



# Greenawalt & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Since 1955

James E. Lyons  
Deborah J. Kelly  
Scott J. Christ  
Ronald S. Morgan

Howard R. Greenawalt  
Creedon R. Hoffman

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Lewisberry Area Joint Authority  
Lewisberry, Pennsylvania

We have audited the operating authorities balance sheet, statement of income and expenditures, and debt statement (Schedules) included in the Annual Report of Municipal Authorities (DCED-CLGS-04) of Lewisberry Area Joint Authority (Authority), as of and for the year ended December 31, 2011, as described in the instructions provided by the Pennsylvania Department of Community and Economic Development (DCED). These Schedules are the responsibility of the Authority's management. Our responsibility is to express an opinion on the Schedules 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 Schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedules. An audit also includes assessing the accounting principles used and the 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.

These Schedules were prepared in conformity with the accounting practices and procedures prescribed or permitted by the DCED, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. These requirements permit the Schedules to be prepared without financial statement disclosures, without a cash flow statement, and without Management's Discussion and Analysis as required by accounting principles generally accepted in the United States of America. The effects on the Schedules of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, the Schedules referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2011, and the results of its operations for the year then ended on the basis of accounting described in the third paragraph.

This report is intended solely for the information and use of the Board of Directors, management of the Authority, and for filing with the various local and state departments or offices and is not intended to be and should not be used by anyone other than these specified parties.

Greenawalt & Company, P.C.  
GREENAWALT & COMPANY, P.C.

June 7, 2012

Mechanicsburg, Pennsylvania

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OPERATING AUTHORITIES BALANCE SHEET  
FISCAL YEAR ENDING DEC 2011

ASSETS		
CURRENT ASSETS		
Cash	91,162	
Investments	<u>                    </u>	
Accounts receivable	<u>20,824</u>	
Inventories	<u>                    </u>	
Other current assets	<u>1,486</u>	
TOTAL CURRENT ASSETS		<u>113,472</u>
RESTRICTED ASSETS/TRUST FUNDS		<u>                    </u>
DEFERRED CHARGES		<u>                    </u>
FIXED ASSETS		<u>                    </u>
Property, plant & equipment, at cost	1,518,900	
Less accumulated depreciation	<u>(923,549)</u>	
Construction work in progress	<u>                    </u>	
Other fixed assets	<u>                    </u>	
NET FIXED ASSETS		<u>595,351</u>
TOTAL ASSETS		<u>708,823</u>
LIABILITIES AND FUND EQUITY		<u>                    </u>
Accounts payable	2,501	
Accrued payroll & withholdings	<u>                    </u>	
Accrued interest payable	802	
Current portion of long-term debt	<u>27,269</u>	
Other current liabilities	<u>                    </u>	
TOTAL CURRENT LIABILITIES		<u>30,572</u>
LONG-TERM DEBT - less current portion		<u>166,488</u>
TOTAL LIABILITIES		<u>197,060</u>
FUND EQUITY		<u>                    </u>
CONTRIBUTED CAPITAL		<u>                    </u>
Governmental grants	<u>                    </u>	
Other contributions	<u>                    </u>	
TOTAL CONTRIBUTED CAPITAL		<u>0</u>
RETAINED EARNINGS		<u>                    </u>
Reserved	25,000	
Unreserved	<u>486,763</u>	
TOTAL RETAINED EARNINGS		<u>511,763</u>
TOTAL FUND EQUITY		<u>511,763</u>
TOTAL LIABILITIES & FUND EQUITY		<u>708,823</u>

