

**Municipal Authority of the
Borough of Greenville**

Financial Statements

Years ended December 31, 2011 and 2010



Municipal Authority of the Borough of Greenville
Years ended December 31, 2011 and 2010

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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, 2011 and 2010 as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based upon our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Municipal Authority of the Borough of Greenville as of December 31, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Stillwaggon & McGill, LLC

Grove City, Pennsylvania
February 8, 2012

Municipal Authority of the Borough of Greenville
Statements of Net Assets
December 31, 2011 and 2010

ASSETS

	<u>2011</u>	<u>2010</u>
Current Assets		
Cash and cash equivalents	\$ 645,560	\$ 445,216
Accounts receivable	179,558	151,028
Unbilled revenue	184,613	170,538
Inventory	42,759	46,127
Prepaid insurance	24,942	28,998
Total Current Assets	<u>1,077,432</u>	<u>841,907</u>
Property, Plant and Equipment, at cost	10,924,975	10,212,509
Allowance for depreciation	<u>(5,239,564)</u>	<u>(4,972,584)</u>
	5,685,411	5,239,925
Construction in progress	91,685	676,864
Total Property, Plant and Equipment	<u>5,777,096</u>	<u>5,916,789</u>
Other Assets		
Bond issue costs, net amortization of \$0 and \$48,956	60,124	89,660
Restricted cash and cash equivalents - debt service funds	315,437	386,823
Total Other Assets	<u>375,561</u>	<u>476,483</u>
	<u>\$ 7,230,089</u>	<u>\$ 7,235,179</u>

LIABILITIES AND NET ASSETS

Current Liabilities		
Current portion of long-term debt	\$ 24,281	\$ 166,958
Demand loan	-	577,624
Accounts payable	1,608	1,474
Due to a local municipality	65,747	-
Deposits for services	33,565	34,130
Accrued interest payable	9,611	39,903
Other accrued expenses	19,762	20,518
Total Current Liabilities	<u>154,574</u>	<u>840,607</u>
Long-Term Debt, net of current portion	<u>3,177,546</u>	<u>2,682,313</u>
Net Assets		
Invested in capital assets, net of related debt	2,635,393	2,579,554
Restricted for debt service	315,437	386,823
Unrestricted	947,139	745,882
Total Net Assets	<u>3,897,969</u>	<u>3,712,259</u>
	<u>\$ 7,230,089</u>	<u>\$ 7,235,179</u>

See notes to the financial statements.

Municipal Authority of the Borough of Greenville
Statements of Revenues, Expenses and
Changes in Net Assets
Years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating Revenues		
Private sales	\$ 1,480,388	\$ 1,290,585
Public sales	51,422	50,646
Tap-in fees	4,112	6,588
Sewer collection fees	24,743	27,743
Reimbursed collection costs	25,900	24,088
Miscellaneous income	18,637	18,845
Recovery of bad debts	126	540
	<u>1,605,328</u>	<u>1,419,035</u>
Operating Expenses		
Purification system	324,512	341,102
Pumping system	9,235	8,872
Distribution system	239,418	217,690
Administrative and general	424,018	409,461
Depreciation	287,221	280,706
	<u>1,284,404</u>	<u>1,257,831</u>
Operating Income	<u>320,924</u>	<u>161,204</u>
Non-Operating Revenues (Expenses)		
Interest income	1,617	2,498
Grant income	7,277	29,098
Interest expense	(97,523)	(127,487)
Amortization	(31,468)	(31,468)
Loss on disposal of fixed assets	(15,117)	-
	<u>(135,214)</u>	<u>(127,359)</u>
Changes in Net Assets	185,710	33,845
Net Assets, Beginning of Year	<u>3,712,259</u>	<u>3,678,414</u>
Net Assets, End of Year	<u><u>\$ 3,897,969</u></u>	<u><u>\$ 3,712,259</u></u>

See notes to the financial statements.

