

**LEWISBERRY AREA JOINT AUTHORITY**

**FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2012 AND 2011**

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# 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

Board of Directors  
Lewisberry Area Joint Authority  
Lewisberry, Pennsylvania

We have audited the accompanying financial statements of Lewisberry Area Joint Authority as of and for the years then ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the preceding 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 of 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.

Board of Directors  
Lewisberry Area Joint Authority

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of Lewisberry Area Joint Authority as of December 31, 2012 and 2011, and the revenues, expenses and changes in net position and cash flows thereof for the years 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.

*Greenawalt & Company, P.C.*

GREENAWALT & COMPANY, P.C.

June 26, 2013

Mechanicsburg, Pennsylvania

## **FINANCIAL STATEMENTS**

**LEWISBERRY AREA JOINT AUTHORITY**  
**STATEMENTS OF NET POSITION**  
**DECEMBER 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b><u>ASSETS</u></b>		
Current assets		
Cash and cash equivalents	\$ 86,693	\$ 91,162
Accounts receivable	23,099	20,824
Prepaid expenses	1,859	1,486
Total current assets	<u>111,651</u>	<u>113,472</u>
Noncurrent assets		
Capital assets not being depreciated	53,081	12,000
Capital assets being depreciated (net of accumulated depreciation)	512,098	583,351
Total noncurrent assets	<u>565,179</u>	<u>595,351</u>
Total assets	<u>\$ 676,830</u>	<u>\$ 708,823</u>
<b><u>LIABILITIES AND NET POSITION</u></b>		
Current liabilities		
Notes payable - current portion	\$ 27,434	\$ 27,269
Accounts payable	8,427	2,501
Accrued interest payable	687	802
Total current liabilities	<u>36,548</u>	<u>30,572</u>
Long-term liabilities		
Notes payable - noncurrent portion	<u>138,460</u>	<u>166,488</u>
Total liabilities	<u>175,008</u>	<u>197,060</u>
Net position		
Invested in capital assets (net of related debt)	399,285	401,594
Restricted for capital activity and debt service	25,000	25,000
Unrestricted	77,537	85,169
Total net position	<u>501,822</u>	<u>511,763</u>
Total liabilities and net position	<u>\$ 676,830</u>	<u>\$ 708,823</u>

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

**LEWISBERRY AREA JOINT AUTHORITY**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**YEARS ENDED DECEMBER 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
Operating revenues		
Sewer rentals	\$ 168,403	\$ 168,431
Operating expenses		
Treatment expenses	55,856	52,715
Utilities	21,448	17,177
Engineering fees	1,945	5,133
Legal and professional fees	11,540	12,402
Bookkeeping, billing and other services	6,700	6,600
Equipment repairs and maintenance	22,287	13,660
Insurance	3,715	4,319
Office expenses	1,892	558
Operating supplies	3,776	5,142
Miscellaneous	984	610
Bad debt	1,114	-
Telephone	1,748	1,717
Bank fees	383	298
Total operating expenses	<u>133,388</u>	<u>120,331</u>
Operating income before depreciation expense	35,015	48,100
Depreciation	<u>36,422</u>	<u>37,067</u>
Operating income (loss)	<u>(1,407)</u>	<u>11,033</u>
Nonoperating revenues (expenses)		
Tapping fees and other revenue	1,700	1,700
Interest income	131	195
Interest expense	<u>(10,365)</u>	<u>(11,346)</u>
Total nonoperating revenues (expenses)	<u>(8,534)</u>	<u>(9,451)</u>
Changes in net position	(9,941)	1,582
Net position, beginning	<u>511,763</u>	<u>510,181</u>
Net position, ending	<u>\$ 501,822</u>	<u>\$ 511,763</u>

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

**LEWISBERRY AREA JOINT AUTHORITY**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2012 AND 2011**

	2012	2011
Operating activities		
Cash received from customers	\$ 166,128	\$ 165,879
Cash paid to suppliers and employees	(127,835)	(119,246)
Net cash provided by operating activities	38,293	46,633
Capital and related financing activities		
Proceeds from tapping fees and other revenue	1,700	1,700
Purchases of capital assets	(6,250)	(2,585)
Interest paid on long term debt	(10,480)	(11,461)
Principal paid on long-term debt	(27,863)	(26,630)
Net cash used in capital and related financing activities	(42,893)	(38,976)
Investing activities		
Interest received	131	195
Net cash provided by investing activities	131	195
Net increase (decrease) in cash and cash equivalents	(4,469)	7,852
Cash and cash equivalents, beginning	91,162	83,310
Cash and cash equivalents, ending	\$ 86,693	\$ 91,162
Reconciliation of operating income to net cash provided by operating activities		
Operating income (loss)	\$ (1,407)	\$ 11,033
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	36,422	37,067
Bad debt	1,114	-
(Increase) decrease in		
Accounts receivable	(3,389)	(2,552)
Prepaid expenses	(373)	301
Increase (decrease) in		
Accounts payable	5,926	784
Net cash provided by operating activities	\$ 38,293	\$ 46,633

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

**LEWISBERRY AREA JOINT AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

**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. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

**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.

**LEWISBERRY AREA JOINT AUTHORITY**  
NOTES TO FINANCIAL STATEMENTS (Cont'd.)  
DECEMBER 31, 2012 AND 2011

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

**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.

**Bad debts**

The Authority places liens on the property of customers who are significantly in arrears on sewer payments. When circumstances warrant the write-off of an account, the expense is recognized at the time the account is written off. Potential uncollectible accounts receivable at year-end are considered immaterial to total accounts receivable; therefore, an allowance for such losses has not been established.