SEWER  
OPERATING AUTHORITIES  
STATEMENT OF INCOME AND EXPENDITURES

OPERATING REVENUES		
Sale of Services/user charges	170,131	
Operating Grants - State	<u>                    </u>	
- Federal	<u>                    </u>	
Local government operating subsidies	<u>                    </u>	
Interest income	195	
Other operating revenues	<u>                    </u>	
TOTAL OPERATING REVENUES		<u>170,326</u>
OPERATING EXPENSES		
Cost of sales and services	120,331	
Administration - Salaries	<u>                    </u>	
- Other Costs	<u>                    </u>	
Depreciation	37,067	
Other operating expenses	<u>                    </u>	
TOTAL OPERATING EXPENSES		<u>157,398</u>
OPERATING INCOME (LOSS)		<u>12,928</u>
NONOPERATING REVENUES		
Capital Grants - State	<u>                    </u>	
- Federal	<u>                    </u>	
Proceeds of sale of fixed assets	<u>                    </u>	
Proceeds of borrowings	<u>                    </u>	
Other nonoperating revenues	<u>                    </u>	
TOTAL NONOPERATING REVENUES		<u>0</u>
NONOPERATING EXPENSES		
Debt service payments (interest only)	11,346	
Constructions/extension of system	<u>                    </u>	
Major equipment purchased	<u>                    </u>	
Other nonoperating expenses	<u>                    </u>	
TOTAL NONOPERATING EXPENSES		<u>11,346</u>
TOTAL NONOPERATING REVENUE (LOSS)		<u>(11,346)</u>
NET INCOME (LOSS) BEFORE EXTRAORDINARY ITEMS		<u>1,582</u>
EXTRAORDINARY GAIN (LOSS)		<u>0</u>
NET INCOME (LOSS)		<u>1,582</u>
RETAINED EARNINGS (beginning of year)	510,181	
RETAINED EARNINGS (end of year)	<u>511,763</u>	



**LEWISBERRY AREA JOINT AUTHORITY**

**FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2011 AND 2010**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Lewisberry Area Joint Authority  
Lewisberry, Pennsylvania

We have audited the accompanying statements of net assets of Lewisberry Area Joint Authority (Authority) as of December 31, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lewisberry Area Joint Authority as of December 31, 2011 and 2010, and the changes in net assets, and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Lewisberry Area Joint Authority has not presented the management's discussion and analysis that governmental 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.

*Greenawalt & Company, P.C.*  
GREENAWALT & COMPANY, P.C.

June 7, 2012

Mechanicsburg, Pennsylvania

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**LEWISBERRY AREA JOINT AUTHORITY**  
**STATEMENTS OF NET ASSETS**  
**DECEMBER 31, 2011 AND 2010**

	2011	2010
<b><u>ASSETS</u></b>		
Current assets		
Cash and cash equivalents	\$ 91,162	\$ 83,310
Accounts receivable	20,824	18,272
Prepaid expenses	1,486	1,787
Total current assets	113,472	103,369
Capital assets, net of accumulated depreciation	595,351	629,833
Total assets	\$ 708,823	\$ 733,202
<b><u>LIABILITIES AND NET ASSETS</u></b>		
Current liabilities		
Current maturities of long-term debt	\$ 27,269	\$ 27,149
Accounts payable	2,501	1,717
Accrued interest payable	802	917
Total current liabilities	30,572	29,783
Long-term debt	166,488	193,238
Total liabilities	197,060	223,021
Net assets		
Invested in capital assets (net of related debt)	401,594	409,446
Restricted for capital activity and debt service	25,000	25,000
Unrestricted	85,169	75,735
Total net assets	511,763	510,181
Total liabilities and net assets	\$ 708,823	\$ 733,202

The accompanying notes are an integral part of these financial statements.

