# Municipal Authority of the Borough of Greenville

**Financial Statements**

**Years ended December 31, 2012 and 2011**

STILLWAGGON & MCGILL
CERTIFIED PUBLIC ACCOUNTANTS
Grove City • Pittsburgh

# Municipal Authority of the Borough of Greenville
## Years ended December 31, 2012 and 2011

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STILLWAGGON & MCGILL
CERTIFIED PUBLIC ACCOUNTANTS

# Independent Auditor's Report

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

## Report on the Financial Statements

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, 2012 and 2011, 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
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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, 2012 and 2011, 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 on pages 3-9 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
April 17, 2013

**Municipal Authority of the Borough of Greenville**
**Management's Discussion and Analysis (MD&A)**
**December 31, 2012 and 2011**

The management of the Municipal Authority of the Borough of Greenville, doing business as 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, 2012. These activities are broadly compared to the prior fiscal year ended December 31, 2011.

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, 2012:

- Assets exceeded liabilities by $4,230,829 in FY 2012. Total net position increased by 8.5% or $332,860 during the year. These results signify that the Authority's overall financial condition remains strong and improving.
- Water volume sales were up about 2.5% while water rates were held constant throughout the year (last increase in January 2011). Our customer base increased by 4.9% from 2,849 to 2,989 total residential, public, commercial and industrial customers.
- Combined operating income and non-operating revenues increased by 79.2% or $147,150 in FY 2012 compared to FY 2011.
- The Series of 2003 Bonds were refunded to Series of 2011 Bonds at the end of 2011 (bond sale closing on December 29, 2011). The Series of 2011 had a significant impact on lowering debt payments in FY 2012 compared to FY 2011. The reverse effect will be experienced in FY 2013 as debt payments revert to more normal levels.
- The Authority settled on a Pennvest demand loan for $4,501,000 in August, 2012. The funds will be used to replace water main piping. $1,328,420 of the construction was completed during FY 2012. The total project is expected to be complete by August 2013.

## 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 three (3) required basic financial statements: Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows.

The Statement of Net Position (balance sheet) includes all of the Authority's investments in resources (cash, receivables, unbilled revenue, inventory, prepaid, property, plant facilities, equipment, and other assets) and the obligations to creditors (long-term debt, loans, payables, accrued expenses, and other liabilities). The difference between total assets and total liabilities 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 Statement 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 costs through water rates, user fees and other charges.

The Statement 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.

## Statement of Net Position

### TABLE 1
### Condensed Statement of Net Position
### Fiscal years 2012 and 2011

ASSETS

| | Fiscal 2012 | Fiscal 2011 | Dollar Change | Total % Change |
|---|---|---|---|---|
| Current Assets | $ 1,607,938 | $ 1,077,432 | $ 530,506 | 49.2% |
| Capital Assets, at cost and less depreciation | 5,454,576 | 5,685,411 | (230,835) | (4.1%) |
| Construction in progress | 1,420,105 | 91,685 | 1,328,420 | 1,448.9% |
| Bond issue costs | 55,499 | 60,124 | (4,625) | (7.7%) |
| Restricted assets | 384,316 | 315,437 | 68,879 | 21.8% |
| **Total Assets** | $ 8,922,434 | $ 7,230,089 | $ 1,692,345 | 23.4% |

LIABILITIES AND NET ASSETS

| | Fiscal 2012 | Fiscal 2011 | Dollar Change | Total % Change |
|---|---|---|---|---|
| Current Liabilities | $ 1,689,455 | $ 154,574 | $ 1,534,881 | 993.0% |
| Long-Term Debt, net of current portion | 3,002,150 | 3,177,546 | (175,396) | (5.5%) |
| Net Position | | | | |
| Invested in capital, net of related debt | 2,539,140 | 2,635,393 | (96,253) | (3.7%) |
| Restricted for debt service | 384,316 | 315,437 | 68,879 | 21.8% |
| Unrestricted | 1,307,373 | 947,139 | 360,234 | 38.0% |
| Total Net Position | 4,230,829 | 3,897,969 | 332,860 | 8.5% |
| **Total Liabilities and Net Position** | $ 8,922,434 | $ 7,230,089 | $ 1,692,345 | 23.4% |

Net position is broken down into:

***Invested in capital assets, net of debt*** – primarily the value (at cost) of the Authority's water treatment facilities, the distribution system, construction in progress, inventory, 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.

