylvania, Annual Report of Municipal Authorities.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Municipal Authority of the Borough of Orwigsburg as of April 30, 2014 and the respective changes in its financial position, or, where applicable, its cash flows for the year then ended.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net position of the Municipal Authority of the Borough of Orwigsburg as of April 30, 2014, and its revenues, expenditures, and changes in net position for the year then ended, on the basis of the financial reporting provisions of the Commonwealth of Pennsylvania, Annual Report of Municipal Authorities as described in Note 1.



Patton and Lettich
Certified Public Accountants

**MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG
STATEMENT OF ASSETS, LIABILITIES, AND NET POSITION - CASH BASIS
APRIL 30, 2014**

ASSETS

CASH

Demand Deposits	\$ 210,697
Time Deposit	<u>151,475</u>

TOTAL CURRENT ASSETS	362,172
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<u>NET INVESTMENT IN DIRECT FINANCING LEASE</u>	<u>3,059,870</u>
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TOTAL ASSETS	\$ <u>3,422,042</u>
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LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Loan Payable - PennVest - Year 2000	\$ 13,612
Loan Payable - PennVest - Year 2002	<u>299,043</u>

TOTAL CURRENT LIABILITIES	312,655
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LONG-TERM LIABILITIES, NET OF CURRENT MATURITIES

Loan Payable - PennVest - Year 2000	60,880
Loan Payable - PennVest - Year 2002	<u>2,686,335</u>

TOTAL LONG-TERM LIABILITIES	<u>2,747,215</u>
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TOTAL LIABILITIES	3,059,870
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NET POSITION

Unrestricted	<u>362,172</u>
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TOTAL NET POSITION	<u>362,172</u>
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TOTAL LIABILITIES AND NET POSITION	\$ <u>3,422,042</u>
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**THE NOTES TO THE FINANCIAL STATEMENTS - CASH BASIS ARE AN INTEGRAL
PART OF THESE STATEMENTS**

**MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN NET POSITION - CASH BASIS
FOR THE YEAR ENDED APRIL 30, 2014**

REVENUES

Rental, Borough of Orwigsburg	\$ 49,607
Other Rents	1,000
Investment Income	38,282
Miscellaneous Income	<u>767</u>
 TOTAL REVENUES	 89,656

EXPENDITURES

Interest Expense Paid	37,334
Secretarial Service	2,153
Manager Service	6,459
Maintenance Expense to Borough	20,442
Audit Fees	3,000
Dues	410
Continuing Education	436
Advertising	<u>302</u>
 TOTAL EXPENDITURES	 <u>70,536</u>

CHANGE IN NET POSITION 19,120

NET POSITION - BEGINNING OF YEAR 343,052

NET POSITION - END OF YEAR \$ 362,172

**THE NOTES TO THE FINANCIAL STATEMENTS - CASH BASIS ARE AN INTEGRAL
PART OF THESE STATEMENTS**

MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG
NOTES TO THE FINANCIAL STATEMENTS – CASH BASIS
APRIL 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING 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 related 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 statement of assets, liabilities and net position – cash basis. 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.

BASIS OF ACCOUNTING

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 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.

ECONOMIC DEPENDENCY

The Authority is located in Orwigsburg, PA. Its customers' ability to pay their bills is dependent primarily on local economic conditions.

NET POSITION

Net position represents the difference between assets and liabilities. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislations adopted by the municipality or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

DATE OF MANAGEMENT'S REVIEW OF SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 15, 2014, the date that the financial statements were available to be issued.

MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG
NOTES TO THE FINANCIAL STATEMENTS – CASH BASIS
APRIL 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

ADOPTION OF RECENT ACCOUNTING PRONOUNCEMENTS

In June 2011, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The Statement of Net Assets is renamed the Statement of Net Position and includes four components of assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The provision of this Statement is effective for financial periods beginning after December 31, 2011. The Authority adopted this statement during the fiscal year ended April 30, 2013.

In June 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes updated guidance for debt issuance costs and indicates that debt issuance costs include all costs incurred to issue the bonds, including but not limited to insurance costs, financing costs, and other related costs. Under GASB Statement No. 65, such debt issuance costs, except any portion related to prepaid insurance costs, are required to be recognized as an expense in the period incurred. Prepaid insurance costs are required to be reported as an asset and recognized as an expense in a systematic and rational manner over the duration of the related debt. The provision of this Statement is effective for financial periods beginning after December 15, 2012. Accounting changes adopted to conform to the provisions of this Statement are to be applied retroactively. The Authority adopted this statement during the fiscal year ended April 30, 2014.

**MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG
NOTES TO THE FINANCIAL STATEMENTS – CASH BASIS
APRIL 30, 2014**

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, 2014 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 was 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 15, 2004, causing the 1964 Bonds Series to be refunded.

