

LEWISBERRY AREA JOINT AUTHORITY

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

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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 the business-type activities of Lewisberry Area Joint Authority as of and for the years ended December 31, 2014 and 2013, 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 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 respective net position of the business-type activities of Lewisberry Area Joint Authority as of December 31, 2014 and 2013, and the respective 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, 2015

Mechanicsburg, Pennsylvania

FINANCIAL STATEMENTS

LEWISBERRY AREA JOINT AUTHORITY
STATEMENTS OF NET POSITION
DECEMBER 31, 2014 AND 2013

	2014	2013
Assets		
Current assets		
Cash and cash equivalents	\$ 99,589	\$ 93,930
Accounts receivable	31,240	28,252
Prepaid expenses	1,979	1,817
Total current assets	132,808	123,999
Noncurrent assets		
Capital assets not being depreciated	53,081	53,081
Capital assets being depreciated (net of accumulated depreciation)	441,364	476,731
Total noncurrent assets	494,445	529,812
Total assets	627,253	653,811
Liabilities		
Current liabilities		
Notes payable - current portion	25,000	27,517
Accounts payable	686	3,828
Accrued interest payable	458	573
Total current liabilities	26,144	31,918
Noncurrent liabilities		
Notes payable - noncurrent portion	75,000	111,557
Total liabilities	101,144	143,475
Net position		
Invested in capital assets (net of related debt)	394,445	390,738
Restricted for capital activity and debt service	25,000	25,000
Unrestricted	106,664	94,598
Total net position	\$ 526,109	\$ 510,336

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, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Operating revenues		
Sewer rentals	\$ 176,434	\$ 170,202
Tapping fees and other revenue	2,319	2,115
	<u>178,753</u>	<u>172,317</u>
Total operating revenues		
Operating expenses		
Treatment expenses	55,668	52,630
Utilities	17,759	18,544
Engineering fees	1,679	2,746
Legal and professional fees	14,946	12,603
Bookkeeping, billing and other services	7,700	7,700
Equipment repairs and maintenance	10,231	10,754
Insurance	4,215	4,062
Office expenses	1,959	822
Operating supplies	4,149	7,669
Miscellaneous	615	616
Telephone	1,875	1,779
Bank fees	234	132
Depreciation	35,367	35,367
	<u>156,397</u>	<u>155,424</u>
Total operating expenses		
Operating income	<u>22,356</u>	<u>16,893</u>
Nonoperating revenues (expenses)		
Interest income	69	74
Interest expense	(6,652)	(8,453)
	<u>(6,583)</u>	<u>(8,379)</u>
Total nonoperating revenues (expenses)		
Changes in net position	15,773	8,514
Net position, beginning	<u>510,336</u>	<u>501,822</u>
Net position, ending	<u>\$ 526,109</u>	<u>\$ 510,336</u>

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

LEWISBERRY AREA JOINT AUTHORITY
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Operating activities		
Cash received from customers	\$ 175,765	\$ 167,164
Cash paid for goods and services	(124,449)	(124,728)
	51,316	42,436
Capital and related financing activities		
Purchases of capital assets	-	-
Interest paid on long term debt	(6,652)	(8,453)
Principal paid on long-term debt	(39,074)	(26,820)
	(45,726)	(35,273)
Investing activities		
Interest income	69	74
	69	74
Net increase in cash and cash equivalents	5,659	7,237
Cash and cash equivalents, beginning	93,930	86,693
Cash and cash equivalents, ending	\$ 99,589	\$ 93,930
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 22,356	\$ 16,893
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	35,367	35,367
(Increase) decrease in		
Accounts receivable	(2,988)	(5,153)
Prepaid expenses	(162)	42
Increase (decrease) in		
Accounts payable	(3,257)	(4,713)
	(3,257)	(4,713)
Net cash provided by operating activities	\$ 51,316	\$ 42,436

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

LEWISBERRY AREA JOINT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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, 2014 AND 2013

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, 2014 AND 2013

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Operating revenues and expenses

The Authority distinguished between operation and nonoperating revenues and expenses. Operating revenues and expenses consist of charges for services (including tapping, connection, and facilities fees) and the costs of providing those services, including depreciation and excluding interest expense. All other revenues and expenses are reported as nonoperating.

