

Audited
Financial
Statements

December 31,
2018

**Municipal Authority
of the Borough of
Orwigsburg**

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INDEPENDENT AUDITOR'S REPORT

Authority Members
Municipal Authority of the Borough of Orwigsburg
Orwigsburg, Pennsylvania

We have audited the accompanying financial statements of the Municipal Authority of the Borough of Orwigsburg, a component unit of the Borough of Orwigsburg, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 audit. We conducted our audit 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 depend on the auditor's judgment, including the assessment of the risks 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.

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 Orwigsburg, as of December 31, 2018, and the changes in its financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Municipal Authority of the Borough of Orwigsburg's basic financial statements. The budgetary comparison schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The budgetary comparison schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Smith Elliott Reams & Company, LLC

Carlisle, Pennsylvania
May 14, 2019

MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG
Statement of Net Position
December 31, 2018

ASSETS

Current assets

Cash and cash equivalents	\$ 166,689
Total current assets	<u>166,689</u>

Noncurrent assets

Capital assets not being depreciated	
Land and easements	39,532
Capital assets, net of accumulated depreciation	
Sewer system	<u>3,718,019</u>
Total noncurrent assets	<u>3,757,551</u>
Total assets	<u>\$ 3,924,240</u>

NET POSITION

Net investment in capital assets	3,757,551
Unrestricted	<u>166,689</u>
Total net position	<u>\$ 3,924,240</u>

MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG
Statement of Revenues, Expenses and Changes in Fund Net Position
Year Ended December 31, 2018

OPERATING REVENUES

Lease rental fees	\$ 50,400
Other rental income	<u>1,022</u>
Total operating revenues	<u>51,422</u>

OPERATING EXPENSES

Secretary fee	3,193
Management fee	9,674
Professional fees	22,981
Other operating expenses	189
Depreciation	<u>154,918</u>
Total operating expenses	<u>190,955</u>

Operating loss (139,533)

NONOPERATING REVENUES

Interest income	<u>62</u>
Total nonoperating revenues	<u>62</u>

Change in net position (139,471)

Total net position - beginning	<u>4,063,711</u>
Total net position - ending	<u>\$ 3,924,240</u>

MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG
Statement of Cash Flows
Year Ended December 31, 2018

Cash flows from operating activities

Lease rental payments received	\$	50,400
Other rental income received		1,022
Payments to suppliers for goods and services		(23,170)
Payments to and on behalf of contracted employees		<u>(12,867)</u>
Net cash provided by operating activities		<u>15,385</u>

Cash flows from investing activities

Interest received		<u>62</u>
Net cash provided by investing activities		<u>62</u>

Net increase in cash and cash equivalents 15,447

Cash and cash equivalents - beginning of the year 151,242

Cash and cash equivalents - end of the year \$ 166,689

**Reconciliation of loss from operations to net cash provided
by operating activities**

Operating loss	\$	(139,533)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation expense		<u>154,918</u>
Net cash provided by operating activities	\$	<u>15,385</u>

MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG
Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Operations

The Municipal Authority of the Borough of Orwigsburg (the "Authority") was established as a financing authority for the Borough of Orwigsburg.

Reporting Entity

The Authority was formed by the Borough of Orwigsburg for the purpose of providing long-term financing to construct and equip its sewer plant and facilities. The plant facilities acquired by the Authority are operated and maintained by the Borough under the provisions of a long-term capital lease with the Authority dated May 16, 2002. This lease was terminated in May 2015, as the debt guaranteed under the lease was satisfied by the Borough. A new operating lease was executed in May 2015.

Members of the Authority Board are appointed by the Borough of Orwigsburg, but the Borough has no power to remove a member of a board of an authority organized under the Municipality Authorities Act. The Authority has no employees. The operation of the sewer systems is carried out by Borough employees.

Governmental Accounting Standards Board (GASB) statements define the criteria used to determine the composition of the reporting entity. These standards require the reporting entity to include (1) the primary government, (2) organizations for which the primary government is financially accountable, (3) organizations that are fiscally dependent on the primary government and a financial benefit or burden exists, and (4) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Based on these criteria, there are no other entities to be included in these financial statements as a component unit. The Authority is included in the reporting entity of the Borough of Orwigsburg as a blended component unit. Although it is legally separate from the Borough, the Authority's sole purpose was to finance the construction of the Borough's sewer plant and facilities. It continues to lease these facilities to the Borough.