As depicted in Table 1, the following significant changes occurred during FY 2012:

- Current assets increased by 49.2% or $530,506 compared to the prior year primarily due to an improved total operating income of $82,810, an improved total non-operating revenue and expense of $64,340, reduced debt and interest payments, and an increase in accounts payable.

**Statement of Net Position (continued)**

- Capital assets (excluding construction in progress) decreased by 4.1% or $230,835 due to additional depreciation in 2012 of $293,026 offset by an additional investment of $62,191 in capital assets.
- Construction in progress increased almost 15 fold or $1,328,420 compared to the prior year due to the major piping replacement project started in August 2012 to replace approximately 35,000 feet of water main piping (approximately 16% of the distribution system).
- Restricted assets increased by 21.8% or $68,879 as the Authority, anticipating higher debt service payments in FY 2013 compared to FY 2012, set aside additional cash in debt service accounts.
- Current liabilities increased approximately 10 fold or $1,534,881 due primarily to a demand loan increase of $1,178,526 for the major construction in progress project, a construction in progress accounts payable increase of $219,224, and an increase of $189,083 for the current portion of the long-term debt. The current portion of long-term debt, relative to the prior year, increased because of an unusually low value for FY 2011 as a result of the bond refunding.
- Long-term debt, net of current portion, decreased by 5.5% or ($175,396) primarily due to the higher value for the current portion in FY 2012 as mentioned above. The total long-term debt plus current portion of long term debt only changed slightly between FY 2012 and FY 2011 (see Note E in the notes to the financial statements for additional detail).
- Net capital position decreased by 3.7% or ($96,253) as the effects of the increased depreciation of ($293,026) was partially offset by additional investments in capital assets and construction in progress less the related debt.
- Restricted position increased by 21.8% or $68,879 as the Authority anticipates higher debt service payments in FY 2013 compared to FY 2012, as previously mentioned.
- Unrestricted net position increased by 38.0% or $360,234 primarily due to the improved total operating income of $82,810, the improved total non-operating revenue and expense of $64,340 and reduced debt and interest payments, as previously identified.

## Statements of Revenues, Expenses and Changes in Net Position

**TABLE 2**
**Condensed Statements of Revenues, Expenses and Changes in Net Position**
**Fiscal years 2012 and 2011**

| | Fiscal 2012 | Fiscal 2011 | Dollar Change | Total % Change |
|---|---|---|---|---|
| Total Operating Revenues | $ 1,642,074 | $ 1,605,328 | $ 36,746 | 2.3% |
| Operating Expenses | | | | |
| Purification, pumping & distribution systems | 588,081 | 573,165 | 14,916 | 2.6% |
| Administrative and general | 357,233 | 424,018 | (66,785) | (15.8%) |
| Depreciation | 293,026 | 287,221 | 5,805 | 2.0% |
| Total Operating Expenses | 1,238,340 | 1,284,404 | (46,064) | (3.6%) |
| Operating Income | 403,734 | 320,924 | 82,810 | 25.8% |
| Non-Operating Revenues (Expenses) | | | | |
| Interest income | 2,009 | 1,617 | 392 | 24.2% |
| Insurance proceeds | 28,144 | - - - | 28,144 | * |
| Grant income | - - - | 7,277 | (7,277) | * |
| Interest expense & amortization | (101,027) | (128,991) | 27,964 | 21.7% |
| Loss on disposal of fixed assets | - - - | (15,117) | 15,177 | * |
| Total Non-Operating Revenues (Expense) | (70,874) | (135,214) | 64,340 | 47.6% |
| **Changes in Net Position** | 332,860 | 185,710 | 147,150 | 79.2% |
| **Net Position, Beginning of Year** | 3,897,969 | 3,712,259 | 185,710 | 5.0% |
| **Net Position, End of Year** | $ 4,230,829 | $ 3,897,969 | $ 332,860 | 8.5% |