**LEWISBERRY AREA JOINT AUTHORITY**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**YEARS ENDED DECEMBER 31, 2011 AND 2010**

	2011	2010
Operating revenues		
Sewer rentals	\$ 168,431	\$ 172,414
Operating expenses		
Treatment expenses	52,715	50,902
Utilities	17,177	21,260
Engineering fees	5,133	3,233
Legal and professional fees	12,402	12,874
Bookkeeping, billing and other services	6,600	6,305
Equipment repairs and maintenance	13,660	10,297
Insurance	4,319	3,826
Office expenses	558	2,376
Operating supplies	5,142	9,208
Miscellaneous	610	1,159
Telephone	1,717	1,670
Bank fees	298	-
Total operating expenses	120,331	123,110
Operating income before depreciation expense	48,100	49,304
Depreciation	37,067	37,046
Operating income	11,033	12,258
Other income (expenses)		
Tapping fees and other revenue	1,700	2,301
Interest income	195	255
Interest expense	(11,346)	(13,127)
Total other income (expenses)	(9,451)	(10,571)
Changes in net assets	1,582	1,687
Net assets, beginning	510,181	508,494
Net assets, ending	\$ 511,763	\$ 510,181

The accompanying notes are an integral part of these financial statements.

**LEWISBERRY AREA JOINT AUTHORITY**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2011 AND 2010**

	2011	2010
<b>Operating activities</b>		
Cash received from customers	\$ 165,879	\$ 170,218
Cash paid to suppliers and employees	(119,246)	(122,081)
Net cash provided by operating activities	46,633	48,137
<b>Capital and related financing activities</b>		
Proceeds from tapping fees and other revenue	1,700	2,301
Payments for purchases of capital assets	(2,585)	-
Interest paid on long term debt	(11,461)	(13,241)
Principal paid on long-term debt	(26,630)	(27,880)
Net cash used in capital and related financing activities	(38,976)	(38,820)
<b>Investing activities</b>		
Interest received	195	255
Net cash provided by investing activities	195	255
<b>Net increase in cash and cash equivalents</b>	7,852	9,572
<b>Cash and cash equivalents, beginning</b>	83,310	73,738
<b>Cash and cash equivalents, ending</b>	\$ 91,162	\$ 83,310
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
Operating income	\$ 11,033	\$ 12,258
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	37,067	37,046
(Increase) decrease in		
Accounts receivable	(2,552)	(2,196)
Prepaid expenses	301	(102)
Increase (decrease) in		
Accounts payable	784	1,131
Net cash provided by operating activities	\$ 46,633	\$ 48,137

The accompanying notes are an integral part of these financial statements.

**LEWISBERRY AREA JOINT AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011 AND 2010**

**NATURE OF OPERATIONS**

The Lewisberry Area Joint Authority (the Authority), organized by Lewisberry Borough, Newberry Township, and Fairview Township, was incorporated in 1985 to conduct and operate a sanitary sewer collection system and treatment plant in Lewisberry Borough, Newberry Township, and Fairview Township. The Authority derives substantially all of its revenue from sewer rentals.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting entity**

The Governmental Accounting Standards Board establishes the criteria for determining the activities, organizations and functions of government to be included in the financial statements of the reporting entity. In evaluating the Authority as a reporting entity, management has addressed all potential component units which may or may not fall within the established criteria. The criteria used to evaluate component units for possible inclusion as part of the Authority's reporting entity are:

- The economic resources received or held by the separate organization are entirely for the direct benefit of the Authority.
- The Authority is entitled to (or has the ability to) access a majority of the economic resources received or held by the separate organization.
- The economic resources received or held by the separate organization that the Authority is entitled to (or has the ability to) access is significant to the Authority.

There are no component units that meet all of the above criteria for inclusion in this reporting entity.

**Basis of accounting**

The Authority has adopted the accrual basis of accounting for the proprietary funds to account for operations that are financed and operated in a manner similar to private business enterprises. These enterprises are characterized by the intent that the costs of providing services to the general public on a continuing basis be financed or recovered substantially through user charges.

The Lewisberry Area Joint Authority complies with generally accepted accounting principles (GAAP). The Authority's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements as contained in the FASB Accounting Standards Codification (ASC), unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

**LEWISBERRY AREA JOINT AUTHORITY**  
 NOTES TO FINANCIAL STATEMENTS (Cont'd.)  
 DECEMBER 31, 2011 AND 2010

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)**

**Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities, if any, at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and cash equivalents**

For purposes of the statements of cash flows, the Authority considers all highly-liquid debt investments with a maturity of three months or less to be cash equivalents.