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus and use the accrual basis of accounting. With this measurement focus and basis of accounting, all assets, liabilities, deferred inflows of resources and deferred outflows of resources associated with the operations of these funds are included in the statement of net position. The statement of changes in net position presents increases (i.e. revenues) and decreases (i.e. expenses) in total net position.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, deferred inflows of resources and deferred outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG
Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Authority considers cash and cash equivalents to include all demand deposit accounts.

Capital Assets

Capital assets with extended useful lives are carried at cost and are depreciated over their useful lives. Public domain ("Infrastructure") capital assets including the sewer system are capitalized at cost along with other capital assets. The Authority maintains a capitalization threshold of \$ 1,000. Depreciation is estimated using the straight-line method based on the following useful lives:

Sewer system	40 years
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Net Position

Net position is classified in the following components:

Net investment in capital assets - This component consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, accounts payable or other borrowings that are attributable to the acquisition, construction or improvement of those capital assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

Restricted - This component of net position consists of restricted assets and deferred outflows of resources reduced by liabilities and deferred inflows of resources related to those assets. These restrictions could include constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted - This component of net position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG
Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position (Continued)

Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g. restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted-net position and unrestricted-net position, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Classification of Revenues

The Authority has classified its revenues as either operating or non-operating according to the following criteria:

Operating Revenues – Operating revenues include activities which have characteristics of exchange transactions, such as sales and services of the Authority.

Nonoperating Revenues – Nonoperating revenues include activities which have characteristics of non-exchange transactions (in which the Authority receives value without directly giving equal value in return), such as gifts and contributions, grants, and investment income. Tap fees are also considered nonoperating because they are not assessed to cover current operating costs, but to fund future expansion of the sewer system.

NOTE 2 CASH AND INVESTMENTS

Section 7.1 of the Pennsylvania Municipal Authorities Act and Act 10 of 2016 defines allowable investments for authorities, which are summarized as follows:

- U.S. Treasury Bills.
- Short-term obligations of the U.S. Government and federal agencies.
- Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Share Insurance Fund to the extent that such accounts are so insured, and, for any amounts above the insured maximum, provided that approved collateral as provided by law therefore shall be pledged by the depository.
- Obligations of the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the respective governmental entity.
- Shares of an investment company restricted under the Investment Company Act of 1940.
- Obligations, participations or other instruments of any Federal agency, instrumentality, or United States government-sponsored enterprise if the debt obligations are rated at least "A" or its equivalent.
- Commercial paper issued by corporations or other business entities organized in accordance with federal or state law, with a maturity not to exceed 270 days.
- Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers' acceptances, if the bankers' acceptances do not exceed 180 days maturity.
- Negotiable certificates of deposit or other evidences of deposit, with a remaining maturity of three years or less.

MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG
Notes to Financial Statements

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

All bank deposits are fully insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized under Pennsylvania Act 72. Act 72 of 1971, as amended, is an act standardizing the procedures for pledges of assets to secure deposits of public funds with banking institutions pursuant to other laws; establishing a standard rule for the types, amounts and valuations of assets eligible to be used as collateral for deposits of public funds; permitting assets to be pledged against deposits on a pooled basis and authorizing the appointment of custodians to act as the pledger of the assets.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a written policy for custodial credit risk. As of December 31, 2018, no portion of the Authority's bank balance of \$ 164,753 was exposed to custodial credit risk as it was fully insured by FDIC.

Credit Risk - Investments

Included in cash and cash equivalents on the statement of net position are investments in Pennsylvania Local Government Investment Trust (PLGIT). PLGIT operates like a money market and seeks to maintain a stable net asset value of \$ 1 per share. At December 31, 2018, the Authority held \$ 1,936 in the PLGIT-Class portfolio. PLGIT portfolio funds are invested in United States Treasury bills, obligations, participations, or other instruments of any Federal agency, instrumentality or United States government-sponsored enterprise; deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund; obligations guaranteed or insured by the United States of America, obligations of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the Commonwealth; and repurchase agreements involving United States Government and agency obligations.

Policies Followed at PLGIT

Regulatory Oversight

The operation of PLGIT is governed by an eleven-member Board of Trustees. The Trustees must be employees or elected officials of a local government or school district and are elected at the annual meeting of investors. The Trustees have exclusive and absolute control over the affairs of the Trust and its' assets, subject to rights of the Investors, as provided in the Declaration of Trust.