Revenue - user charges

Charges for sewer rental are billed quarterly by the Authority to its customers based upon a flat fee schedule.

Revenue - tapping and connection fees, meters, permits, etc.

Charges for tapping, connection and other related fees are billed by the Authority to the customer based on established fee schedules.

Recent accounting standards

There are several GASB pronouncements that will become effective for future reporting periods. The Authority does not currently anticipate any significant impact on the Authority's financial statements.

Subsequent events

The Authority has evaluated subsequent events through June 26, 2015, 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.

CASH AND CASH EQUIVALENTS

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.

LEWISBERRY AREA JOINT AUTHORITY
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
DECEMBER 31, 2014 AND 2013

CASH AND CASH EQUIVALENTS (Cont'd.)

Under the Sewer Revenue Note - Series of 1999, Susquehanna Bank requires the Authority to maintain a reserve of at least 10% of the outstanding debt balance for repairs, additions, or the payment of the semiannual note payments. At December 31, 2014 and 2013, the required reserve amount was \$ 25,000.

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

Custodial credit 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, 2014 and 2013, 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 Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>2014</u>				
Capital assets not being depreciated				
Land	\$ 53,081	\$ -	\$ -	\$ 53,081
Other capital assets				
Pumps and waste water treatment plant	664,172	-	-	664,172
Collection system	<u>801,553</u>	<u>-</u>	<u>-</u>	<u>801,553</u>
	1,465,725	-	-	1,465,725
Less accumulated depreciation	<u>(988,994)</u>	<u>(35,367)</u>	<u>-</u>	<u>(1,024,361)</u>
Total other capital assets, net	<u>476,731</u>	<u>(35,367)</u>	<u>-</u>	<u>441,364</u>
Total capital assets, net	<u>\$ 529,812</u>	<u>\$ (35,367)</u>	<u>\$ -</u>	<u>\$ 494,445</u>

LEWISBERRY AREA JOINT AUTHORITY
 NOTES TO FINANCIAL STATEMENTS (Cont'd.)
 DECEMBER 31, 2014 AND 2013

CAPITAL ASSETS (Cont'd.)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
2013				
Capital assets not being depreciated				
Land	\$ 53,081	\$ -	\$ -	\$ 53,081
Other capital assets				
Pumps and waste water treatment plant	664,172	-	-	664,172
Collection system	801,553	-	-	801,553
	1,465,725	-	-	1,465,725
Less accumulated depreciation	(953,627)	(35,367)	-	(988,994)
Total other capital assets, net	512,098	(35,367)	-	476,731
Total capital assets, net	\$ 565,179	\$ (35,367)	\$ -	\$ 529,812

LONG-TERM DEBT

Changes in long-term debt are as follows:

	<u>Beginning Balance</u>	<u>New Borrowings/ (Refunding)</u>	<u>Scheduled Redemptions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
2014					
Sewer Revenue Note - Series of 1999, Susquehanna Bank	\$ 125,000	\$ -	\$ (25,000)	\$ 100,000	\$ 25,000
Sewer Revenue Note - Series of 2008, M&T Bank	14,074	-	(14,074)	-	-
	<u>\$ 139,074</u>	<u>\$ -</u>	<u>\$ (39,074)</u>	<u>\$ 100,000</u>	<u>\$ 25,000</u>
2013					
Sewer Revenue Note - Series of 1999, Susquehanna Bank	\$ 150,000	\$ -	\$ (25,000)	\$ 125,000	\$ 25,000
Sewer Revenue Note - Series of 2008, M&T Bank	15,894	-	(1,820)	14,074	2,517
	<u>\$ 165,894</u>	<u>\$ -</u>	<u>\$ (26,820)</u>	<u>\$ 139,074</u>	<u>\$ 27,517</u>

LEWISBERRY AREA JOINT AUTHORITY
 NOTES TO FINANCIAL STATEMENTS (Cont'd.)
 DECEMBER 31, 2014 AND 2013

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>
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>\$ 100,000</u>	<u>\$ 12,365</u>	<u>\$ 112,365</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 5.48% per annum, with principal and interest payments due quarterly. This note was paid off in 2014.

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, 2014 and 2013, the Authority incurred interest of \$ 6,652 and \$ 8,453, 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.