Municipal Authority of the Borough of Greenville

Financial Statements

Years ended December 31, 2013 and 2012

STILLWAGGON & MCGILL

CERTIFIED PUBLIC ACCOUNTANTS

Grove City • Pittsburgh

Municipal Authority of the Borough of Greenville
Years ended December 31, 2013 and 2012

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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

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, 2013 and 2012, 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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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, 2013 and 2012, 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 23 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 12, 2014

Municipal Authority of the Borough of Greenville
Management's Discussion and Analysis (MD&A)
December 31, 2013 and 2012

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, 2013. These activities are broadly compared to the prior year ended December 31, 2012.

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, 2013:

- Assets exceeded liabilities by $4,886,002 in FY 2013. Total net position increased by 17.0% or $710,672 during the year. Of this total increase, $428,403 was from signing a five year gas lease. This non-operating item is considered unusual (not a normal part of the Authority's activities) and infrequent. If this item is excluded from the analysis, total net position increased by 6.8% or $282,269. The magnitude of this increase even without this unusual and infrequent item continues to signify that the Authority's overall financial condition remains strong and improving.

- Water volume sales were down by about 3.6% and water sales revenue was also slightly down by 1.6% or ($24,401) as compared to the prior year. Water consumption and service fees increased by 10% on January 1, 2014.

- Operating income increased by 4.2% or $17,020 in FY 2013 compared to FY 2012.

- 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 will be converted into a long-term note by mid-2014.

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: 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, other 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 Statement of Revenues, Expenses and Changes in Net Position (income statement) includes all of the current year revenue 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 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. A change in accounting principle for FY 2013 (implementation of GASBS 65) resulted in a reduction and restatement of FY 2012 beginning net position. A reduction of $60,124 occurred as a result of expensing bond issue cost that had been previously capitalized and amortized over the life of the bond.

Statement of Net Position

TABLE 1 - Condensed Statements of Net Position
Fiscal years 2013 and 2012

ASSETS	Fiscal 2013	Fiscal 2012	Dollar Change	Total % Change
Current Assets	$ 1,496,058	$ 1,607,938	$ (111,880)	(7.0%)
Capital Assets, at cost less depreciation	9,466,710	5,454,576	4,012,134	73.6%
Construction in progress	-	1,420,105	(1,420,105)	*
Restricted assets	388,608	384,316	4,292	1.1%
Total Assets	11,351,376	8,866,935	2,484,441	28.0%
Deferred Outflows of Resources	167,953	$ 183,221	(15,268)	(8.3%)
LIABILITIES				
Current portion of long term debt	210,000	225,632	(15,632)	(6.9%)
Other Current Liabilities	4,054,277	1,479,091	2,575,186	174.1%
Long-Term Debt, net of current portion	2,369,050	3,170,103	(801,053)	(25.3%)
Total Liabilities	6,633,327	4,874,826	1,758,501	36.1%
NET POSITION				
Net investment in capital assets	3,081,737	2,483,641	598,096	24.1%
Restricted for debt service	388,608	384,316	4,292	1.1%
Unrestricted	1,415,657	1,307,373	108,284	8.3%
Total Net Position	$ 4,886,002	$ 4,175,330	$ 710,672	17.0%

* % 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, 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.

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

As depicted in Table 1, the following significant changes occurred during FY 2013:

- Current assets decreased by 7.0% or ($111,880) due to a reduction in cash and cash equivalents as a result of debt elimination which will be discussed in more detail later in this analysis.

- Total assets increased by 28.0% or $2,484,441 compared to the prior year primarily as a result of the increase in capital assets due to capital project work during FY 2013 which totaled $2,592,029 (net of depreciation). Note that construction in progress during FY 2012 was rolled into capital assets for FY 2013.

- Deferred outflow of resources decreased by 8.3% or ($15,268) due to amortization of the deferred amount on bond refunding.

- Other current liabilities increased 174.1% or $2,575,186 due to the increase of $2,795,350 in a demand loan to fund the capital project work. This increase was offset by a reduction in other current liabilities primarily a reduction in accounts payable of $222,670.

- Long-term debt, net of current portion, decreased by 25.3% or ($801,053) primarily due to the Authority paying off a Pennvest note of $620,408 (valued at year end FY 2012). The remainder of the reduction was as a result of scheduled Water Revenue Bond payments (see Note F to the financial statements for additional detail).

- Net investment in capital assets increased by 24.1% or $598,096 primarily due to the reduction in debt which occurred when the Pennvest note was paid off.