* % 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; however, 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 2012:

- Total operating revenues increased 2.3% or $36,746 primarily due to an increase in treated water sales.
- Operating expenses for purification, pumping and distribution increased slightly by 2.6% or $14,916 in line with the increase in water volume sold. The production costs (excluding administration, general and depreciation) held constant at $3.20 per thousand gallons sold compared to the prior year.
- Administration and general expenses decreased by 15.8% or ($66,785) primarily due to reductions in health care and legal expenses combined totaling ($94,200) which were offset by slight increases in a number of other categories.

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

- As a result of increased revenues and decreased operating expenses, operating income increased by 25.8% or $82,810 compared to the prior year.
- Investment income increased slightly due to increased cash held in interest bearing accounts during 2012.
- Insurance proceeds of $28,144 were received during 2012 due to repaired road damage as a result of a water main break.
- Interest expense and amortization were down by a combined 21.7% or $27,964 primarily due to the bond refunding completed in December of 2011.
- As a result, total non-operating revenue and expense improved by 47.6% or $64,340.
- The combination of the operating income increase and non-operating revenue and expense improvement resulted in an increase in the change of net position of 79.2% or $147,150 compared to the prior year.

## Capital Assets and Long-Term Debt

**TABLE 3 – Capital Assets**
**Fiscal years 2012 and 2011**

| | Fiscal 2012 | Fiscal 2011 | Dollar Change | Total % Change |
|---|---|---|---|---|
| **Capital Asset Classification (at cost)** | | | | |
| Land and Easements | $ 63,091 | $ 63,091 | $ - - - | - - - |
| Buildings and Structures | 1,369,116 | 1,364,966 | 4,150 | 0.3% |
| Treating Plant and Pumping Systems | 3,743,442 | 3,719,857 | 23,586 | 0.6% |
| Distribution Piping Systems | 4,248,400 | 4,213,945 | 34,455 | 0.8% |
| Water Storage Tank Facilities | 1,083,174 | 1,083,174 | - - - | - - - |
| Vehicles and other Road Equipment | 96,129 | 96,129 | - - - | - - - |
| Office and Maintenance Equipment | 383,814 | 383,814 | - - - | - - - |
| Construction in Progress | 1,420,105 | 91,685 | 1,328,420 | 1448.9% |
| Less Accumulated Depreciation | (5,532,590) | (5,239,564) | (293,026) | (5.6%) |
| **Total Capital Assets** | $ 6,874,681 | $ 5,777,096 | $ 1,097,585 | 19.0% |

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

- The Authority invested a total of $62,191 in a number of relatively small, routine improvements to existing assets that slightly offset the increase in depreciation for FY 2012.
- The Authority started a major capital project in August, 2012 (Construction in Progress). Approximately 35,000 feet of water main piping (approximately 16% of the distribution system) will be replaced. $1,328,420 of the construction was completed in FY 2012. The total project is expected to be complete by August 2013 at an estimated cost of $4,501,000.

**TABLE 4 - Long Term Debt**
**Fiscal years 2012 and 2011**

| | Fiscal 2012 | Fiscal 2011 | Dollar Change | Total % Change |
|---|---|---|---|---|
| **Long-Term Debt** | | | | |
| Water Revenue Bonds Series of 2011 | $ 2,760,000 | $ 2,765,000 | $ (5,000) | (0.2%) |
| Note payable to Pennvest (Hadley Rd. Tk) | 620,408 | 618,712 | 1,696 | 0.3% |
| **Total Long-Term Debt** | 3,380,408 | 3,383,712 | (3,304) | (0.1%) |
| **Revenue Bond unamortized bond premium** | 15,327 | 16,604 | (1,277) | (7.7)% |
| **Revenue Bond unamortized deferred amount** | (183,221) | (198,489) | 15,268 | 7.7% |
| **Total Long-Term Debt, net** | 3,212,514 | 3,201,827 | 10,687 | 0.3% |
| **Less: Current portion** | (210,364) | (24,281) | (186,083) | (766.4%) |
| **Long-Term Debt, lees current portion** | $ 3,002,150 | $ 3,177,546 | $ (175,396) | (5.5%) |

