Municipal Authority of the Borough of Greenville

Financial Statements

Years ended December 31, 2014 and 2013

STILLWAGGON & MCGILL
CERTIFIED PUBLIC ACCOUNTANTS

Grove City • Pittsburgh

Municipal Authority of the Borough of Greenville
Years ended December 31, 2014 and 2013

Table of Contents

STILLWAGGON & McGILL
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

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, 2014 and 2013, 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 the 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 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depended on the auditor's judgment, including the assessment of the risk 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.

Stillwaggon & McGill, LLC
10 Woodland Center Drive • Grove City, PA 16127 • 724-458-7490 • Fax 724-458-0766

Grove City • Pittsburgh

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 Greenville as of December 31, 2014 and 2013, and the changes in its financial position and its cash flows thereof for the years then ended 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 discussion and analysis and schedule of funding progress for the pension plan on pages 3 through 10 and 22 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 sufficient evidence to express an opinion or provide any assurance.

Stillwaggon & McGill, LLC

Stillwaggon & McGill, LLC

Grove City, Pennsylvania
March 11, 2015

Municipal Authority of the Borough of Greenville
Management's Discussion and Analysis (MD&A)
December 31, 2014 and 2013

The management of The Municipal Authority of the Borough of Greenville, doing business as the Greenville Water Authority, (the "Authority") offers the various readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended December 31, 2014. These activities are broadly compared to the prior year ended December 31, 2013.

Please read this overview and analysis in conjunction with the basic financial statements and in conjunction with the notes to the financial statements. The notes to the financial statements communicate information essential for fair presentation of the financial statements and as such, the notes are an integral part of the basic financial statements.

FINANCIAL HIGHLIGHTS

Financial highlights for fiscal year ended December 31, 2014:

- Assets exceeded liabilities by $5,324,696 in FY 2014. Total net position increased by 9.0% or $438,694 during the year. The magnitude of this increase continues to signify that the Authority's overall financial condition remains strong and improving.

- Net investment in capital assets increased by 15.6% or $480,746 primarily due to capital improvement projects being completed with available cash and the reduction in debt which occurred when scheduled 2014 bond principal payments were made.

- Total operating revenue increased by 9.2% or $150,327. The water consumption and service fee increase of 10% effective January 1, 2014 was partially offset by lower water sales in 2014 compared to 2013.

- Operating income increased by 4.0% or $16,911 in FY 2014 compared to FY 2013.

- The Authority settled on a Pennvest demand loan for $4,501,000 in August, 2012. The funds were used to replace approximately 33,000 feet of water main piping (approximately 16% of the distribution system). The new portion of the system was placed in service in the fall of 2013 with substantial completion achieved on October 9, 2013. The demand loan was converted into long-term debt during 2014.

- In addition to completing the construction on the major distribution main line replacement project, approximately 4,650 ft of 8" main line piping extension was completed in 2014. This project was completed by an area developer and turned over to the Authority. The total value of this project was booked as $286,501. Of this total, $135,526 was contributed by the developer and $150,975 by the Authority. Of the Authority's portion, $22,200 was for piping appurtenances to allow future expansion in the area by the Authority.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements and notes to the financial statements.

Required Financial Statements

The financial statements of the Authority report information using the accrual basis of accounting; accordingly, all of the current year's revenues and expenses are accounted for regardless of when the cash is received or paid. This accounting treatment is similar to the methods used by private sector companies and aids in answering the question of whether the Authority, as a whole, has improved or deteriorated as a result of this year's activities.

There are (3) required basic financial statements: Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows.

The Statements of Net Position (balance sheet) includes all of the Authority's investments in resources (cash, receivables, unbilled revenue, inventory, prepaid insurance, capital assets, and deferred outflows of resources) and the obligation to creditors (long-term debt, loans, payables, accrued expenses, and other liabilities). The difference between total assets plus deferred outflows of resources and total liabilities plus deferred inflows of resources is listed as net position. This statement provides the basis for evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority to meet current and long-term obligations. Over time, increases or decreases in the Authority's net position are one of the indicators of whether its financial health is improving or deteriorating.

The Statements of Revenues, Expenses and Changes in Net Position (income statement) includes all of the current year revenues and expenses. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all of its cost through water rates, user fees, and other charges.

