

**MUNICIPAL AUTHORITY OF THE  
BOROUGH OF ORWIGSBURG  
COMPONENT UNIT  
FINANCIAL STATEMENTS  
AND  
AUDITOR'S REPORT  
DECEMBER 31, 2016**

## TABLE OF CONTENTS

	<u>Page(s)</u>
Independent Auditor's Report	1-2
Statement of Net Position	3
Statement of Revenues, Expenses, and Changes in Net Position	4
Statement of Cash Flows	5-6
Notes to Financial Statements	7-12
Required Supplementary Information:	
Schedule of Revenues, Expenses, and Changes in Net Position – Budget and Actual	13
Notes to Required Supplementary Information	14

# PATTON AND COMPANY CPAs

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## INDEPENDENT AUDITOR'S REPORT

January 5, 2018

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

We have audited the accompanying statement of net position and the statements of revenues, expenses, and changes in net position and cash flows of the Municipal Authority of the Borough of Orwigsburg as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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.

### **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.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Municipal Authority of the Borough of Orwigsburg, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year ended December 31, 2016, in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's budgetary comparison information on page 13 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.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.



Patton and Company CPAs

**MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG  
STATEMENT OF NET POSITION  
DECEMBER 31, 2016**

**ASSETS**

**CURRENT ASSETS**

Cash	\$ 128,097
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TOTAL CURRENT ASSETS	128,097
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<b><u>CAPITAL ASSETS, NET (Note 2)</u></b>	<u>4,067,387</u>
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TOTAL ASSETS	<u>\$ 4,195,484</u>
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**LIABILITIES AND NET POSITION**

**NET POSITION**

Net Investment in Capital Assets	\$ 4,067,387
Unrestricted	<u>128,097</u>

TOTAL NET POSITION	<u>4,195,484</u>
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TOTAL LIABILITIES AND NET POSITION	<u>\$ 4,195,484</u>
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**SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS**

**MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**OPERATING REVENUES**

Rental, Borough of Orwigsburg	\$ 50,400
Other Rents	<u>1,000</u>

TOTAL REVENUES	51,400
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**OPERATING EXPENSES**

Secretary Fee	2,280
Management Fee	6,860
Depreciation (Notes 1 and 2)	<u>154,917</u>

TOTAL EXPENSES	<u>164,057</u>
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OPERATING INCOME (LOSS)	<u>(112,657)</u>
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**NONOPERATING REVENUES (EXPENSES)**

Interest Income	<u>16</u>
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TOTAL NONOPERATING REVENUES (EXPENSES)	16
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<b><u>CHANGE IN NET POSITION</u></b>	(112,641)
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<b><u>NET POSITION - BEGINNING OF YEAR</u></b>	<u>4,308,125</u>
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<b><u>NET POSITION - END OF YEAR</u></b>	<u>\$ 4,195,484</u>
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**SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS**

**MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Rental Income	\$ 51,400
Payments to Suppliers	<u>(9,140)</u>

NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	42,260
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**CASH FLOWS FROM NONCAPITAL  
FINANCING ACTIVITIES**

Due from Borough	<u>47,922</u>
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NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	47,922
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**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest Income	<u>16</u>
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NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>16</u>
-----------------------------------------------------	-----------

<b><u>NET INCREASE IN CASH</u></b>	90,198
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<b><u>CASH - BEGINNING BALANCE</u></b>	<u>37,899</u>
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<b><u>CASH - ENDING BALANCE</u></b>	<u><u>\$ 128,097</u></u>
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**SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS**

**MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG**  
**STATEMENT OF CASH FLOWS - (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

**RECONCILIATION OF OPERATING LOSS TO NET**  
**CASH PROVIDED (USED) BY OPERATING ACTIVITIES**

Net Operating Loss	\$ (112,657)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	<u>154,917</u>
 NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	 <u>\$ 42,260</u>

**SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS**



**MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Municipal Authority of the Borough of Orwigsburg (the "Authority") have been prepared in conformity with accounting principles generally accepted in the United States of America, as applied to governmental units (hereinafter referred to as generally accepted accounting principles (GAAP)). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

**REPORTING ENTITY**

The Authority 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. This lease was terminated in May 2015, as the debt guaranteed under the lease was satisfied by the Borough. A new operating lease was executed in May 2015.

