

**MUNICIPAL AUTHORITY OF THE  
BOROUGH OF ORWIGSBURG  
FINANCIAL STATEMENTS  
AND  
AUDITOR'S REPORT  
APRIL 30, 2012**

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**INDEPENDENT AUDITOR'S REPORT**

October 26, 2012

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

We have audited the accompanying statement of assets, liabilities and fund balance - cash basis of the Municipal Authority of the Borough of Orwigsburg as of April 30, 2012 and the related statements of revenues, expenditures and changes in fund balance - cash basis for the year then ended. These financial statements are the responsibility of the Municipal Authority of the Borough of Orwigsburg's management. 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 of 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 audit provides a reasonable basis for our opinion.

The Municipal Authority of the Borough of Orwigsburg prepares its financial statements on the basis of accounting prescribed by the Commonwealth of Pennsylvania, Annual Report of Municipal Authorities, as discussed in Note 1 which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, because of the Authority's policy to prepare its financial statements on a basis of accounting discussed in the preceding paragraph, the financial statements referred to in the first paragraph do not present fairly, in conformity with generally accepted accounting principles, the financial position of the Municipal Authority of the Borough of Orwigsburg as of April 30, 2012 or the results of its operations for the year then ended.

However in our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the assets, liabilities and fund balance – cash basis of the Municipal Authority of the Borough of Orwigsburg as of April 30, 2012, and the statement of revenues, expenditures, and changes in fund balance – cash basis for the year then ended on the basis of accounting described above.



Patton and Lettich  
Certified Public Accountants

**MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG**  
**STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCE - CASH BASIS**  
**APRIL 30, 2012**

**ASSETS**

**CASH**

Demand Deposits \$ 309,772

**NET INVESTMENT IN DIRECT FINANCING LEASE** 3,674,434

TOTAL ASSETS \$ 3,984,206

**LIABILITIES AND FUND BALANCE**

**CURRENT LIABILITIES**

Loan Payable - PennVest - Year 2002 \$ 292,212

Loan Payable - PennVest - Year 2000 13,293

TOTAL CURRENT LIABILITIES 305,505

**LONG-TERM LIABILITIES, NET OF CURRENT MATURITIES**

Loan Payable - PennVest - Year 2002 3,280,985

Loan Payable - PennVest - Year 2000 87,944

TOTAL LONG-TERM LIABILITIES 3,368,929

TOTAL LIABILITIES 3,674,434

**FUND BALANCE** 309,772

TOTAL LIABILITIES AND FUND BALANCE \$ 3,984,206

**THE NOTES TO THE FINANCIAL STATEMENTS - CASH BASIS ARE AN INTEGRAL**  
**PART OF THESE STATEMENTS**

**MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - CASH BASIS  
FOR THE YEAR ENDED APRIL 30, 2012**

**REVENUES**

Rental, Borough of Orwigsburg	\$ 49,607
Other Rents	1,000
Miscellaneous Income	500
Investment Income	<u>44,464</u>

TOTAL REVENUES 95,571

**EXPENDITURES**

Interest Expense Paid	44,401
Secretarial Service	2,153
Manager Service	6,459
Maintenance Expense to Borough	46,222
Audit Fees	2,000
Dues	992
Continuing Education	250
Other	<u>970</u>

TOTAL EXPENDITURES 103,447

**EXPENDITURES IN EXCESS OF REVENUES** (7,876)

**FUND BALANCE - BEGINNING OF YEAR** 317,648

**FUND BALANCE - END OF YEAR** \$ 309,772

**THE NOTES TO THE FINANCIAL STATEMENTS - CASH BASIS ARE AN INTEGRAL  
PART OF THESE STATEMENTS**

**MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG**  
**NOTES TO THE FINANCIAL STATEMENTS – CASH BASIS**  
**APRIL 30, 2012**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**REPORTING ENTITY**

The Municipal Authority of the Borough of Orwigsburg 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. The Authority is a component unit of the Borough of Orwigsburg.

Because the Authority merely acts as a conduit for the receipts of rents and the payment of interest and principal of the loans and related expenses and may, upon provision for the retirement of its debt, convey title to the facilities to the Borough, the "direct-financing method" of accounting for long-term capital leases is utilized on the Authority's statement of assets, liabilities and fund balance – cash basis. Under this method, the present value of the net minimum lease payments applicable to the debt service requirements of the loans is shown as a receivable and the cost of the facilities financed by the Authority is considered to be an asset of the Borough.