The Statements of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operations, capital, and related financing activities. This statement demonstrates where the cash came from, how the cash was used, and how much the change in cash was during the fiscal year.

Condensed versions of the balance sheet and income statement coupled with an analysis of significant changes from the prior year are included in this discussion and analysis.

Statements of Net Position

TABLE 1 - Condensed Statements of Net Position
Fiscal years 2014 and 2013

ASSETS	Fiscal 2014	Fiscal 2013	Dollar Change	Total % Change
Current assets	$ 1,442,206	$ 1,496,058	$ (53,852)	(3.6%)
Capital assets, at cost less depreciation	9,863,986	5,230,983	4,633,003	88.6%
Construction in progress	-	4,235,727	(4,235,727)	*
Restricted assets	388,859	388,608	251	0.1%
Total Assets	11,695,051	11,351,376	343,675	3.0%
Deferred Outflows of Resources	152,685	167,953	(15,268)	(9.1%)
LIABILITIES				
Current portion of long term debt	423,488	210,000	213,488	101.7%
Other current liabilities	68,852	4,054,277	(3,985,425)	(98.3%)
Long-term debt, net of current portion	6,030,700	2,369,050	3,661,650	154.6%
Total Liabilities	6,523,040	6,633,327	(110,287)	(1.7%)
NET POSITION				
Net investment in capital assets	3,562,483	3,081,737	480,746	15.6%
Restricted for debt service	388,859	388,608	251	0.1%
Unrestricted	1,373,354	1,415,657	(42,303)	(3.0%)
Total Net Position	$ 5,324,696	$ 4,886,002	$ 438,694	9.0%

* % change essentially meaningless as calculated values are either very high or very low due to zero (0) values.

Net position is broken down into:

Net investment in capital assets – primarily the value (at cost) of the Authority's water treatment facilities, the distribution system, construction in progress, buildings, real estate, and vehicles less depreciation and any outstanding debt associated with these assets.

Restricted for debt service – funds identified and limited to the specific future use for debt service. The restriction is required by the indenture to the bond trustees.

Unrestricted – funds available for any and all of the Authority's ongoing activities.

<u>Statements of Net Position</u> (continued)

As depicted in Table 1, the following significant changes occurred during FY 2014:

- Current assets decreased by 3.6% or ($53,852). Approximately one-half of this decrease is a reduction in cash and cash equivalents as a result of capital improvement expenses and half is due to a reduction in accounts receivable. Further future reductions are anticipated as cash is utilized for additional capital improvements in 2015.

- Capital assets increased by 8.6% primarily a result of the construction in progress being converted to the capital assets category.

- Total assets increased by 3.0% or $343,675 compared to the prior year primarily a result of two projects completed in 2014 (discussed later in this analysis).

- Deferred outflow of resources decreased by 9.1% or ($15,268) due to amortization of the deferred amount on bond refunding.

- Current portion of long term debt increased by 101.7% or $213,448 as the Pennvest demand loan was converted to long term debt during 2014.

- Note also that as a result of the Pennvest debt re-categorization, other current liabilities decreased by 98.3% or ($3,985,425) and long-term debt, net of current portion, increased by 154.6% or $3,661,650. Bond principal payments during 2014 primarily represent the difference between these two values.

- Net investment in capital assets increased by 15.6% or $480,746 primarily due to capital improvement projects being completed with available cash and the reduction in debt which occurred when scheduled 2014 bond principal payments were made.

- Unrestricted net position decreased by 3.0% or ($42,303) primarily due to the reduction in cash and cash equivalents as described above.