As depicted in Table 4:

- There were no significant changes in the long-term obligations for the Authority in FY 2012 compared to FY 2011 except for the current portion and its impact on the long-term debt less current portion, which was discussed earlier.
- More information about the Authority's long-term debt is presented in Note E in the notes to the financial statements.

The Authority anticipates an increase of approximately $4,500,000 in long-term debt in late 2013 or early 2014 for the major distribution system piping replacement project (construction in progress) as the demand loan from Pennvest is converted to an additional long-tern note payable to Pennvest.

## 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 an 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, 2012 and 2011

### ASSETS

| | 2012 | 2011 |
|---|---|---|
| **Current Assets** | | |
| Cash and cash equivalents | $ 1,161,671 | $ 645,560 |
| Accounts receivable | 188,999 | 179,558 |
| Unbilled revenue | 188,082 | 184,613 |
| Inventory | 50,787 | 42,759 |
| Prepaid insurance | 18,399 | 24,942 |
| **Total Current Assets** | 1,607,938 | 1,077,432 |
| **Property, Plant and Equipment, at cost** | 10,987,166 | 10,924,975 |
| Allowance for depreciation | (5,532,590) | (5,239,564) |
| | 5,454,576 | 5,685,411 |
| Construction in progress | 1,420,105 | 91,685 |
| **Total Property, Plant and Equipment** | 6,874,681 | 5,777,096 |
| **Other Assets** | | |
| Bond issue costs, net amortization of $4,625 and $0 | 55,499 | 60,124 |
| Restricted cash and cash equivalents - debt service funds | 384,316 | 315,437 |
| **Total Other Assets** | 439,815 | 375,561 |
| | $ 8,922,434 | $ 7,230,089 |

### LIABILITIES AND NET POSITION

| | 2012 | 2011 |
|---|---|---|
| **Current Liabilities** | | |
| Current portion of long-term debt | $ 210,364 | $ 24,281 |
| Demand loan | 1,178,526 | - |
| Accounts payable for operations | 5,087 | 1,608 |
| Accounts payable for construction | 219,224 | - |
| Due to local municipality | - | 65,747 |
| Deposits for services | 33,017 | 33,565 |
| Accrued interest payable | 27,893 | 9,611 |
| Other accrued expenses | 15,344 | 19,762 |
| **Total Current Liabilities** | 1,689,455 | 154,574 |
| **Long-Term Debt, net of current portion** | 3,002,150 | 3,177,546 |
| **Net Position** | | |
| Invested in capital assets, net of related debt | 2,539,140 | 2,635,393 |
| Restricted for debt service | 384,316 | 315,437 |
| Unrestricted | 1,307,373 | 947,139 |
| **Total Net Position** | 4,230,829 | 3,897,969 |
| | $ 8,922,434 | $ 7,230,089 |

