

**DRAFT**

MAR 2 2010

**Municipal Authority of the  
Borough of Greenville**

**FOR DISCUSSION  
PURPOSES ONLY**

**Financial Statements**

**Years ended December 31, 2009 and 2008**

**Municipal Authority of the Borough of Greenville**  
**Years ended December 31, 2009 and 2008**

**DRAFT**

**MAR 2 2010**

**FOR DISCUSSION  
PURPOSES ONLY**

**Table of Contents**

	<u>Page</u>
Independent Auditor's Report	1
Basic Financial Statements:	
Statements of Net Assets	2
Statements of Revenues, Expenses and Changes in Net Assets	3
Statements of Cash Flow	4
Notes to the Financial Statements	6

**Independent Auditor's Report**

**DRAFT**  
MAR 2 2010

**FOR DISCUSSION  
PURPOSES ONLY**

To the Board of Directors  
Municipal Authority of the Borough of Greenville  
Greenville, Pennsylvania

We have audited the accompanying financial statements of the Municipal Authority of the Borough of Greenville as of and for the years ended December 31, 2009 and 2008 as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based upon our audits.

We conducted our audits 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 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to in above present fairly, in all material respects, the financial position of the Municipal Authority of the Borough of Greenville as of December 31, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Municipal Authority of the Borough of Greenville has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Paparone, Stillwaggon & McGill, LLP

*Paparone, Stillwaggon & McGill, LLP*

Grove City, Pennsylvania  
**Draft**

**Municipal Authority of the Borough of Greenville**  
**Statements of Net Assets**  
**December 31, 2009 and 2008**

**DRAFT**  
**MAR 2 2010**  
**FOR DISCUSSION**  
**PURPOSES ONLY**

**ASSETS**

	2009	2008
<b>Current Assets</b>		
Cash and cash equivalents	\$ 410,615	\$ 620,327
Accounts receivable	146,353	144,451
Unbilled revenue	151,334	142,019
Inventory	50,045	46,558
Prepaid insurance	22,615	23,105
<b>Total Current Assets</b>	<b>780,962</b>	<b>976,460</b>
<b>Property, Plant and Equipment, at cost</b>	10,173,084	9,949,717
Allowance for depreciation	(4,691,878)	(4,412,345)
	5,481,206	5,537,372
Construction in progress	178,046	17,727
	5,659,252	5,555,099
<b>Other Assets</b>		
Bond issue costs, net amortization of \$42,355 and \$35,754	96,261	102,862
Restricted cash and cash equivalents - debt service funds	385,428	351,546
<b>Total Other Assets</b>	<b>481,689</b>	<b>454,408</b>
	<b>\$ 6,921,903</b>	<b>\$ 6,985,967</b>

**LIABILITIES AND NET ASSETS**

<b>Current Liabilities</b>		
Current portion of long-term debt	\$ 155,758	\$ 138,130
Accounts payable	146,832	20,578
Deposits for services	34,640	33,081
Accrued interest payable	41,636	42,232
Other accrued expenses	15,175	16,606
<b>Total Current Liabilities</b>	<b>394,041</b>	<b>250,627</b>
<b>Long-Term Debt, net of current portion</b>	<b>2,849,448</b>	<b>3,004,127</b>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	2,750,307	2,515,704
Restricted for debt service	385,428	351,546
Unrestricted	542,679	863,963
<b>Total Net Assets</b>	<b>3,678,414</b>	<b>3,731,213</b>
	<b>\$ 6,921,903</b>	<b>\$ 6,985,967</b>

See notes to the financial statements.

**Municipal Authority of the Borough of Greenville**  
**Statements of Revenues, Expenses and**  
**Changes in Net Assets**  
**Years ended December 31, 2009 and 2008**