Statements of Revenues, Expenses and Changes in Net Position

TABLE 2 - Condensed Statements of Revenues, Expenses and Changes in Net Position
Fiscal years 2014 and 2013

	Fiscal 2014	Fiscal 2013	Dollar Change	Total % Change
Total Operating Revenues	$ 1,785,666	$ 1,635,339	$ 150,327	9.2%
Operating Expenses				
Purification, pumping & distribution systems	649,366	587,884	61,482	10.5%
Administrative & general	399,501	356,213	43,288	12.2%
Depreciation	299,134	270,488	28,646	10.6%
Total Operating Expenses	1,348,001	1,214,585	133,416	11.0%
Operating Income	437,665	420,754	16,911	4.0%
Non-Operating Revenues (Expenses)				
Capital contribution	135,526	-	135,526	*
Interest income	3,182	1,889	1,293	68.4%
Gas leas income	-	428,403	(428,403)	*
Interest expense & amortization	(134,704)	(125,573)	(9,131)	7.3%
Loss on disposal of fixed assets	(2,975)	(14,801)	11,826	(79.9%)
Total Non-Operating Revenues (Expenses)	1,029	289,918	(288,889)	*
Changes in Net Postion	438,694	710,672	(271,978)	(38.3%)
Net Position, Beginning of Year	4,886,002	4,175,330	710,672	17.0%
Net Position, End of Year	$ 5,324,696	$ 4,886,002	$ 438,694	9.0%

* % change essentially meaningless as calculated values are either very high or very low due to zero (0) values.

The Authority does not seek to earn a profit; after covering all of the expenses and debt, the Authority must be in a financial position to replace and/or upgrade capital facilities as these facilities age, deteriorate, and cease to function as originally intended.

As depicted in Table 2, the following significant changes occurred during FY 2014:

- Total operating revenue increased by 9.2% or $150,327. The water consumption and service fee increase of 10% effective January 1, 2014 was partially offset by lower water sales in 2014 compared to 2013.

- Total operating expenses increased by 11.0% or $133,416 almost equally spread over all expense categories. Of the total $133,416 increase from 2013 to 2014; (a) $38,980 was from improvement items that were originally in the capital budget but were expensed instead; (b) $28,646 was from increased depreciation (increased capital); (c) $21,120 was increased labor charges; (d) utilities were up $11,205, insurance expense was up $8,634, treating chemicals were up $8,176, billing supplies were up $7,659 (started monthly billing mid-year), and health insurance expense was up $6,321.

Statements of Revenues, Expenses and Changes in Net Position (continued)

- Operating income increased by 4.0% or $16,911 as the increase in operating expense was eclipsed by the increase in operating revenues.

- A capital contribution of $135,526 was made by a developer who installed a main distribution line extension and turned the capital property over to the Authority at project completion. The project was partially funded by the Authority as well.

- Interest income increased by 68.4% or $1,293 primarily as the result of transferring cash into an investment CD during 2014.

- During FY 2013, the Authority entered into a gas lease arrangement on approximately 118 acres of the Authority's property resulting in a lease bonus payment of $428,403. This was a one time payment and does not repeat in 2014. If successful gas wells are drilled, royalty payment would be anticipated in future years.

- Interest expense and amortization increased 7.3% or $9,131 primarily the result of increased interest on a demand note for the major capital construction project.

- Loss on disposal of fixed assets decreased by 79.9% or $11,826 compared to the prior year due to less disposal/retirement of capital assets that had book value.

- Change in net position decreased by 38.3% or $271,978 as compared to the prior year due to the one time gas lease payment made in 2013. Excluding this one time bonus payment in 2013, 2014 would have shown an increase of 55.4% or $156,425 in change in net position as compared to the prior year.

Capital Assets and Long-Term Debt

TABLE 3 - Capital Assets
Fiscal years 2014 and 2013

	Fiscal 2014	Fiscal 2013	Dollar Change	Total % Change
Capital Asset Classification (at cost)				
Land and Easements	$ 63,091	$ 63,091	$ -	-
Building and Structures	1,444,069	1,444,069	-	-
Treating Plant and Pumping Systems	3,551,336	3,551,336	-	-
Distribution Piping Systems	9,041,205	4,307,014	4,734,191	109.9%
Water Storage Tank Facilities	1,284,426	1,087,383	197,043	18.1%
Vehicle and other Road Equipment	92,434	92,434	-	-
Office and Maintainence Equipment	241,727	261,924	(20,197)	(7.7%)
Construction in Progress	-	4,235,727	(4,235,727)	(100.0%)
Less Accumulated Depreciation	(5,854,302)	(5,576,268)	(278,034)	5.0%
Total Capital Assets	$ 9,863,986	$ 9,466,710	$ 397,276	4.2%

As depicted in Table 3, the following significant changes occurred:

- As discussed earlier, the construction in progress on the major distribution main line replacement project was re-categorized into the distribution piping system capital asset category. This resulted in the major shift of monies from these respective categories as shown above. Additionally, $215,845 was booked to this project in 2014.