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, 2012 and 2011

| | 2012 | 2011 |
|---|---|---|
| **Operating Revenues** | | |
| Private sales | $ 1,499,006 | $ 1,480,388 |
| Public sales | 56,191 | 51,422 |
| Tap-in fees | 9,005 | 4,112 |
| Sewer collection fees | 27,743 | 24,743 |
| Reimbursed collection costs | 25,086 | 25,900 |
| Miscellaneous income | 23,786 | 18,637 |
| Recovery of bad debts | 1,257 | 126 |
| | 1,642,074 | 1,605,328 |
| **Operating Expenses** | | |
| Purification system | 331,448 | 324,512 |
| Pumping system | 9,283 | 9,235 |
| Distribution system | 247,350 | 239,418 |
| Administrative and general | 357,233 | 424,018 |
| Depreciation | 293,026 | 287,221 |
| | 1,238,340 | 1,284,404 |
| **Operating Income** | 403,734 | 320,924 |
| **Non-Operating Revenues (Expenses)** | | |
| Interest income | 2,009 | 1,617 |
| Insurance proceeds for water leak repair | 28,144 | - |
| Grant income | - | 7,277 |
| Interest expense | (82,411) | (97,523) |
| Amortization | (18,616) | (31,468) |
| Loss on disposal of fixed assets | - | (15,117) |
| | (70,874) | (135,214) |
| **Changes in Net Position** | 332,860 | 185,710 |
| **Net Position, Beginning of Year** | 3,897,969 | 3,712,259 |
| **Net Position, End of Year** | $ 4,230,829 | $ 3,897,969 |

See notes to the financial statements.

# Municipal Authority of the Borough of Greenville

## Statements of Cash Flows

### Years ended December 31, 2012 and 2011

| | 2012 | 2011 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Cash received from customers | $ 1,485,545 | $ 1,559,064 |
| Other income received | 77,872 | 69,406 |
| Cash paid to suppliers for goods and services | (530,755) | (571,847) |
| Cash paid to employees for services | (417,531) | (419,099) |
| **Net Cash Provided by Operating Activities** | 615,131 | 637,524 |
| **Cash Flows from Capital and Related Financing Activities** | | |
| Purchases of property, plant and equipment | (1,171,387) | (162,645) |
| Proceeds from demand loan | 1,178,526 | - |
| Insurance proceeds for water leak repair | 28,144 | - |
| Grant income received | - | 7,277 |
| Proceeds from long-term debt | 34,080 | 69,890 |
| Principal paid on long-term debt | (37,384) | (296,890) |
| Interest paid on long-term debt | (64,129) | (127,815) |
| **Net Cash Used by Capital and Related Financing Activities** | (32,150) | (510,183) |
| **Cash Flows Provided by Investing Activities** | | |
| Interest income | 2,009 | 1,617 |
| **Net Increase in Cash and Cash Equivalents** | 584,990 | 128,958 |
| **Cash and Cash Equivalents, Beginning of Year** (Including $315,437 and $386,823, respectively, reported in Restricted Cash and Cash Equivalents) | 960,997 | 832,039 |
| **Cash and Cash Equivalents, End of Year** (Including $384,316 and $315,437, respectively, reported in Restricted Cash and Cash Equivalents) | $ 1,545,987 | $ 960,997 |

See notes to the financial statements.

# Municipal Authority of the Borough of Greenville

## Statements of Cash Flows (Continued)

## Years ended December 31, 2012 and 2011

| | 2012 | 2011 |
|---|---|---|
| **Reconciliation of Operating Income to Net Cash Provided by Operating Activities** | | |
| Operating income | $ 403,734 | $ 320,924 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | 293,026 | 287,221 |
| Increase in accounts receivable | (9,441) | (28,530) |
| Increase in unbilled revenue | (3,469) | (14,075) |
| (Increase) decrease in inventory | (8,028) | 3,368 |
| Decrease in prepaid insurance | 6,543 | 4,056 |
| Increase in accounts payable | 3,479 | 134 |
| Increase (decrease) in due to local municipality | (65,747) | 65,747 |
| Decrease in deposits for services | (548) | (565) |
| Decrease in other accrued expenses | (4,418) | (756) |
| **Net Cash Provided by Operating Activities** | $ 615,131 | $ 637,524 |

**Supplemental Disclosures of Cash Flow Information:**

| | 2012 | 2011 |
|---|---|---|
| Non-cash capital and related financing activities: | | |
| Loans incurred for purchase of property, plant and equipment | $ 1,212,606 | $ - |
| Amortization of bond issue costs | $ 4,625 | $ 6,601 |
| Amortization of bond discount (premium) | $ (1,277) | $ 1,257 |
| Amortization of deferred amount on bond refunding | $ 15,268 | $ 23,610 |

See notes to the financial statements.