**DRAFT**

MAR 2 2010

**FOR DISCUSSION  
 PURPOSES ONLY**

	<del>2009</del>	2008
<b>Operating Revenues</b>		
Private sales	\$ 1,220,213	\$ 1,230,844
Public sales	48,014	49,013
Tap-in fees	8,157	4,112
Sewer collection fees	25,273	25,273
Reimbursed collection costs	23,306	21,466
Miscellaneous income	22,710	30,879
Recovery of bad debts	367	933
	<u>1,348,040</u>	<u>1,362,520</u>
<b>Operating Expenses</b>		
Purification system	342,741	333,857
Pumping system	11,140	10,093
Distribution system	211,119	250,257
Administrative and general	400,345	442,827
Depreciation	279,533	279,200
	<u>1,244,878</u>	<u>1,316,234</u>
<b>Operating Income</b>	<u>103,162</u>	<u>46,286</u>
<b>Non-Operating Revenue/(Expenses)</b>		
Interest income	6,917	22,033
Interest expense	(131,410)	(138,277)
Amortization	(31,468)	(31,468)
Insurance proceeds from damaged equipment		22,463
Gain on sale of fixed assets		4,500
	<u>(155,961)</u>	<u>(120,749)</u>
<b>Changes in Net Assets</b>	<u>(52,799)</u>	<u>(74,463)</u>
<b>Net Assets, Beginning of Year</b>	<u>3,731,213</u>	<u>3,805,676</u>
<b>Net Assets, End of Year</b>	<u>\$ 3,678,414</u>	<u>\$ 3,731,213</u>

See notes to the financial statements.

**Municipal Authority of the Borough of Greenville**  
**Statements of Cash Flow**  
**Years ended December 31, 2009 and 2008**

**DRAFT**  
 MAR 2010  
**FOR DISCUSSION  
 PURPOSES ONLY**

	<del>2009</del>	2008
<b>Cash Flows from Operating Activities</b>		
Cash received from customers	\$ 1,265,167	\$ 1,274,841
Other income received	71,656	78,551
Cash paid for operating expenses	(841,960)	(1,062,875)
<b>Net Cash Provided by Operating Activities</b>	<b>494,863</b>	<b>290,517</b>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Purchases of property, plant and equipment	(383,686)	(433,121)
Proceeds from sales of fixed assets		350,800
Insurance proceeds from damaged equipment		22,463
Principal paid on long-term debt	(161,918)	(181,488)
Interest paid on long-term debt	(132,006)	(138,693)
<b>Net Cash Used by Capital and Related Financing Activities</b>	<b>(677,610)</b>	<b>(380,039)</b>
<b>Cash Flows Provided by Investing Activities</b>		
Interest income	6,917	22,033
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(175,830)</b>	<b>(67,489)</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>971,873</b>	<b>1,039,362</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 796,043</b>	<b>\$ 971,873</b>

See notes to the financial statements.

DRAFT

Municipal Authority of the Borough of Greenville  
Statements of Cash Flow (Continued)  
Years ended December 31, 2009 and 2008

MAR 2 2010  
FOR DISCUSSION  
PURPOSES ONLY

	<u>2009</u>	<u>2008</u>
<b>Reconciliation of Operating Income to Net Cash</b>		
<b>Provided by Operating Activities</b>		
Operating income	\$ 103,162	\$ 46,286
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	279,533	279,200
(Increase) decrease in accounts receivable	(1,902)	9,891
Increase in unbilled revenue	(9,315)	(19,019)
Increase in inventory	(3,487)	(1,135)
Decrease in prepaid insurance	490	208
Increase (decrease) in accounts payable	126,254	(30,217)
Increase (decrease) in deposits for services	1,559	(876)
Increase (decrease) in other accrued expenses	(1,431)	6,179
<b>Net Cash Provided by Operating Activities</b>	<u>\$ 494,863</u>	<u>\$ 290,517</u>
<b>Supplemental Disclosures of Cash Flow Information:</b>		
Non-cash capital and related financing activities:		
Amortization of bond issue costs	<u>\$ 6,601</u>	<u>\$ 6,601</u>
Amortization of bond discount	<u>\$ 1,257</u>	<u>\$ 1,257</u>
Amortization of deferred amount on bond refunding	<u>\$ 23,610</u>	<u>\$ 23,610</u>

See notes to the financial statements.

**Municipal Authority of the Borough of Greenville**  
**Notes to the Financial Statements**  
**December 31, 2009 and 2008**

DRAFT

MAR 2 2010

FOR DISCUSSION  
PURPOSES ONLY

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Municipal Authority of the Borough of Greenville was created under the laws of the Commonwealth of Pennsylvania to operate a water system to service individuals and organizations in the Greenville area. The Authority operates under a seven person Board of Directors.

**Basis of Presentation and Accounting**

The Authority's basic financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. The Authority has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

The accounts of the Authority are organized on the basis of a proprietary fund type, specifically, an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Authority's assets, liabilities, net assets, revenues and expenses. Enterprise funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net assets.