- In addition to completing the construction on the major distribution main line replacement project, approximately 4,650 ft of 8" main line piping extension was completed in 2014. This project was completed by an area developer and turned over to the Authority. Total value of this project was booked as $286,501. Of this total, $135,526 was contributed by the developer and $150,975 by the Authority. Of the Authority's portion, $22,200 was for piping appurtenances to allow future expansion in the area by the Authority.

- A project for cleaning, inspecting, repairing, and painting one of the system's water storage tank was completed during 2014 at a cost of $197,043. A tank mixer was also installed to improve water quality.

- The depreciation during 2014 was actually $299,134. Assets disposed in 2014 totaled $24,075 ($20,197 in the Office category and $3,878 in Distribution). These assets had an accumulated depreciation of $21,100; the book value written off was $2,975. When the $21,100 depreciation is combined with the $278,034 listed above, the $299,134 results, which is shown in the income statement (Table 2).

Capital Assets and Long-Term Debt (cont.)

TABLE 4 – Long-Term Debt
Fiscal years 2014 and 2013

	Fiscal 2014	Fiscal 2013	Dollar Change	Total % Change
Long-Term Debt				
Water Revenue Bond Series of 2011	$ 2,355,000	$ 2,565,000	$ (210,000)	(8.2%)
Pennvest Loan	4,086,415	3,973,876	112,539	2.8%
Total Long-Term Debt	6,441,415	6,538,876	(97,461)	(1.5%)
Revenue Bond unamortized bond premium	12,773	14,050	(1,277)	(9.1%)
Total Long-Term Debt, net	6,454,188	6,552,926	(98,738)	(1.5%)
Less: Current portion	(423,488)	(210,000)	(213,488)	101.7%
Total Long-Term Debt, less current portion	$ 6,030,700	$ 6,342,926	$ (312,226)	(4.9%)

* % change essentially meaningless as calculated values are either very high or very low due to zero (0) values.

As depicted in Table 4:

- The decrease of 8.2% or $210,000 in the Water Revenue Bonds is due to the scheduled periodic principal payments for eventual bond retirement.
- The increase of 2.8% or $112,539 in the Pennvest loan was a result of $302,074 in additional borrowing which was offset by $189,535 in principal payments during 2014.
- The current portion of long term debt increased by 101.7% or $213,448 as the Pennvest demand loan was converted to long term debt during 2014.
- Total long-term debt (net of current portion) decreased by 4.9% or $312,226 primarily due to the principal payment during 2014.
- More information about the Authority's long-term debt is presented in Note E in the notes to financial statements.

The Authority anticipates an increase of approximately $200,000 in long-term debt in early 2015 as additional funds are borrowed on the Pennvest loan.

CONTACTING THE AUTHORITY

This financial report is designed to provide a general overview of the Authority's finances for all those individuals or organizations having interest in the Authority's operations and financial condition. If you have any questions about this report or need additional information, please contact the Greenville Water Authority, 44 Clinton Street, Greenville, PA 16125.

Municipal Authority of the Borough of Greenville
Statements of Net Position
December 31, 2014 and 2013

	2014	2013
Assets		
Cash and cash equivalents	$ 779,937	$ 1,056,646
Investments	252,260	-
Accounts receivable	166,794	189,502
Unbilled revenue	174,391	178,995
Inventory	52,207	49,956
Prepaid insurance	16,617	20,959
Capital assets:		
Nondepreciable capital assets	63,091	4,298,818
Depreciable capital assets (net of accumulated depreciation)	9,800,895	5,167,892
Restricted cash and cash equivalents - debt service funds	388,859	388,608
Total Assets	11,695,051	11,351,376
Deferred Outflows of Resources		
Deferred charge on refunding	152,685	167,953
Total Deferred Outflows of Resources	152,685	167,953
Liabilities		
Current portion of long-term debt	423,488	210,000
Demand loan	-	3,973,876
Accounts payable for operations	1,845	1,641
Deposits for services	33,017	33,017
Accrued interest payable	25,013	27,113
Escrow liability	-	4,699
Other accrued expenses	8,977	13,931
Long-term debt, net of current portion	6,030,700	2,369,050
Total Liabilities	6,523,040	6,633,327
Net Position		
Net investment in capital assets	3,562,483	3,081,737
Restricted for debt service	388,859	388,608
Unrestricted	1,373,354	1,415,657
Total Net Position	$ 5,324,696	$ 4,886,002

See notes to the financial statements.