PLGIT is not registered with the Securities and Exchange Commission (SEC); however, PLGIT follows investment procedures similar to those followed by SEC registered money market funds.

Valuation of Investments

Portfolios are valued using the net asset value per share. The net asset value per share is computed by dividing the total value of the securities and other assets of the portfolio less liabilities, by the outstanding shares of the portfolio.

The Authority has no limitations or restrictions on withdrawals on accounts held at PLGIT.

MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG
Notes to Financial Statements

NOTE 3 CAPITAL ASSETS

The following details capital assets activity for the year ended December 31, 2018:

	Beginning Balance	Additions	Retirements	Ending Balance
Cost				
Capital assets not being depreciated:				
Land and easements	\$ 39,532	\$ -	\$ -	\$ 39,532
Capital assets:				
Sewer system	<u>8,312,232</u>	<u>-</u>	<u>-</u>	<u>8,312,232</u>
Total cost	<u>8,351,764</u>	<u>-</u>	<u>-</u>	<u>8,351,764</u>
Less accumulated depreciation				
Sewer system	<u>(4,439,295)</u>	<u>(154,918)</u>	<u>-</u>	<u>(4,594,213)</u>
Total accumulated depreciation	<u>(4,439,295)</u>	<u>(154,918)</u>	<u>-</u>	<u>(4,594,213)</u>
Capital assets, net	<u>\$ 3,912,469</u>	<u>\$ (154,918)</u>	<u>\$ -</u>	<u>\$ 3,757,551</u>

NOTE 4 OPERATING LEASE

A lease with the Borough was effective May 20, 2015 through October 31, 2029, or upon earlier retirement of the Series of 2015 Bonds. Terms of the lease required monthly payments of \$ 4,200 for payment of the Authority's administrative expenses.

The amount of future payments required on the operating lease at December 31, 2018, is as follows:

2019	\$ 50,400
2020	50,400
2021	50,400
2022	50,400
2023	50,400
2024-2028	252,000
2029	<u>42,000</u>
Total	<u>\$ 546,000</u>

NOTE 5 RELATED PARTY TRANSACTIONS

The Authority utilizes the administrative services of the Borough of Orwigsburg. The Authority reimburses the Borough for the costs and time associated with the assistance of the Authority. This reimbursement was \$ 12,867 for 2018.

NOTE 6 RISK MANAGEMENT

The Authority is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority purchases commercial insurance to manage its risk. Settlement amounts have not exceeded insurance coverage for the current year or three prior years.

OTHER SUPPLEMENTARY INFORMATION

MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG
Other Supplementary Information – Budgetary Comparison Schedule
Year Ended December 31, 2018

	Original/Final Budget	Actual	Variance
OPERATING REVENUES			
Lease rental fees	\$ 50,400	\$ 50,400	\$ -
Other rental income	<u>1,000</u>	<u>1,022</u>	<u>22</u>
Total operating revenues	<u>51,400</u>	<u>51,422</u>	<u>22</u>
OPERATING EXPENSES			
Secretary fee	3,193	3,193	-
Management fee	9,674	9,674	-
Professional fees	11,000	22,981	(11,981)
Maintenance and repairs	10,000	-	10,000
Other operating expenses	<u>2,300</u>	<u>189</u>	<u>2,111</u>
Total operating expenses	<u>36,167</u>	<u>36,037</u>	<u>130</u>
Operating income (loss)	<u>15,233</u>	<u>15,385</u>	<u>(108)</u>
NONOPERATING REVENUES			
Interest income	<u>-</u>	<u>62</u>	<u>62</u>
Total nonoperating revenues	<u>-</u>	<u>62</u>	<u>62</u>
Change in net position - budgetary basis	<u>\$ 15,233</u>	15,447	<u>\$ (46)</u>
Reconciliation to Statement of Revenues, Expenses and Changes in Fund Net Position			
Depreciation expense		<u>(154,918)</u>	
Change in net position - GAAP basis		<u>\$ (139,471)</u>	

NOTE

The Budget prepared by the Authority is prepared on the cash basis of accounting and does not include depreciation expense. These items are shown above to reconcile to the Statement of Revenues, Expenses, and Changes in Fund Net Position.