Municipal Authority of the Borough of Greenville
Statements of Cash Flows
Years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities		
Cash received from customers	\$ 1,559,064	\$ 1,323,940
Other income received	69,406	71,216
Cash paid for operating expenses	<u>(990,946)</u>	<u>(994,092)</u>
Net Cash Provided by Operating Activities	<u>637,524</u>	<u>401,064</u>
Cash Flows from Capital and Related Financing Activities		
Purchases of property, plant and equipment	(162,645)	(664,266)
Proceeds from demand loan	-	577,624
Grant income received	7,277	29,098
Principal paid on long-term debt	(227,000)	(180,802)
Interest paid on long-term debt	<u>(127,815)</u>	<u>(129,220)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(510,183)</u>	<u>(367,566)</u>
Cash Flows Provided by Investing Activities		
Interest income	<u>1,617</u>	<u>2,498</u>
Net Increase in Cash and Cash Equivalents	128,958	35,996
Cash and Cash Equivalents, Beginning of Year	<u>832,039</u>	<u>796,043</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 960,997</u></u>	<u><u>\$ 832,039</u></u>

See notes to the financial statements.

Municipal Authority of the Borough of Greenville
Statements of Cash Flows (Continued)
Years ended December 31, 2011 and 2010

	<i>2011</i>	<i>2010</i>
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities		
Operating income	\$ 320,924	\$ 161,204
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	287,221	280,706
Increase in accounts receivable	(28,530)	(4,675)
Increase in unbilled revenue	(14,075)	(19,204)
Decrease in inventory	3,368	3,918
(Increase) decrease in prepaid insurance	4,056	(6,383)
Increase (decrease) in accounts payable	134	(19,335)
Increase in due to local municipality	65,747	-
Decrease in deposits for services	(565)	(510)
Increase (decrease) in other accrued expenses	(756)	5,343
	\$ 637,524	\$ 401,064
Net Cash Provided by Operating Activities	\$ 637,524	\$ 401,064
Supplemental Disclosures of Cash Flow Information:		
Non-cash capital and related financing activities:		
Loans incurred for purchase of property, plant and equipment	\$ -	\$ 577,624
Amortization of bond issue costs	\$ 6,601	\$ 6,601
Amortization of bond discount	\$ 1,257	\$ 1,257
Amortization of deferred amount on bond refunding	\$ 23,610	\$ 23,610

See notes to the financial statements.

Municipal Authority of the Borough of Greenville
Notes to the Financial Statements
December 31, 2011 and 2010

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 Authority has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

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

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

Revenues and Expenses

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenues and Expenses (Continued)

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

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Unbilled revenue of the Authority represents estimated amounts due for services provided during 2011 and 2010, but not billed until after December 31, 2011 and 2010, respectively.

Inventory

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

Property, Plant and Equipment

Property, plant and equipment are stated at cost.

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

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

Bond Issue Costs

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

NOTE B - CASH AND CASH EQUIVALENTS

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

NOTE B - CASH AND CASH EQUIVALENTS (CONTINUED)

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, 2011 and 2010, the carrying amounts of the Authority's deposits were \$960,697 and \$831,739, respectively, with corresponding bank balances of \$978,114 and \$984,065. 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, 2011 and 2010, \$709,866 and \$610,185, respectively were covered by federal depository insurance and \$268,848 and \$373,880, respectively, were exposed to custodial credit risk because they were uninsured and the collateral held by the depository's agent was not in the Authority's name.

NOTE C - LONG-TERM DEBT

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

In conjunction with this refunding, the Authority has recognized a deferred amount on refunding in the financial statements, as a deduction from the outstanding bonds payable. This amount represents the difference between the reacquisition price and the net carrying amount of the 1994 Bonds and will be amortized over the remaining life of the old bonds. Amortization of the deferred amount on refunding amounted to \$23,610 for 2011 and 2010. This amount has been charged to amortization expense in the financial statements.

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, 2011 was \$2,765,000.

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, 2011, the balance outstanding is \$618,712.