Beginning May 1, 2002, a new lease was executed with 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 were established to August 2003 and \$33,000 per month beginning September 2003 until June 2023.

MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG
NOTES TO THE FINANCIAL STATEMENTS – CASH BASIS
APRIL 30, 2014

NOTE 4 – LONG-TERM DEBT

The following is a summary of long-term debt activity for the year ended April 30, 2014:

	<u>May 1,</u> <u>2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>April 30,</u> <u>2014</u>	<u>Amount</u> <u>Due Within</u> <u>One Year</u>
PennVest Note - Series of 2000	\$ 87,944	\$ -0-	\$ 13,452	\$ 74,492	\$ 13,612
PennVest Note - Series of 2002	<u>3,280,985</u>	<u>-0-</u>	<u>295,607</u>	<u>2,985,378</u>	<u>299,043</u>
TOTAL	<u>\$ 3,368,929</u>	<u>\$ -0-</u>	<u>\$ 309,059</u>	<u>\$ 3,059,870</u>	<u>\$ 312,655</u>

PENNVEST NOTE – SERIES OF 2000

During 2000, 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 the next 15 years. The Borough of Orwigsburg has guaranteed the loan. The Borough's Sewer Fund services the debt through its rental payments to the Authority.

PENNVEST NOTE – SERIES OF 2002

During March 2002, the Authority obtained a note payable for \$6,223,645 from PennVest. The loan was used for the expansion and upgrade of the sewer system. Terms of the loan called for interest only during construction and monthly payments of \$27,664 with interest at 1% for the first five years and 1.156% for the next 15 years. The Borough of Orwigsburg has guaranteed the loan. The Borough's Sewer Fund services the debt through its rental payments to the Authority.

MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG
NOTES TO THE FINANCIAL STATEMENTS – CASH BASIS
APRIL 30, 2014

NOTE 4 – LONG-TERM DEBT – (Continued)

ANNUAL DEBT SERVICE REQUIREMENTS

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of April 30, 2014, are as follows:

Year Ending <u>April 30</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 312,655	\$ 33,738
2016	316,291	30,098
2017	319,972	26,421
2018	323,694	22,698
2019	327,459	18,933
2020 - 2024	<u>1,459,799</u>	<u>38,886</u>
 TOTAL	 <u>\$ 3,059,870</u>	 <u>\$ 170,774</u>

NOTE 5 – DEPOSITS AND INVESTMENTS

Pennsylvania statutes provide for investment of governmental funds into certain authorized investment types including U.S. Treasury bills, other short-term U.S. and Pennsylvania government obligations, insured or collateralized time deposits, and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of funds for investment purposes.

The deposit and investment policy of the Authority adheres to state statutes and prudent business practices. Deposits of the Authority are maintained in interest-bearing demand deposits, governmental investment pools, or certificates of deposit. There were no deposit or investment transactions during the year that were in violation of either the state statutes or the policy of the Authority.

The carrying amounts of the cash and investments at April 30, 2014 consist of the following:

Demand Deposits	\$ 151,475
Time Deposits	<u>210,697</u>
	 <u>\$ 362,172</u>

MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG
NOTES TO THE FINANCIAL STATEMENTS – CASH BASIS
APRIL 30, 2014

NOTE 5 – DEPOSITS AND INVESTMENTS – (Continued)

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. The Authority's deposit policy requires deposits to be held in institutions that are insured by one of the federal deposit insurance organizations and when the value of the Authority's deposits exceeds the insurable limits, the additional sums must be secured by collateral pledged by the depository. As of April 30, 2014, \$362,172 of the Authority's bank balance of \$362,172 was covered by federal depository insurance and none was exposed to custodial credit risk, which is collateralized under Act 72 of the Pennsylvania state legislature, which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution's name.

NOTE 6 – 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 or Borough for the Township's 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 7 – 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, 2014, and the two previous fiscal years, no settlement exceeded insurance coverage.

**MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG
NOTES TO THE FINANCIAL STATEMENTS – CASH BASIS
APRIL 30, 2014**

NOTE 8 – 1964 ESCROW AGENCY

The Trustee maintains an account for the monies provided by the Series of 1964 Bonds. The activity for the fiscal year ending April 30, 2014, is as follows:

<u>RECEIPTS</u>	
Interest	\$ 1
<u>DISBURSEMENTS</u>	<u>(8,624)</u>
<u>EXCESS OF RECEIPTS OVER (UNDER) DISBURSEMENTS</u>	(8,623)
<u>BALANCE - BEGINNING OF YEAR</u>	<u>8,623</u>
<u>BALANCE - END OF YEAR</u>	<u>\$ -0-</u>

The Series of 1964 Bonds were called in their entirety in April 2004. The Bank escheated the remaining funds to the State in December 2013.