- Unrestricted net position increased by 8.3% or $108,284 primarily due to a reduction in non-debt related current liabilities of $220,164 (primarily accounts payable) which was offset by a reduction in current assets of $111,880 (primarily cash and cash equivalents).

Statement of Revenues, Expenses and Changes in Net Position

TABLE 2 - Condensed Statements of Revenues, Expenses and Changes in Net Position
Fiscal years 2013 and 2012

	Fiscal 2013	Fiscal 2012	Dollar Change	Total % Change
Total Operating Revenues	$ 1,635,339	$ 1,642,074	$ (6,735)	(0.4%)
Operating Expenses				
Purification, pumping & distribution systems	587,884	588,081	(197)	(0.0%)
Administrative & general	356,213	357,233	(1,020)	(0.3%)
Depreciation	270,488	293,026	(22,538)	(7.7%)
Total Operating Expenses	1,214,585	1,238,340	(23,755)	(1.9%)
Operating Income	420,754	403,734	17,020	4.2%
Non-Operating Revenues (Expenses)				
Interest income	1,889	2,009	(120)	(6.0%)
Insurance proceeds	-	28,144	(28,144)	*
Gas leas income	428,403	-	428,403	*
Interest expense & amortization	(125,573)	(96,402)	(29,171)	30.3%
Loss on disposal of fixed assets	(14,801)	-	(14,801)	*
Total Non-Operating Revenues (Expenses)	289,918	(66,249)	356,167	*
Changes in Net Postion	710,672	337,485	373,187	110.6%
Net Position, Beginning of Year	4,175,330	3,837,845	337,485	8.8%
Net Position, End of Year	$ 4,886,002	$ 4,175,330	$ 710,672	17.0%

* % 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 2013:

- Total operating expenses decreased by 1.9% or ($23,755) almost entirely due to a decrease in depreciation.
- Operating income increased by 4.2% or $17,020 as the reduction in operating expense eclipsed the reduction in operating revenues.
- Interest expense and amortization increased 30.3% or ($29,171) primarily the result of increased interest of $24,242 on a demand note for the major capital construction project.

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

- 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 one item was primarily responsible for the increase in the total non-operating revenues of $356,167 compared to the prior year.

- Loss on disposal of fixed assets increased by $14,801 compared to the prior year due to disposal/retirement of capital assets valued at $39,801 (book) which was offset by a sale of an Authority easement for $25,000.

- The combination of the operating income increase and non-operating revenue improvement resulted in an increase in the change of net position of 110.6% or $373,187 compared to the prior year. Excluding the gas lease bonus payment, the change in net position compared to the previous year would be a decrease of 16.4% or $55,216.

Capital Assets and Long-Term Debt

TABLE 3 - Capital Assets
Fiscal years 2013 and 2012

	Fiscal 2013	Fiscal 2012	Dollar Change	Total % Change
Capital Asset Classification (at cost)				
Land and Easements	$ 63,091	$ 63,091	$ -	-
Building and Structures	1,416,275	1,421,975	(5,700)	(0.4%)
Treating Plant and Pumping Systems	3,550,466	3,580,939	(30,473)	(0.9%)
Distribution Piping Systems	8,533,494	4,440,275	4,093,219	92.2%
Water Storage Tank Facilities	1,087,383	1,083,178	4,205	0.4%
Vehicle and other Road Equipment	92,434	96,129	(3,695)	(3.8%)
Office and Maintainence Equipment	299,835	301,579	(1,744)	(0.6%)
Construction in Progress	-	1,420,105	(1,420,105)	(100.0%)
Less Accumulated Depreciation	(5,576,268)	(5,532,590)	(43,678)	0.8%
Total Capital Assets	$ 9,466,710	$ 6,874,681	$ 2,592,029	37.7%

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

- During FY 2013, the Authority invested a total of $86,696 in a number of relatively small, routine improvements to existing assets and also removed $91,611 of assets from the books that had been disposed of or retired, thus resulting in a number of capital asset categories indicating a relatively slight positive or negative dollar change. Additionally, a number of items were re-categorized within the sub-groupings to more accurately reflect the correct categories, however the capital assets total was not altered as a result of the re-categorizing.