Members of the Authority Board are appointed by the Borough of Orwigsburg, but the Borough has no power to remove a member of a board of an authority organized under the Municipality Authorities Act. The Authority has no employees. The operation of the water system is carried out by Borough employees.

Based on the criteria of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*, it was determined that the Municipal Authority of the Borough of Orwigsburg should be included in the reporting entity of the Borough of Orwigsburg as a blended component unit. Although it is legally separate from the Borough, the Authority's sole purpose was to finance the construction of the Borough's sewer plant and facilities. It continues to lease these facilities to the Borough.

**MEASUREMENT FOCUS**

The proprietary fund type is accounted for on a cost of services measurement focus. With this measurement focus, all assets and liabilities (current and noncurrent) associated with the activity of the fund are included on its statement of net position. Proprietary fund type operating statements present increases and decreases in net total position.

**BASIS OF ACCOUNTING**

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

**MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

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

**BASIS OF ACCOUNTING – (Continued)**

The Authority prepares its financial statements on the accrual method of accounting. Under this method of accounting, revenues are recognized when earned and expenses when they are incurred.

**CASH AND CASH EQUIVALENTS**

For purposes of the statement of cash flows, the Authority considers all highly liquid investments with an original maturity of six months or less to be cash equivalents.

**ECONOMIC DEPENDENCY**

The Authority operates in Orwigsburg, Pennsylvania. Its ability to continue operations is based on local economic conditions.

**NET POSITION**

Restricted net position is legally restricted by outside parties for a specific purpose. At December 31, 2016, no net position restrictions were the result of enabling legislation adopted by the Authority. Net investment in capital assets represents the Authority's investment in the book value of capital assets, less any outstanding debt that was issued to construct or acquire the capital asset. Unrestricted net position consists of net positions that do not meet the definition of restricted or investment in net assets.

When an expense is incurred for which both restricted and unrestricted positions are available, the Authority's policy is to apply restricted positions first.

**ACCOUNTING ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

**CAPITAL ASSETS**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are defined by the Authority as assets with an initial individual or system (multiple items that rely on each other to function) cost of \$1,000 or more and an established useful life in excess of one year.

**MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

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

**CAPITAL ASSETS – (Continued)**

All purchased assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Sewer System Construction Costs	40 years
Office Equipment	7 years

**BUDGET AND BUDGETARY ACCOUNTING**

An operating budget is employed as a management control device during the year. The budget is adopted on the accrual basis consistent with GAAP.

**DATE OF MANAGEMENT'S REVIEW OF SUBSEQUENT EVENTS**

Management has evaluated subsequent events through January 5, 2018, the date that the financial statements were available to be issued.

**MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 2 – CAPITAL ASSETS**

Capital assets activity consists of the following for the period December 31, 2015 through December 31, 2016:

	Balance at December 31, <u>2015</u>	<u>Increases</u>	<u>Decreases</u>	Balance at December 31, <u>2016</u>
<b>Nondepreciable Assets</b>				
Land	\$ 39,532	\$ -0-	\$ -0-	\$ 39,532
<b>TOTAL NONDEPRECIABLE ASSETS</b>	<b>39,532</b>	<b>-0-</b>	<b>-0-</b>	<b>39,532</b>
<b>Depreciable Assets</b>				
Engineering Fees and State Supervision	386,767	-0-	-0-	386,767
Plant Cost	543,278	-0-	-0-	543,278
Collection System	1,130,396	-0-	-0-	1,130,396
Legal and Bond Issuance Costs	46,582	-0-	-0-	46,582
Miscellaneous Costs	5,551	-0-	-0-	5,551
Office Equipment	2,960	-0-	-0-	2,960
2003 Expansion and Upgrade Construction Period Interest Expense (2003 Expansion)	6,169,607	-0-	-0-	6,169,607
	<u>27,091</u>	<u>-0-</u>	<u>-0-</u>	<u>27,091</u>
<b>TOTAL DEPRECIABLE ASSETS</b>	<b>8,312,232</b>	<b>-0-</b>	<b>-0-</b>	<b>8,312,232</b>
<b>Less Accumulated Depreciation:</b>				
Engineering Fees and State Supervision	(386,767)	-0-	-0-	(386,767)
Plant Costs	(543,278)	-0-	-0-	(543,278)
Collection System	(1,130,396)	-0-	-0-	(1,130,396)
Legal and Bond Issuance Costs	(46,582)	-0-	-0-	(46,582)
Miscellaneous Costs	(5,551)	-0-	-0-	(5,551)
Office Equipment	(2,960)	-0-	-0-	(2,960)
2003 Expansion and Upgrade Construction Period Interest Expense (2003 Expansion)	(2,005,122)	(154,240)	-0-	(2,159,362)
	<u>(8,804)</u>	<u>(677)</u>	<u>-0-</u>	<u>(9,481)</u>
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<b><u>(4,129,460)</u></b>	<b><u>(154,917)</u></b>	<b><u>-0-</u></b>	<b><u>(4,284,377)</u></b>
<b>TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET</b>	<b><u>4,182,772</u></b>	<b><u>(154,917)</u></b>	<b><u>-0-</u></b>	<b><u>4,027,855</u></b>
<b>TOTAL CAPITAL ASSETS, NET</b>	<b><u>\$ 4,222,304</u></b>	<b><u>\$ (154,917)</u></b>	<b><u>\$ -0-</u></b>	<b><u>\$ 4,067,387</u></b>