**Accounts receivable**

Accounts receivable are stated at outstanding balances. The Authority considers accounts receivable to be fully collectible. If collection becomes doubtful, an allowance for doubtful accounts will be established, or the accounts will be charged to income when that determination is made by management. Unpaid balances remaining after the stated payment terms are considered past due. Recoveries of previously charged off accounts are recorded when received.

**Capital assets**

Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$ 1,000 and an estimated useful life in excess of one year. In addition, capital assets purchased with long-term debt may be capitalized regardless of the thresholds established. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

Major outlays for capital assets and improvements are capitalized as projects are constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

All reported capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	15 to 25
Collection system	40
Treatment plant, improvements and equipment	20 to 40

**LEWISBERRY AREA JOINT AUTHORITY**  
NOTES TO FINANCIAL STATEMENTS (Cont'd.)  
DECEMBER 31, 2011 AND 2010

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)**

**Reclassifications**

Certain amounts in the 2010 financial statements have been reclassified for comparative purposes to conform with the 2011 presentation. These reclassifications have no effect on financial position or changes in net assets.

**Subsequent events**

The Authority has evaluated subsequent events through June 7, 2012, the date which the financial statements were available to be issued. It is management's opinion that there are no subsequent events which require additional disclosure in the notes to financial statements.

**DEPOSITS**

Deposits are presented at cost, which approximates fair value.

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 governmental funds for investment purposes.

All cash and restricted deposits are held in the Authority's name. The Authority currently has no formal deposit or investment policy. Cash deposits are insured up to the FDIC limit of \$ 250,000. Any balances in excess of the FDIC insurance limit are secured by collateral held by the pledging financial institution's agent in a collateral pool. Pennsylvania Act 72 allows for bank-owned securities to be pledged on a pooled basis to service public funds.

Under the Sewer Revenue Note - Series of 1999, Susquehanna Bank requires the Authority to maintain a reserve account of at least 10% of the outstanding debt balance for repairs, additions, or the payment of the semiannual note payments. At December 31, 2011 and 2010, the required reserve amount was \$ 25,000.

**Interest rate risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the value of an investment. The Authority does not have a formal investment policy for interest rate risk.

**LEWISBERRY AREA JOINT AUTHORITY**  
 NOTES TO FINANCIAL STATEMENTS (Cont'd.)  
 DECEMBER 31, 2011 AND 2010

**DEPOSITS (Cont'd.)**

**Custodial credit risk**

For deposits and investments, custodial risk is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of December 31, 2011 and 2010, none of the Authority's deposits were exposed to custodial risk. If the Authority had deposits in excess of the federally insured limit, the deposits exposed to custodial credit risk would be covered by collateral held by the pledging financial institution's agent in a collateral pool.

**CAPITAL ASSETS**

Capital asset activity is summarized as follows:

	<u>Beginning</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending</u>
<b><u>2011</u></b>				
Land	\$ 12,000	\$ -	\$ -	\$ 12,000
Building	41,175	-	-	41,175
Pumps and waste water treatment plant Collection system	661,587	2,585	-	664,172
	<u>801,553</u>	<u>-</u>	<u>-</u>	<u>801,553</u>
	1,516,315	2,585	-	1,518,900
Accumulated depreciation	<u>(886,482)</u>	<u>(37,067)</u>	<u>-</u>	<u>(923,549)</u>
	<u>\$ 629,833</u>	<u>\$ (34,482)</u>	<u>\$ -</u>	<u>\$ 595,351</u>
<b><u>2010</u></b>				
Land	\$ 12,000	\$ -	\$ -	\$ 12,000
Building	41,175	-	-	41,175
Pumps and waste water treatment plant Collection system	661,587	-	-	661,587
	<u>801,553</u>	<u>-</u>	<u>-</u>	<u>801,553</u>
	1,516,315	-	-	1,516,315
Accumulated depreciation	<u>(849,436)</u>	<u>(37,046)</u>	<u>-</u>	<u>(886,482)</u>
	<u>\$ 666,879</u>	<u>\$ (37,046)</u>	<u>\$ -</u>	<u>\$ 629,833</u>