NOTE C - LONG-TERM DEBT (CONTINUED)

Long-term debt as of December 31, 2011 and 2010 consists of the following obligations:

	<u>2011</u>	<u>2010</u>
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.	\$ 2,765,000	\$ -
Note payable to Pennvest, due in monthly installments of \$3,504, including interest at 1.243% through February 2016, then changing to monthly installments of \$3,802, including interest at 2.381%, maturing January 2028, secured by revenue of the Authority.	618,712	-
Water Revenue Bonds, Refunding Series of 2003, at 1.4 - 4.5%, due annually September 1, 2004 to September 1, 2024, interest paid semiannually, for refunding of the 1994 Water Revenue Bonds, secured by revenue of the Authority.	-	2,930,000
Note payable to UPMC Horizon, due in monthly installments of \$1,875, including interest at 5.67%, maturing January 2012. This note is unsecured.	-	<u>21,825</u>
Total long-term debt	3,383,712	2,951,825
Revenue Bond unamortized bond premium (discount)	16,604	(12,758)
Revenue Bond unamortized deferred amount on refunding	<u>(198,489)</u>	<u>(89,796)</u>
Total long-term debt, net	3,201,827	2,849,271
Less: Current portion (net of current amortization of bond deferred amount on refunding of \$15,268 and \$24,867, respectively)	<u>(24,281)</u>	<u>(166,958)</u>
	<u>\$ 3,177,546</u>	<u>\$ 2,682,313</u>

NOTE C - LONG-TERM DEBT (CONTINUED)

The reconciliation of the gross current-portion of long-term debt to the net amount as of December 31, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Gross current portion of long-term debt	\$ 39,549	\$ 191,825
Amortization of bond discount	-	(1,257)
Amortization of deferred amount on bond refunding	<u>(15,268)</u>	<u>(23,610)</u>
Net current portion of long-term debt	<u>\$ 24,281</u>	<u>\$ 166,958</u>

The annual requirements to retire long-term debt outstanding as of December 31, 2011 are as follows:

<u>Year ending December 31,</u>	<u>2011 Bonds</u>	<u>Pennvest</u>	<u>Total</u>
2012	\$ 5,000	\$ 34,549	\$ 39,549
2013	195,000	34,981	229,981
2014	210,000	35,419	245,419
2015	215,000	35,861	250,861
2016	215,000	34,939	249,939
Thereafter	<u>1,925,000</u>	<u>442,963</u>	<u>2,367,963</u>
	<u>\$ 2,765,000</u>	<u>\$ 618,712</u>	<u>\$ 3,383,712</u>

NOTE D - PENSION PLAN

Plan Description

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

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

NOTE D - 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, 2011 and 2010, the Authority's annual pension costs were \$10,212 and \$17,570, respectively. The required contribution was determined as part of the January 1, 2009 actuarial evaluation using the entry age normal actuarial cost method. The actuarial assumptions included (a) investment rate of return of 6.0% and (b) projected salary increases of 4.5%, including an inflationary component of 3.0%.

The actuarial value of the assets was based on market value. The plan was fully funded at December 31, 2011 and 2010.

Trend information for the pension plan is as follows:

	<i>Year Ending</i>	<i>Annual Pension Cost (APC)</i>	<i>Percentage of APC Contributed</i>	<i>Net Pension Asset</i>			
	2009	\$ 17,359	100%	\$ -			
	2010	17,570	100%	-			
	2011	10,212	100%	-			
<i>Actuarial Valuation Date</i>	<i>Actuarial Value of Assets (a)</i>	<i>Actuarial Liability (AAL) Entry Age (b)</i>	<i>Unfunded AAL (UAAL) (b-a)</i>	<i>Funded Ratio (a/b)</i>	<i>Covered Payroll (c)</i>	<i>Unfunded or (Excess) as a Percentage of Covered Payroll ((b-a)/c)</i>	
1/1/2005	\$ 389,891	\$ 422,057	\$ 32,166	92.38%	\$ 315,295	10.20%	
1/1/2007	487,586	505,752	18,166	96.41%	371,113	4.90%	
1/1/2009	571,047	551,921	(19,126)	103.47%	415,196	-4.61%	