# Municipal Authority of the Borough of Greenville
## Notes to the Financial Statements
## December 31, 2012 and 2011

### 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, liabilities, 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 2012 and 2011, but not billed until after December 31, 2012 and 2011, 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 2011 bonds and are being amortized using the straight-line method over the life of the bonds, 13 years.

### Net Position

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

## NOTE B - CASH AND CASH EQUIVALENTS

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

### 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, 2012 and 2011, the carrying amounts of the Authority's deposits were $1,545,687 and $960,697, respectively, with corresponding bank balances of $1,634,161 and $978,114. On November 9, 2010, the FDIC issued a Final Rule implementing section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act that provides for unlimited insurance coverage of non-interest bearing transaction accounts. Beginning December 31, 2010 through December 31, 2012, all non-interest bearing account are fully insured at all FDIC-insured institutions. Of the bank balances at December 31, 2012 and 2011, $701,331 and $709,865, respectively were covered by federal depository insurance and $932,830 and $268,249, 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 – CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2012 is as follows:

| | *Beginning Balance* | *Increases* | *Decreases* | *Ending Balance* |
|---|---|---|---|---|
| Capital assets not being depreciated: | | | | |
| Land | $ 63,091 | $ - | $ - | $ 63,091 |
| Construction in progress | 91,685 | 1,328,420 | - | 1,420,105 |
| Total capital assets not being depreciated | 154,776 | 1,328,420 | - | 1,483,196 |
| Capital assets being depreciated: | | | | |
| Plant and equipment | 10,861,884 | 62,191 | - | 10,924,075 |
| Less accumulated depreciation for: | | | | |
| Plant and equipment | (5,239,564) | (293,026) | - | (5,532,590) |
| Total capital assets being depreciated, net | 5,622,320 | (230,835) | - | 5,391,485 |
| Total capital assets, net | $ 5,777,096 | $ 1,097,585 | $ - | $ 6,874,681 |

## NOTE D - DEMAND LOAN

The Authority entered into a demand loan with Pennvest which allows the Authority to borrow up to $4,501,000 for capital improvements to the existing water system. During the construction phase of the project, interest of 1.0% will be paid for a period not to exceed three years. The final amount borrowed will be paid back at a rate of interest of 1.0% for the twenty-year life of the loan. During 2012, the Authority incurred $138 of interest expense for this loan. The loan is secured by a lien on the Authority's water revenues. As of December 31, 2012, the balance outstanding is $1,178,526.

## NOTE E - LONG-TERM DEBT

During 2010, the Authority entered into a demand loan with Pennvest which allowed the Authority to borrow up to $744,162 for capital improvements to the existing water system. During 2011, the demand loan converted into a loan to be paid at a rate of principal plus interest of 1.243% for the first five years of the loan and principal plus interest of 2.381% for the remaining fifteen years of the loan. The loan is secured by a lien on the Authority's water revenues. As of December 31, 2012, the balance outstanding is $620,408.

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 balance outstanding at December 31, 2012 was $2,760,000.

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 2003 Bonds and will be amortized over the remaining life of the bonds. Amortization of the deferred amount on refunding amounted to $15,268 and $0, respectively, for 2012 and 2011. This amount has been charged to amortization expense in the financial statements.

Interest expense on long-term debt amounted to $82,273 and $97,523, respectively, for 2012 and 2011.