**Prepaid expenses**

To the extent certain payments to vendors, such as for insurance, reflect costs applicable to future accounting periods, they are recorded as prepaid items.

**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, 2012 AND 2011

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

**Reclassifications**

Certain amounts in the 2011 financial statements have been reclassified for comparative purposes to conform with the 2012 presentation. These reclassifications have no effect on financial position or changes in net position.

**Recent accounting standards**

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Net Position*. This statement identifies net position as the residual of all other elements presented in the statement of financial position. In December 2010 GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance which does not conflict with or contradict GASB pronouncements. The Authority has implemented both these standards in the current year.

**Subsequent events**

The Authority has evaluated subsequent events through June 26, 2013, 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, 2012 and 2011, the required reserve amount was \$ 25,000.

**LEWISBERRY AREA JOINT AUTHORITY**  
NOTES TO FINANCIAL STATEMENTS (Cont'd.)  
DECEMBER 31, 2012 AND 2011

**DEPOSITS (Cont'd.)**

**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.

**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, 2012 and 2011, 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.

**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**

Changes in capital assets were as follows:

	<u>Beginning</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u>
<b><u>2012</u></b>				
Capital assets not being depreciated				
Land	\$ 12,000	\$ 41,081	\$ -	\$ 53,081
Other capital assets				
Building	41,175	-	(41,175)	-
Pumps and waste water treatment plant	664,172	-	-	664,172
Collection system	801,553	-	-	801,553
	<u>1,506,900</u>	<u>-</u>	<u>(41,175)</u>	<u>1,465,725</u>
Less accumulated depreciation	<u>(923,549)</u>	<u>(36,422)</u>	<u>6,344</u>	<u>(953,627)</u>
	<u>583,351</u>	<u>(36,422)</u>	<u>(34,831)</u>	<u>512,098</u>
 Total capital assets, net	 <u>\$ 595,351</u>	 <u>\$ 4,659</u>	 <u>\$ (34,831)</u>	 <u>\$ 565,179</u>

**LEWISBERRY AREA JOINT AUTHORITY**  
 NOTES TO FINANCIAL STATEMENTS (Cont'd.)  
 DECEMBER 31, 2012 AND 2011

**CAPITAL ASSETS (Cont'd.)**

	<u>Beginning</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u>
<b><u>2011</u></b>				
Capital assets not being depreciated				
Land	\$ 12,000	\$ -	\$ -	\$ 12,000
Other capital assets				
Building	41,175	-	-	41,175
Pumps and waste water treatment plant	661,587	2,585	-	664,172
Collection system	<u>801,553</u>	<u>-</u>	<u>-</u>	<u>801,553</u>
	1,504,315	2,585	-	1,506,900
Less accumulated depreciation	<u>(886,482)</u>	<u>(37,067)</u>	<u>-</u>	<u>(923,549)</u>
	<u>617,833</u>	<u>(34,482)</u>	<u>-</u>	<u>583,351</u>
 Total capital assets, net	 <u>\$ 629,833</u>	 <u>\$ (34,482)</u>	 <u>\$ -</u>	 <u>\$ 595,351</u>

**LONG-TERM DEBT**

Changes in long-term debt are as follows:

	<u>Balance January 1</u>	<u>New Loans</u>	<u>Current Year Payments</u>	<u>Balance December 31</u>	<u>Due Within One Year</u>
<b><u>2012</u></b>					
Sewer Revenue Note - Series of 1999, Susquehanna Bank	\$ 175,000	\$ -	\$ 25,000	\$ 150,000	\$ 25,000
Sewer Revenue Note - Series of 2008, M&T Bank	<u>18,757</u>	<u>-</u>	<u>2,863</u>	<u>15,894</u>	<u>2,434</u>
	<u>\$ 193,757</u>	<u>\$ -</u>	<u>\$ 27,863</u>	<u>\$ 165,894</u>	<u>\$ 27,434</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 2008, 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>	

**LEWISBERRY AREA JOINT AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS (Cont'd.)**  
**DECEMBER 31, 2012 AND 2011**

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

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>
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	25,000	2,400	27,400
2018	<u>25,000</u>	<u>1,028</u>	<u>26,028</u>
	<u>\$ 150,000</u>	<u>\$ 26,802</u>	<u>\$ 176,802</u>

The Authority also executed the Sewer Revenue Note - Series of 2008 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 5.4% 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>
2013	\$ 2,434	\$ 839	\$ 3,273
2014	2,572	701	3,273
2015	2,718	555	3,273
2016	2,870	403	3,273
2017	3,034	239	3,273
2018	<u>2,266</u>	<u>188</u>	<u>2,454</u>
	<u>\$ 15,894</u>	<u>\$ 2,925</u>	<u>\$ 18,819</u>

**LEWISBERRY AREA JOINT AUTHORITY**  
NOTES TO FINANCIAL STATEMENTS (Cont'd.)  
DECEMBER 31, 2012 AND 2011

**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, 2012 and 2011, the Authority incurred interest of \$ 10,365 and \$ 11,346, 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.