**Revenues and Expenses**

The Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's ongoing operations. The principal operating revenues of the Authority are charges to customers for sales and services. Operating expenses include cost of sales and services, administrative expenses and depreciation on capital assets.



DRAFT

MAR 2 2010

(CONTINUED)  
FOR DISCUSSION  
PURPOSES ONLY

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**Use of Estimates**

The preparation of the 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.

Unbilled revenue of the Authority represents estimated amounts due for services provided during 2009 and 2008, but not billed until after December 31, 2009 and 2008, respectively.

**Inventory**

Inventory consists of supplies held for repairs and maintenance on the water system. Inventory is valued at cost, using the first-in, first-out method.

**Property, Plant and Equipment**

Property, plant and equipment are stated at cost.

Repairs and maintenance costs are charged against earnings while renewals and betterments are capitalized by additions to the related asset accounts.

Depreciation is computed utilizing the straight-line method over the estimated useful lives of the related assets. The estimated useful lives range from 4 to 70 years, depending on the type of asset.

**Bond Issue Costs**

Bond issue costs represent costs associated with the issuance of the 2003 bonds and are being amortized using the straight-line method over the life of the bonds, 21 years.

**NOTE B - CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consists of demand deposits at various financial institutions and cash on hand of \$300.

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**NOTE B - CASH AND CASH EQUIVALENTS (CONTINUED)**

MAR 2 2010

FOR DISCUSSION  
PURPOSES ONLY

**Custodial Credit Risk**

Custodial credit risk is the risk that in the event of a bank failure the government's deposits may not be returned. The Authority does not have a policy for custodial credit risk on deposits. At December 31, 2009 and 2008, the carrying amounts of the Authority's deposits were \$795,743 and \$971,573, respectively, with corresponding bank balances of \$888,417 and \$1,044,947. Of the bank balances at December 31, 2009 and 2008, \$510,633 and \$511,586, respectively were covered by federal depository insurance and \$377,784 and \$533,361, respectively, were exposed to custodial credit risk because they were uninsured and the collateral held by the depository's agent was not in the Authority's name.

**NOTE C - LONG-TERM DEBT**

During 2003, the Authority approved refinancing the Series of 1994 Water Revenue Bonds and entered into an agreement for the sale of the \$3,215,000 of Water Revenue Bonds, Refunding Series of 2003, at 1.4% to 4.5% due 2004 to 2024. The proceeds were used to refund the 1994 Water Revenue Bonds. During 2003, the 1994 Bonds were paid in full.

As a result of the refunding of the 1994 Bonds and the issuance of the 2003 Bonds, the Authority decreased its total debt service requirements by a total of \$264,811, which resulted in an economic gain (difference between the present value of the debt service payments on the old and the new debt) of \$244,939.

In conjunction with this refunding, the Authority has recognized a deferred amount on refunding in the financial statements, as a deduction from the outstanding bonds payable. This amount represents the difference between the reacquisition price and the net carrying amount of the 1994 Bonds and will be amortized over the remaining life of the old bonds. Amortization of the deferred amount on refunding amounted to \$23,610 for 2009 and 2008. This amount has been charged to amortization expense in the financial statements.

DRAFT

MAR 2 2010

FOR DISCUSSION  
PURPOSES ONLY  
2009 2008

**NOTE C - LONG-TERM DEBT (CONTINUED)**

Long-term debt as of December 31, 2009 and 2008 consists of the following obligations:

Water Revenue Bonds, Refunding Series of 2003, at 1.4 - 4.5%, due annually September 1, 2004 to September 1, 2024, interest paid semiannually, for refunding of the 1994 Water Revenue Bonds, secured by revenue of the Authority.	\$ 3,090,000	\$ 3,145,000
Note payable to Pennvest, due in monthly installments of \$8,799, including interest at 1.879% through September 1994, then changing to monthly installments of \$9,978, including interest at 3.707%, maturing September 2009, secured by revenue and accounts receivable of the Authority.		88,506
Note payable to UPMC Horizon, due in monthly installments of \$1,875, including interest at 5.67%, maturing January 2012. This note is unsecured.	42,450	61,941
Total long-term debt	3,132,450	3,295,447
Revenue Bond unamortized bond discount	(13,838)	(16,174)
Revenue Bond unamortized deferred amount on refunding	(113,406)	(137,016)
Total long-term debt, net	3,005,206	3,142,257
Less: Current portion (net of current amortization of bond discount and deferred amount on refunding of \$24,867)	(155,758)	(138,130)
	<u>\$ 2,849,448</u>	<u>\$ 3,004,127</u>