## NOTE E - LONG-TERM DEBT (CONTINUED)

Long-term debt as of December 31, 2012 and 2011 consists of the following obligations:

| | *2012* | *2011* |
|---|---|---|
| Water Revenue Bonds, Refunding Series of 2011, at 0.55 - 4.00%, due annually September 1, 2012 to September 1, 2024, interest paid semiannually, for refunding of the 2003 Water Revenue Bonds, secured by revenue of the Authority. | $ 2,760,000 | $ 2,765,000 |
| Note payable to Pennvest, due in monthly installments of $3,181, including interest at 1.243% through February 2016, then changing to monthly installments of $3,452, including interest at 2.381%, maturing February 2031, secured by revenue of the Authority. | 620,408 | 618,712 |
| Total long-term debt | 3,380,408 | 3,383,712 |
| Revenue Bond unamortized bond premium | 15,327 | 16,604 |
| Revenue Bond unamortized deferred amount on refunding | (183,221) | (198,489) |
| Total long-term debt, net | 3,212,514 | 3,201,827 |
| Less: Current portion (net of current amortization of bond deferred amount on refunding of $15,268) | (210,364) | (24,281) |
| | $ 3,002,150 | $ 3,177,546 |

The reconciliation of the gross current-portion of long-term debt to the net amount as of December 31, 2012 and 2011 is as follows:

| | *2012* | *2011* |
|---|---|---|
| Gross current portion of long-term debt | $ 225,632 | $ 39,549 |
| Amortization of deferred amount on bond refunding | (15,268) | (15,268) |
| Net current portion of long-term debt | $ 210,364 | $ 24,281 |

## NOTE E - LONG-TERM DEBT (CONTINUED)

The annual requirements to retire long-term debt outstanding as of December 31, 2012 are as follows:

| | *Principal* | | | *Interest* | | |
|---|---|---|---|---|---|---|
| *Year ending December 31,* | *2011 Bonds* | *Pennvest* | *Total* | *2011 Bonds* | *Pennvest* | *Total* |
| 2013 | $ 195,000 | $ 30,632 | $ 225,632 | $ 83,678 | $ 7,538 | $ 91,216 |
| 2014 | 210,000 | 31,015 | 241,015 | 81,338 | 7,155 | 88,493 |
| 2015 | 215,000 | 31,402 | 246,402 | 70,038 | 6,767 | 76,805 |
| 2016 | 215,000 | 29,650 | 244,650 | 68,588 | 11,232 | 79,820 |
| 2017 | 225,000 | 29,899 | 254,899 | 59,988 | 11,526 | 71,514 |
| Thereafter | 1,700,000 | 467,810 | 2,167,810 | 216,600 | 77,613 | 294,213 |
| | $ 2,760,000 | $ 620,408 | $ 3,380,408 | $ 580,230 | $ 121,831 | $ 702,061 |

### Line of Credit

In August 2012, the Authority entered into a line of credit agreement with First National Bank. The line of credit allows for borrowings up to $1,000,000 and has a maturity date of December 31, 2013. Interest accrues at a rate of 2.765%. There was no balance on the line of credit at December 31, 2012.

## 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. As a participant in PMRS, the Authority receives a separate actuarial valuation to determine its periodic contribution rate.

## NOTE F - PENSION PLAN (CONTINUED)

### 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, 2012 and 2011, the Authority's annual pension costs were $10,416 and $10,212, respectively. The required contribution was determined as part of the January 1, 2011 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 3.5%, 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, 2012 and 2011.

Trend information for the pension plan is as follows:

| *Year Ending* | *Annual Pension Cost (APC)* | *Percentage of APC Contributed* | *Net Pension Asset* |
|---|---|---|---|
| 2010 | $ 17,570 | 100% | $ - |
| 2011 | 10,212 | 100% | - |
| 2012 | 10,416 | 100% | - |

| *Actuarial Valuation Date* | *Actuarial Value of Assets (a)* | *Actuarial Accrued Liability (AAL) Entry Age (b)* | *Unfunded AAL (UAAL) (b-a)* | *Funded Ratio (a/b)* | *Covered Payroll (c)* | *Unfunded or (Excess) as a Percentage of Covered Payroll ((b-a)/c)* |
|---|---|---|---|---|---|---|
| 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% |
| 1/1/2011 | 680,990 | 627,064 | (53,926) | 108.60% | 427,065 | -12.63% |

## 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, 2012 and the two previous fiscal years, no settlements exceeded insurance coverage.