**ACCOUNTING METHOD**

The Authority's policy is to prepare its financial statements on the basis of cash receipts and disbursements; consequently, certain revenues are recognized when received rather than when the obligation is incurred. In addition, the Authority has elected to prepare its financial statements using the format required by the Commonwealth of Pennsylvania for Municipal Authorities, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

**NOTE 2 – COSTS OF SEWER SYSTEM CONSTRUCTED**

A summary of the accumulated costs of the sewer system, leased to the Borough of Orwigsburg from the inception of the Authority to April 30, 2012 follows:

	<u>Project Cost</u>
Land and Right of Way	\$ 39,532
Engineering Fees and State Supervision	386,767
Plant Costs	543,278
Collection System	1,130,396
Legal and Bond Issuance Costs	46,582
Miscellaneous Costs	5,551
Office Equipment	2,960
2003 Expansion and Upgrade	6,169,607
Construction Period Interest Expense - 2003 Expansion	<u>27,091</u>
Total Investments in Leased Facilities	<u>\$ 8,351,764</u>

**MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG**  
**NOTES TO THE FINANCIAL STATEMENTS – CASH BASIS**  
**APRIL 30, 2012**

**NOTE 2 – COSTS OF SEWER SYSTEM CONSTRUCTED – (Continued)**

The above costs reflect expenditures from funds of the Authority only, and exclude costs which may have been expended by the lessee Borough.

**NOTE 3 – NET INVESTMENT IN DIRECT FINANCING LEASE**

The sewer system constructed and equipped by the Authority was operated and maintained by the Borough or Orwigsburg under an April 15, 1964 lease agreement which expired on May 16, 2002. The Borough of Orwigsburg elected to prepay all remaining lease payments, which were calculated by the Trustee. The remaining outstanding bonds were called on April 16, 2002, causing the 1964 Bonds Series to be refunded.

Beginning May 1, 2002, a new lease was executed with the Borough to encompass the \$250,000 PennVest – Year 2000 loan and the \$6,223,645 PennVest – Year 2002 loan. Terms of the lease call for monthly payments sufficient to pay all liabilities and expenses of the Authority including, but not limited to the 2002 PennVest Loan and other PennVest obligations of the Authority. The rent shall increase or decrease dependent upon the Authority's liabilities at a given time. Initial rent payments of \$10,000 per month were established to August 2003 and \$33,000 per month beginning September 2003 until June 2023.

**NOTE 4 – LONG-TERM DEBT**

The following is a summary of long-term debt activity for the year ended April 30, 2012:

	<u>May 1,</u> <u>2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>April 30,</u> <u>2012</u>	<u>Amount</u> <u>Due Within</u> <u>One Year</u>
PennVest Note - Series of 2000	\$ 114,374	\$ -0-	\$ 13,137	\$ 101,237	\$ 13,293
PennVest Note - Series of 2002	<u>3,862,051</u>	<u>-0-</u>	<u>288,854</u>	<u>3,573,197</u>	<u>292,212</u>
<b>TOTAL</b>	<u>\$ 3,976,425</u>	<u>\$ -0-</u>	<u>\$ 301,991</u>	<u>\$ 3,674,434</u>	<u>\$ 305,505</u>

**PENNVEST NOTE – SERIES OF 2000**

During 2000, the Authority obtained a note payable from the Pennsylvania Infrastructure Investment Authority (PennVest) in the amount of \$250,000. The proceeds from the note were used for capital improvements to the sewer system. Terms of the loan call for monthly payments of \$1,202 with interest at 1% for the first five years and 1.18% for the next 15 years. The Borough of Orwigsburg has guaranteed the loan. The Borough's Sewer Fund services the debt through its rental payments to the Authority.



**MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG**  
**NOTES TO THE FINANCIAL STATEMENTS – CASH BASIS**  
**APRIL 30, 2012**

**NOTE 4 – LONG-TERM DEBT - (Continued)**

**PENNVEST NOTE – SERIES OF 2002**

During March 2002, the Authority obtained a note payable for \$6,223,645 from PennVest. The loan was used for the expansion and upgrade of the sewer system. Terms of the loan called for interest only during construction and monthly payments of \$27,664 with interest at 1% for the first five years and 1.156% for the next 15 years. The Borough of Orwigsburg has guaranteed the loan. The Borough's Sewer Fund services the debt through its rental payments to the Authority.

**ANNUAL DEBT SERVICE REQUIREMENTS**

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of April 30, 2012, are as follows:

Year Ending <u>April 30</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 305,505	\$ 40,888
2014	309,059	37,333
2015	312,655	33,738
2016	316,291	30,098
2017	319,972	26,421
2018 - 2022	1,617,520	75,989
2023 - 2024	<u>493,432</u>	<u>4,528</u>
 TOTAL	 <u>\$ 3,674,434</u>	 <u>\$ 248,995</u>

**NOTE 5 – DEPOSITS**

Pennsylvania statutes provide for investment of governmental funds into certain authorized investment types including U.S. Treasury bills, other short-term U.S. and Pennsylvania government obligations, and insured or collateralized time deposits and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of government funds for investment purposes.

The deposit and investment policy of the Authority adheres to state statutes and prudent business practice. Deposits of the Authority are either maintained in demand deposits or highly liquid money market funds and are captioned as Cash and Cash Equivalents in the Statement of Assets, Liabilities and Fund Balance – Cash Basis. There were no deposit or investment transactions during the year that were in violation of either the state statutes or the policy of the Authority.

**MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG  
NOTES TO THE FINANCIAL STATEMENTS – CASH BASIS  
APRIL 30, 2012**

**NOTE 5 – DEPOSITS – (Continued)**

At April 30, 2012, the deposits of the Authority can be categorized to indicate the level of risk assumed. Category 1 includes bank balances that are insured or collateralized with securities held by the Authority or its agent in the Authority's name. Category 2 includes bank balances collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name. Category 3 includes bank balances which are uncollateralized, including any bank balance that is collateralized with securities held by the pledging financial institution, or its trust department or agent, but not in the Authority's name.

	<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>Category</u>	
			<u>1</u>	<u>3</u>
Cash	<u>\$ 309,772</u>	<u>\$ 318,394</u>	<u>\$ 260,507</u>	<u>\$ 57,887</u>

**NOTE 6 – CAPITAL CONTRIBUTION**

During the year ended April 30, 2003, the Authority received an estimated capital contribution from West Brunswick Township in the amount of \$160,954 in exchange for the reservation of 2.514% of the sewage plant reserve capacity or 22,625 gallons per day. Terms of the agreement also call for the Township to reimburse the Authority or Borough for the Township's proportionate share of the Authority's new operating costs during each calendar year beginning after the Township first discharges sewage into the treatment plant.

**NOTE 7 – 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 is covered under the Borough of Orwigsburg's insurance policies to safeguard its assets from risk of loss. Insurance coverage appears to be consistent with previous years. During the year ended April 30, 2012, and the two previous fiscal years, no settlement exceeded insurance coverage.

**MUNICIPAL AUTHORITY OF THE BOROUGH OF ORWIGSBURG  
NOTES TO THE FINANCIAL STATEMENTS – CASH BASIS  
APRIL 30, 2012**

**NOTE 8 – 1964 ESCROW AGENCY**

The Trustee maintains an account for the monies provided by the Series of 1964 Bonds. The activity for the fiscal year ending April 30, 2012, is as follows:

<b><u>RECEIPTS</u></b>	
Interest	\$ 1
<b><u>DISBURSEMENTS</u></b>	<u>-0-</u>
<b><u>EXCESS OF RECEIPTS OVER (UNDER) DISBURSEMENTS</u></b>	1
<b><u>BALANCE - BEGINNING OF YEAR</u></b>	<u>8,621</u>
<b><u>BALANCE - END OF YEAR</u></b>	<u>\$ 8,622</u>

The Series of 1964 Bonds were called in their entirety in April 2002.

**NOTE 9 – SUBSEQUENT EVENTS**

**DATE OF MANAGEMENT'S REVIEW OF SUBSEQUENT EVENTS**

Management has evaluated subsequent events through October 26, 2012, the date that the financial statements were available to be issued.