Municipal Authority of the Borough of Greenville

Statements of Revenues, Expenses and Changes in Net Position

Years ended December 31, 2014 and 2013

	2014	*2013*
Operating Revenues		
Private sales	$ 1,631,453	$ 1,478,404
Public sales	62,039	52,392
Tap-in fees	4,302	5,290
Sewer collection fees	27,743	27,743
Reimbursed collection costs	34,636	26,271
Miscellaneous income	24,978	44,868
Recovery of bad debts	515	371
	1,785,666	1,635,339
Operating Expenses		
Purification system	353,570	317,827
Pumping system	9,649	14,145
Distribution system	286,147	255,912
Administrative and general	399,501	356,213
Depreciation	299,134	270,488
	1,348,001	1,214,585
Operating Income	437,665	420,754
Nonoperating Revenues (Expenses)		
Capital contribution	135,526	-
Interest income	3,182	1,889
Gas lease income	-	428,403
Interest expense	(135,981)	(126,850)
Amortization	1,277	1,277
Loss on disposal of fixed assets	(2,975)	(14,801)
	1,029	289,918
Changes in Net Position	438,694	710,672
Net Position, Beginning of Year	4,886,002	4,175,330
Net Position, End of Year	$ 5,324,696	$ 4,886,002

See notes to the financial statements.

Municipal Authority of the Borough of Greenville

Statements of Cash Flows

Years ended December 31, 2014 and 2013

	2014	2013
Cash Flows from Operating Activities		
Cash receipts from customers	$ 1,725,106	$ 1,544,670
Other operating cash receipts	87,872	99,253
Cash payments to other suppliers of goods and services	(627,187)	(767,672)
Cash payments to employees for services	(424,339)	(402,237)
Net Cash Provided by Operating Activities	761,452	474,014
Cash Flows from Capital and Related Financing Activities		
Purchases of capital assets	(563,859)	(2,902,318)
Proceeds from demand loan	-	2,795,350
Gas lease income	-	428,403
Proceeds for the sale of capital assets	-	25,000
Net funds received (paid) for escrow liability	(4,699)	4,699
Proceeds from long-term debt	302,074	-
Principal paid on long-term debt	(399,535)	(815,408)
Interest paid on long-term debt	(122,813)	(112,362)
Net Cash Used in Capital and Related Financing Activities	(788,832)	(576,636)
Cash Flows Provided by Investing Activities		
Purchase of investments	(250,000)	-
Interest income	922	1,889
Net Cash Provided by (Used in) Investing Activities	(249,078)	1,889
Net Change in Cash and Cash Equivalents	(276,458)	(100,733)
Cash and Cash Equivalents, Beginning of Year		
(Including $388,608 and $384,316, respectively, reported in Restricted Cash and Cash Equivalents)	1,445,254	1,545,987
Cash and Cash Equivalents, End of Year		
(Including $388,859 and $388,608, respectively, reported in Restricted Cash and Cash Equivalents)	$ 1,168,796	$ 1,445,254

See notes to the financial statements.

Municipal Authority of the Borough of Greenville

Statements of Cash Flows (Continued)

Years ended December 31, 2014 and 2013

	2014	*2013*
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$ 437,665	$ 420,754
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	299,134	270,488
(Increase) decrease in accounts receivable	22,708	(503)
Decrease in unbilled revenue	4,604	9,087
(Increase) decrease in inventory	(2,251)	831
(Increase) decrease in prepaid insurance	4,342	(2,560)
Increase (decrease) in accounts payable	204	(3,446)
Decrease in accounts payable for construction	-	(219,224)
Decrease in other accrued expenses	(4,954)	(1,413)
Net Cash Provided by Operating Activities	$ 761,452	$ 474,014
Supplemental Disclosures of Cash Flow Information:		
Non-cash capital and related financing activities:		
Amortization of bond premium	$ (1,277)	$ (1,277)
Amortization of deferred amount on bond refunding	$ 15,268	$ 15,268

See notes to the financial statements.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipal Authority of the Borough of Greenville (the Authority) 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 five 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 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, deferred outflows of resources, liabilities, deferred inflows of resources, net position, 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 position.