Capital Assets and Long-Term Debt (continued)

- The significant change in capital assets was due to the capital project which was started in August, 2012. Approximately 33,000 feet of water main piping (approximately 16% of the distribution system) was replaced and finally placed into service in late 2013. The $1,420,105 construction in progress during 2012 was combined with an additional expenditure of $2,815,622 on this project during 2013 resulting in a substantial increase to the Distribution Piping Systems capital assets. This project removed an additional $175,000 of assets from the books that were abandoned.

- The dollar change in accumulated depreciation is somewhat less than normally experienced as removal of the assets from the books also removed $226,810 of accumulated depreciation.

TABLE 4 – Long-Term Debt
Fiscal years 2013 and 2012

	Fiscal 2013	Fiscal 2012	Dollar Change	Total % Change
Long-Term Debt				
Water Revenue Bond Series of 2011	$ 2,565,000	$ 2,760,000	$ (195,000)	(7.1%)
Note Payable to Pennvest (Hadley Rd. Tk)	-	620,408	(620,408)	*
Total Long-Term Debt	2,565,000	3,380,408	(815,408)	(24.1%)
Revenue Bond unamortized bond premium	14,050	15,327	(1,277)	(8.3%)
Total Long-Term Debt, net	2,579,050	3,395,735	(816,685)	(24.1%)
Less: Current portion	(210,000)	(225,632)	15,632	6.9%
Total Long-Term Debt, less current portion	$ 2,369,050	$ 3,170,103	$ (801,053)	(25.3%)

* % 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 7.1% or ($195,000) in the Water Revenue Bonds is due to the scheduled periodic principal payments for eventual bond retirement.

- The long-term note with Pennvest, monthly payments due through 2031, was retired in FY 2013. Funds from this retirement came from the bonus payment of $428,403 on the gas lease agreement with the remainder from cash on hand. Early retirement saved the Authority approximately $118,000 in avoided interest expense over the remaining life of the loan.

- More information about the Authority's long-term debt is presented in Note F in the notes to financial statements.

The Authority anticipates an increase of approximately $4,500,000 in long-term debt in early 2014 for the major distribution system piping replacement project as the demand loan from Pennvest is converted to a long-term 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 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, 2013 and 2012

	2013	*2012*
Assets		
Cash and cash equivalents	$ 1,056,646	$ 1,161,671
Accounts receivable	189,502	188,999
Unbilled revenue	178,995	188,082
Inventory	49,956	50,787
Prepaid insurance	20,959	18,399
Capital assets:		
Nondepreciable capital assets	63,091	1,483,196
Depreciable capital assets (net of accumulated depreciation)	9,403,619	5,391,485
Restricted cash and cash equivalents - debt service funds	388,608	384,316
Total Assets	11,351,376	8,866,935
Deferred Outflows of Resources		
Deferred charge on refunding	167,953	183,221
Total Deferred Outflows of Resources	167,953	183,221
Liabilities		
Current portion of long-term debt	210,000	225,632
Demand loan	3,973,876	1,178,526
Accounts payable for operations	1,641	5,087
Accounts payable for construction	-	219,224
Deposits for services	33,017	33,017
Accrued interest payable	27,113	27,893
Escrow liability	4,699	-
Other accrued expenses	13,931	15,344
Long-term debt, net of current portion	2,369,050	3,170,103
Total Liabilities	6,633,327	4,874,826
Net Position		
Net investment in capital assets	3,081,737	2,483,641
Restricted for debt service	388,608	384,316
Unrestricted	1,415,657	1,307,373
Total Net Position	$ 4,886,002	$ 4,175,330

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, 2013 and 2012

	2013	2012
Operating Revenues		
Private sales	$ 1,478,404	$ 1,499,006
Public sales	52,392	56,191
Tap-in fees	5,290	9,005
Sewer collection fees	27,743	27,743
Reimbursed collection costs	26,271	25,086
Miscellaneous income	44,868	23,786
Recovery of bad debts	371	1,257
	1,635,339	1,642,074
Operating Expenses		
Purification system	317,827	331,448
Pumping system	14,145	9,283
Distribution system	255,912	247,350
Administrative and general	356,213	357,233
Depreciation	270,488	293,026
	1,214,585	1,238,340
Operating Income	420,754	403,734
Nonoperating Revenues (Expenses)		
Interest income	1,889	2,009
Gas lease income	428,403	-
Insurance proceeds for water leak repair	-	28,144
Interest expense	(126,850)	(97,679)
Amortization	1,277	1,277
Loss on disposal of fixed assets	(14,801)	-
	289,918	(66,249)
Changes in Net Position	710,672	337,485
Net Position, Beginning of Year, as Restated	4,175,330	3,837,845
Net Position, End of Year	$ 4,886,002	$ 4,175,330

See notes to the financial statements.