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

**MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 3 – OPERATING LEASE**

A new lease was executed with the Borough for a term beginning May 20, 2015, and ending October 31, 2029, or upon earlier retirement of the Series of 2015 Bonds. Terms of the lease call for monthly payments of \$4,200 for payment of the Authority's administrative expenses.

**NOTE 4 – 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 December 31, 2016 consist of the following:

Demand Deposits	\$ 128,097
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**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 December 31, 2016, \$128,097 of the Authority's bank balance of \$128,097 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 5 – 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.

**MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 6 – RISK MANAGEMENT**

The Authority is exposed to various risks of losses 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. There were no settlements in excess of insurance coverage in 2016.

**NOTE 7 – DUE FROM BOROUGH**

During the period May 1, 2015 through December 31, 2015, the Authority paid expenses of \$14,922 for the sewer upgrade project being done by the Borough. The Borough also still owed the Authority \$33,000 for the May 2015 rent. The total due from the Borough at December 31, 2015 was \$47,922 which was satisfied in 2016.

**REQUIRED  
SUPPLEMENTARY  
INFORMATION**

**MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG  
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN  
NET POSITION - BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>ORIGINAL AND FINAL BUDGET</u>	<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
<b><u>OPERATING REVENUES</u></b>			
Rental, Borough of Orwigsburg	\$ 50,400	\$ 50,400	\$ -0-
Other Rents	<u>1,000</u>	<u>1,000</u>	<u>-0-</u>
TOTAL OPERATING REVENUES	51,400	51,400	-0-
<b><u>OPERATING EXPENSES</u></b>			
Secretary Fee	3,014	2,280	734
Management Fee	9,041	6,860	2,181
Audit Fee	3,000	-0-	3,000
Advertising	300	-0-	300
Maintenance and Repairs	10,000	-0-	10,000
Miscellaneous Expenses	2,000	-0-	2,000
Depreciation	<u>-0-</u>	<u>154,917</u>	<u>(154,917)</u>
TOTAL OPERATING EXPENSES	<u>27,355</u>	<u>164,057</u>	<u>(136,702)</u>
OPERATING INCOME (LOSS)	24,045	(112,657)	(136,702)
<b><u>NONOPERATING REVENUES (EXPENSES)</u></b>			
Interest Income	<u>-0-</u>	<u>16</u>	<u>16</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>-0-</u>	<u>16</u>	<u>16</u>
<b><u>CHANGE IN NET POSITION</u></b>	24,045	(112,641)	(136,686)
<b><u>NET POSITION - BEGINNING OF YEAR</u></b>	<u>-0-</u>	<u>4,308,125</u>	<u>4,308,125</u>
<b><u>NET POSITION - END OF YEAR</u></b>	<u>\$ 24,045</u>	<u>\$ 4,195,484</u>	<u>\$ 4,171,439</u>

**SEE INDEPENDENT AUDITOR'S REPORT**



**MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2016**

**BUDGETARY NONCOMPLIANCE**

Expenses exceeded appropriations for the year ended December 31, 2016 as follows:

<u>Budget</u>	<u>Actual</u>	<u>Excess Expenses</u>
\$ 27,355	\$ 164,057	\$ 136,702

NOTE: The Authority does not include depreciation expense in their annual budget. Depreciation expense was \$154,917 in 2016.