DRAFT

MAR 2 2010

FOR DISCUSSION  
PURPOSES ONLY

**NOTE C - LONG-TERM DEBT (CONTINUED)**

The annual requirements to retire long-term debt outstanding as of December 31, 2009 are as follows:

<i>Year ending December 31,</i>	<i>2003 Bonds</i>	<i>UPMC Horizon</i>	<i>Total</i>
2010	\$ 160,000	\$ 20,625	\$ 180,625
2011	170,000	21,825	191,825
2012	175,000		175,000
2013	180,000		180,000
2014	185,000		185,000
Thereafter	2,220,000		2,220,000
	<u>\$ 3,090,000</u>	<u>\$ 42,450</u>	<u>\$ 3,132,450</u>

**NOTE D - PENSION PLAN**

**Plan Description**

The Authority participates in the Pennsylvania Municipal Retirement System (PMRS), an agent multiple-employer defined benefit pension that covers all permanent full-time employees of the Authority. Under this system, PMRS acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a publicly available financial report that includes financial statements and required supplementary information which may be obtained by writing to Pennsylvania Municipal Retirement System, P.O. Box 1165, Harrisburg, PA 17108-1165 or by calling 1-800-622-7968.

The system provides retirement, disability and death benefits to plan members and their beneficiaries. As a participant in PMRS, the Authority receives a separate actuarial valuation to determine its periodic contribution rate.

**Funding Policy**

Act 205 requires that the annual contributions be based upon the plan's Minimum Municipal Obligation (MMO). The MMO is based upon the plan's biennial actuarial valuation. Active members are required to contribute 3.5% of their total compensation to the plan. Any funding requirements established by the MMO must be paid by the Authority in accordance with Act 205.

Administrative costs, including the investment manager, custodial trustee and actuarial services are charged to the plan and funded through investment earnings.

DRAFT

MAR 2 2010

FOR DISCUSSION  
PURPOSES ONLY

**NOTE D – PENSION PLAN (CONTINUED)**

**Annual Pension Costs**

For the years ended December 31, 2009 and 2008, the Authority's annual pension costs were \$17,359 and \$23,441, respectively. The required contribution was determined as part of the January 1, 2009 actuarial evaluation using the entry age normal actuarial cost method. The actuarial assumptions included (a) investment rate of return of 6.0% and (b) projected salary increases of 4.5%, including an inflationary component of 3.0%.

The actuarial value of the assets was based on market value. The plan was fully funded at December 31, 2009 and 2008.

Trend information for the pension plan is as follows:

<i>Year Ending</i>	<i>Annual Pension Cost (APC)</i>	<i>Percentage of APC Contributed</i>	<i>Net Pension Asset</i>
2002	\$ 11,329	100%	\$ -
2003	26,814	100%	-
2004	24,515	100%	-
2005	24,243	100%	-
2006	25,245	100%	-
2007	22,931	100%	-
2008	23,441	100%	-
2009	17,359	100%	-

<i>Actuarial Valuation Date</i>	<i>Actuarial Value of Assets (a)</i>	<i>Actuarial Liability (AAL) Entry Age (b)</i>	<i>Unfunded AAL (UAAL) (b-a)</i>	<i>Funded Ratio (a/b)</i>	<i>Covered Payroll (c)</i>	<i>Unfunded or (Excess) as a Percentage of Covered Payroll ((b-a)/c)</i>
1/1/2001	\$ 197,572	\$ 346,291	\$ 148,719	57.05%	\$ 285,114	52.16%
1/1/2003	272,581	370,879	98,298	73.50%	267,384	36.76%
1/1/2005	389,891	422,057	32,166	92.38%	315,295	10.20%
1/1/2007	487,586	505,752	18,166	96.41%	371,113	4.90%
1/1/2009	571,047	551,921	(19,126)	103.47%	415,196	-4.61%

**NOTE E – COMMITMENT AND CONTINGENT LIABILITIES**

During 2009, the Authority entered into a contract to construct a water storage tank on Hadley Road with an approved cost of \$650,839. The Authority incurred costs of \$134,123 during the year ended December 31, 2009, leaving costs to complete of \$516,716.