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.

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2014 and 2013, but not billed until after December 31, 2014 and 2013, 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.

Capital Assets

Capital assets 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.

Net Position

When both restricted and unrestricted resources are available for use, the Authority considers restricted funds to have been used first, then unrestricted resources.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impact of Recently Issued Accounting Principles

Recently Issued Accounting Pronouncements

In June 2012, the GASB issued Statement 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement 27*. GASB 68 improves the accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement is effective for fiscal years beginning after June 15, 2014. Management is currently evaluating the impact of the adoption of this statement on the Authority's financial statements.

NOTE B – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of demand deposits at various financial institutions and cash on hand of $300 at December 31, 2014 and 2013.

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, 2014 and 2013, the carrying amounts of the Authority's deposits were $1,168,496 and $1,444,954, respectively, with corresponding bank balances of $1,259,867 and $1,530,688. Of the bank balances at December 31, 2014 and 2013, $500,000 and $501,000, respectively were covered by federal depository insurance and $759,867 and $1,029,688, 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 – INVESTMENTS

At December 31, 2014, investments consisted of a certificate of deposit amounting to $252,260. This investment was held in trust by a financial institution on behalf of the Authority. To the extent that the certificate of deposit becomes uninsured by FDIC or DSLIC, it is collateralized with securities held by the pledging financial institution. The balance was fully insured at December 31, 2014. There were no investments at December 31, 2013.

NOTE D – CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2014 is as follows:

	Beginning Balance	*Increases*	*Decreases*	*Ending Balance*
Capital assets not being depreciated:				
Land	$ 63,091	$ -	$ -	$ 63,091
Construction in progress	4,235,727	215,845	(4,451,572)	-
Total capital assets not being depreciated	4,298,818	215,845	(4,451,572)	63,091
Capital assets being depreciated:				
Plant and equipment	10,744,160	483,540	4,427,497	15,655,197
Less accumulated depreciation for:				
Plant and equipment	(5,576,268)	(299,134)	21,100	(5,854,302)
Total capital assets being depreciated, net	5,167,892	184,406	4,448,597	9,800,895
Total capital assets, net	$ 9,466,710	$ 400,251	$ (2,975)	$ 9,863,986

At December 31, 2013, construction in progress consisted solely of the East Side Main Line Distribution Project.

NOTE E – LONG-TERM DEBT

In December 2011, the Authority issued $2,765,000 of Water Revenue bonds for a refunding of $2,765,000 of Series of 2003 Water Revenue Bonds. The refunding was undertaken due to more favorable interest rates. The bond bears rates ranging from 0.55% to 4.00% and matures September 2024. The transaction resulted in a reduction of $233,760 in future debt service payments and the economic gain to the Authority from this refunding was $231,428. The loan is secured by revenue of the Authority. The balance outstanding at December 31, 2014 and 2013 was $2,355,000 and $2,565,000, respectively.

In conjunction with this refunding, the Authority has recognized a deferred amount on refunding in the financial statements, as a deferred outflow of resources. This amount represents the difference between the reacquisition price and the net carrying amount of the 2003 Bonds and will be amortized over the remaining life of the bonds. Amortization of the deferred amount on refunding amounted to $15,268 for 2014 and 2013. This amount has been charged to interest expense in the financial statements.

During 2012, the Authority entered into a demand loan with Pennvest which allowed the Authority to borrow up to $4,501,000 for capital improvements to the existing water system. At December 31, 2013, the balance outstanding on this demand loan was $3,973,876. During 2014, the demand loan converted into a loan to be paid at a rate of principal plus interest of 1.0% and matures December 2032. The loan is secured by a lien on the Authority's water revenues. As of December 31, 2014, the balance outstanding is $4,086,415.