**LEWISBERRY AREA JOINT AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS (Cont'd.)**  
**DECEMBER 31, 2011 AND 2010**

**LONG-TERM DEBT**

Changes in indebtedness in 2011 and 2010 are as follows:

	<u>Balance January 1</u>	<u>New Loans</u>	<u>Current Year Payments</u>	<u>Balance December 31</u>
<b><u>2011</u></b>				
Sewer Revenue Note - Series of 1999, Susquehanna Bank	\$ 200,000	\$ -	\$ 25,000	\$ 175,000
Sewer Revenue Note - Series of 2010, M&T Bank	<u>20,387</u>	<u>-</u>	<u>1,630</u>	<u>18,757</u>
	<u>\$ 220,387</u>	<u>\$ -</u>	<u>\$ 26,630</u>	<u>\$ 193,757</u>
<b><u>2010</u></b>				
Sewer Revenue Note - Series of 1999, Susquehanna Bank	\$ 225,000	\$ -	\$ 25,000	\$ 200,000
Sewer Revenue Note - Series of 2010, M&T Bank	<u>23,267</u>	<u>-</u>	<u>2,880</u>	<u>20,387</u>
	<u>\$ 248,267</u>	<u>\$ -</u>	<u>\$ 27,880</u>	<u>\$ 220,387</u>

The Authority executed the Sewer Revenue Note - Series of 1999 to Susquehanna Bank. The note payable had an initial principal amount of \$ 500,000 and is scheduled to mature on December 1, 2018. The note bears interest at 5.50% per annum, with principal and interest payments due on June 1 and December 1.

Aggregate maturities of the Susquehanna Bank debt, assuming no change in current terms, consist of the following for the next five years and thereafter:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 25,000	\$ 9,281	\$ 34,281
2013	25,000	7,906	32,906
2014	25,000	6,531	31,531
2015	25,000	5,156	30,156
2016	25,000	3,781	28,781
2017 - 2018	<u>50,000</u>	<u>3,438</u>	<u>53,438</u>
	<u>\$ 175,000</u>	<u>\$ 36,093</u>	<u>\$ 211,093</u>

**LEWISBERRY AREA JOINT AUTHORITY**  
 NOTES TO FINANCIAL STATEMENTS (Cont'd.)  
 DECEMBER 31, 2011 AND 2010

**LONG-TERM DEBT (Cont'd.)**

The Authority also executed the Sewer Revenue Note - Series of 2010 to M&T Bank for the purchase of real estate to be held as a potential site for plant expansion. The note had an initial principal amount of \$ 35,000 and is scheduled to mature on October 31, 2018. The note bears interest of 5.48% per annum, with principal and interest payments due quarterly.

Aggregate maturities of the M&T Bank debt are estimated as follows for the next five years and thereafter:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 2,269	\$ 1,004	\$ 3,273
2013	2,400	873	3,273
2014	2,536	737	3,273
2015	2,680	593	3,273
2016	2,831	442	3,273
2017 - 2018	<u>6,041</u>	<u>505</u>	<u>6,546</u>
	<u>\$ 18,757</u>	<u>\$ 4,154</u>	<u>\$ 22,911</u>

**INTEREST**

Interest costs are capitalized when incurred on debt where proceeds were used to finance the construction of assets. During the years ended December 31, 2011 and 2010, the Authority incurred interest of \$ 11,346 and \$ 13,127, respectively, all of which was charged to expense.

**RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Authority. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

**COMMITMENTS AND CONTINGENCIES**

The Authority is subject to claims and lawsuits which arise primarily in the ordinary course of business. It is management's opinion that any such actions would not have a material adverse effect on the financial position of the Authority.