Municipal Authority of the Borough of Greenville
Statements of Cash Flows
Years ended December 31, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities		
Cash receipts from customers	$ 1,544,670	$ 1,485,545
Other operating cash receipts	99,253	77,872
Cash payments to other suppliers of goods and services	(767,672)	(530,755)
Cash payments to employees for services	(402,237)	(417,531)
Net Cash Provided by Operating Activities	474,014	615,131
Cash Flows from Capital and Related Financing Activities		
Purchases of capital assets	(2,902,318)	(1,171,387)
Proceeds from demand loan	2,795,350	1,178,526
Gas lease income	428,403	-
Proceeds for the sale of capital assets	25,000	-
Net funds received for escrow liability	4,699	-
Insurance proceeds for water leak repair	-	28,144
Proceeds from long-term debt	-	34,080
Principal paid on long-term debt	(815,408)	(37,384)
Interest paid on long-term debt	(112,362)	(64,129)
Net Cash Used in Capital and Related Financing Activities	(576,636)	(32,150)
Cash Flows Provided by Investing Activities		
Interest income	1,889	2,009
Net Change in Cash and Cash Equivalents	(100,733)	584,990
Cash and Cash Equivalents, Beginning of Year (Including $384,316 and $315,437, respectively, reported in Restricted Cash and Cash Equivalents)	1,545,987	960,997
Cash and Cash Equivalents, End of Year (Including $388,608 and $384,316, respectively, reported in Restricted Cash and Cash Equivalents)	$ 1,445,254	$ 1,545,987

See notes to the financial statements.

Municipal Authority of the Borough of Greenville

Statements of Cash Flows (Continued)

Years ended December 31, 2013 and 2012

	2013	*2012*
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$ 420,754	$ 403,734
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	270,488	293,026
Increase in accounts receivable	(503)	(9,441)
(Increase) decrease in unbilled revenue	9,087	(3,469)
(Increase) decrease in inventory	831	(8,028)
(Increase) decrease in prepaid insurance	(2,560)	6,543
Increase (decrease) in accounts payable	(3,446)	3,479
Decrease in accounts payable for construction	(219,224)	-
Decrease in due to local municipality	-	(65,747)
Decrease in deposits for services	-	(548)
Decrease in other accrued expenses	(1,413)	(4,418)
Net Cash Provided by Operating Activities	$ 474,014	$ 615,131
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 2013 and 2012, but not billed until after December 31, 2013 and 2012, 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 and Adopted Accounting Pronouncements

Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, is effective for financial statements for periods beginning after December 15, 2012. This statement improves financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The Authority has implemented this statement in the year ended December 31, 2013. As a result, a restatement of beginning net position was made as described in Note J. In addition, $183,221, representing the difference between the reacquisition price and the net carrying amount of the old debt on the 2011 bond refunding, has been reported as "deferred outflows of resources" and will be recognized as a component of interest expense over the remaining life of the new debt.

Recently Issued Accounting Pronouncements

In June 2012, the GASB issued Statement 67, *Financial Reporting for Pension Plans – an amendment of GASB 25*. GASB 67 improves financial reporting by state and local governmental pension plans. The requirements of this Statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope. This Statement is effective for financial statements for fiscal years beginning after June 15, 2013. Management is currently evaluating the impact of the adoption of this statement on the Authority's financial statements.

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 ending 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.

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, 2013 and 2012, the carrying amounts of the Authority's deposits were $1,444,954 and $1,545,687, respectively, with corresponding bank balances of $1,530,688 and $1,634,161. Of the bank balances at December 31, 2013 and 2012, $501,000 and $701,331, respectively were covered by federal depository insurance and $1,029,688 and $932,830, 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, 2013 is as follows:

	Beginning Balance	*Increases*	*Decreases*	*Ending Balance*
Capital assets not being depreciated:				
Land	$ 63,091	$ -	$ -	$ 63,091
Construction in progress	1,420,105	2,815,622	(4,235,727)	-
Total capital assets not being depreciated	1,483,196	2,815,622	(4,235,727)	63,091
Capital assets being depreciated:				
Plant and equipment	10,924,075	86,696	3,969,116	14,979,887
Less accumulated depreciation for:				
Plant and equipment	(5,532,590)	(270,488)	226,810	(5,576,268)
Total capital assets being depreciated, net	5,391,485	(183,792)	4,195,926	9,403,619
Total capital assets, net	$ 6,874,681	$ 2,631,830	$ (39,801)	$ 9,466,710

At December 31, 2012, construction in progress consisted solely of the East Side Main Line Distribution Project.