NOTE E – LONG-TERM DEBT (CONTINUED)

Interest expense on long-term debt amounted to $120,713 and $87,340, respectively, for 2014 and 2013.

Long-term debt as of December 31, 2014 and 2013 consists of the following obligations:

	Beginning Balance	*Increases*	*Decreases*	*Ending Balance*	*Amount Due Within One Year*
Water revenue bonds	$ 2,565,000	$ -	$ (210,000)	$ 2,355,000	$ 215,000
Pennvest loan	3,973,876	302,074	(189,535)	4,086,415	208,488
Bond Premium	14,050	-	(1,277)	12,773	-
	$ 6,552,926	$ 302,074	$ (400,812)	$ 6,454,188	$ 423,488

The annual requirements to retire long-term debt outstanding as of December 31, 2014 are as follows:

	Principal			*Interest*		
Year ending December 31,	*2011 Bonds*	*Pennvest Loan*	*Total Principal*	*2011 Bonds*	*Pennvest Loan*	*Total Interest*
2015	$ 215,000	$ 208,488	$ 423,488	$ 75,038	$ 39,910	$ 114,948
2016	215,000	210,582	425,582	68,588	37,816	106,404
2017	225,000	212,698	437,698	59,988	35,700	95,688
2018	240,000	214,834	454,834	50,987	33,564	84,551
2019	235,000	216,993	451,993	45,587	31,405	76,992
2020-2024	1,225,000	1,118,103	2,343,103	120,025	123,887	243,912
2025-2029	-	1,175,405	1,175,405	-	66,585	66,585
2030-2032	-	729,312	729,312	-	11,231	11,231
	$ 2,355,000	$ 4,086,415	$ 6,441,415	$ 420,213	$ 380,098	$ 800,311

NOTE F – 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. The Authority's Superintendent, with Board approval, has the ability to establish and amend benefits. 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.

Annual Pension Costs

For the years ended December 31, 2014 and 2013, the Authority's annual pension costs were $2,311 and $2,646, respectively. The required contribution was determined as part of the January 1, 2013 actuarial evaluation using the entry age normal actuarial cost method. The actuarial assumptions included (a) investment rate of return of 5.5% and (b) projected salary increases of 3.5%, including an inflationary component of 3.0%.

Funded Status and Funding Progress

As of July 1, 2013, the most recent actuarial valuation date, the Plan was 104.76% funded. The actuarial liability for benefits was $758,278, and the actuarial value of assets was $794,409, resulting in an excess actuarial accrued asset of $36,131. The covered payroll (annual payroll of active employees covered by the Plan) was $438,846, and the ratio of the excess actuarial accrued asset was 8.23%.

A schedule of funding progress is presented on page 22.

NOTE F – PENSION PLAN (CONTINUED)

The actuarial value of the assets was based on market value, and the amortization method used was the level percentage of projected payroll method on a closed basis. The plan was fully funded at December 31, 2014 and 2013.

Trend information for the pension plan is as follows:

Year Ending	*Annual Pension Cost (APC)*	*Percentage of APC Contributed*	*Net Pension Obligation*
2012	$ 10,416	100%	$ -
2013	2,646	100%	-
2014	2,311	100%	-

NOTE G – 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 purchased various insurance policies to safeguard its assets from risk of loss. Insurance coverage appears to be consistent with previous years. During the year ended December 31, 2014 and the two previous fiscal years, no settlements exceeded insurance coverage.

Required Supplementary Information

Municipal Authority of the Borough of Greenville
Schedule of Funding Progress for the Pension Plan
December 31, 2014 and 2013

Actuarial Valuation Date	*Actuarial Value of Assets*	*Actuarial Accrued Liability (AAL) Entry Age*	*Unfunded (Assets in Excess of) AAL (UAAL)*	*Funded Ratio*	*Covered Payroll*	*Unfunded or (Excess) as a Percentage of Covered Payroll*
1/1/2009	$ 571,047	$ 551,921	$ (19,126)	103.47%	$ 415,196	-4.61%
1/1/2011	680,990	627,064	(53,926)	108.60%	427,065	-12.63%
1/1/2013	794,409	758,278	(36,131)	104.76%	438,846	-8.23%

Notes:
1. The Authority is required to present the above information for the three most recent actuarial studies.