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 2013 and 2012, the Authority incurred $24,242 and $138, respectively, of interest expense for this loan. The loan is secured by a lien on the Authority's water revenues. As of December 31, 2013, the balance outstanding is $3,973,876.

NOTE E – LINE OF CREDIT

In August 2012, the Authority entered into a line of credit agreement with First National Bank for the purpose of interim construction payments made prior to reimbursement for the payments made by Pennvest. 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%. Advances and payments in the amount of $834,923 were made on this line of credit during 2012. No advances and payments were made during 2013. There was no balance on the line of credit at December 31, 2013 and 2012.

NOTE F – 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. This loan was paid in full during the 2013 year-end.

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, 2013 was $2,565,000.

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 2013 and 2012. This amount has been charged to interest expense in the financial statements.

Interest expense on long-term debt amounted to $87,340 and $82,273, respectively, for 2013 and 2012.

NOTE F – LONG-TERM DEBT (CONTINUED)

Long-term debt as of December 31, 2013 and 2012 consists of the following obligations:

	2013	*2012*
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.	$ 2,565,000	$ 2,760,000
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
Total long-term debt	2,565,000	3,380,408
Revenue Bond unamortized bond premium	14,050	15,327
Total long-term debt, net	2,579,050	3,395,735
Less: Current portion	(210,000)	(225,632)
	$ 2,369,050	$ 3,170,103

The annual requirements to retire long-term debt outstanding as of December 31, 2013 are as follows:

Year ending December 31,	*Principal 2011 Bonds*	*Interest 2011 Bonds*	*Total*
2014	$ 210,000	$ 81,338	$ 291,338
2015	215,000	70,038	285,038
2016	215,000	68,588	283,588
2017	225,000	59,988	284,988
2018	240,000	50,988	290,988
2019-2023	1,265,000	158,788	1,423,788
2024	195,000	6,824	201,824
	$ 2,565,000	$ 496,552	$ 3,061,552

NOTE G – 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, 2013 and 2012, the Authority's annual pension costs were $2,646 and $10,416, 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%.

Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the Plan was 108.6% funded. The actuarial liability for benefits was $627,064, and the actuarial value of assets was $680,990, resulting in an excess actuarial accrued asset of $53,926. The covered payroll (annual payroll of active employees covered by the Plan) was $427,065, and the ratio of the excess actuarial accrued asset was 12.63%.

A schedule of funding progress is presented on page 23.

NOTE G – 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, 2013 and 2012.

Trend information for the pension plan is as follows:

Year Ending	*Annual Pension Cost (APC)*	*Percentage of APC Contributed*	*Net Pension Obligation*
2011	$ 10,212	100%	$ -
2012	10,416	100%	-
2013	2,646	100%	-

NOTE H – 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, 2013 and the two previous fiscal years, no settlements exceeded insurance coverage.

NOTE I – CHANGE IN ACCOUNTING PRINCIPLE

For fiscal year 2013, the Authority implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities,* which reclassifies and recognizes certain items that were formerly reported as assets and liabilities as one of four financial statement elements: deferred outflows of resources, outflows of resources, deferred inflows of resources, or inflows of resources.

Concepts Statement No. 4 requires that deferred outflows and deferred inflows be recognized only in those instances specifically identified in GASB pronouncements. Statement No. 65 provides that guidance.

NOTE J – RESTATEMENT OF BEGINNING NET POSITION

Due to the changes in accounting principles described above, the beginning net position for the 2012 year-end has been decreased by $60,124, from $3,897,969 to $3,837,845. The difference represents a restatement for bond issue costs that were amortized under the prior standards but expensed in the period incurred under the new standards.

Required Supplementary Information

Municipal Authority of the Borough of Greenville
Schedule of Funding Progress for the Pension Plan
December 31, 2013 and 2012

Actuarial Valuation Date	*Actuarial Value of Assets*	*Actuarial Accrued Liability (AAL) Entry Age*	*Unfunded AAL (UAAL)*	*Funded Ratio*	*Covered Payroll*	*Unfunded or (Excess) as a Percentage of Covered Payroll*
1/1/2007	$ 487,377	$ 467,805	$ (19,572)	104.18%	$ 371,113	-5.27%
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%

Notes:

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