

**BROOKVILLE MUNICIPAL AUTHORITY**

**Brookville, Pennsylvania**

**December 31, 2012**

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## INDEPENDENT AUDITOR'S REPORT

Brookville Municipal Authority  
18 Western Ave.; Suite A  
Brookville, PA 15825

We have audited the accompanying financial statements of the business-type activities and each major fund of Brookville Municipal Authority, a component unit of Borough of Brookville, Pennsylvania, as of and for the year ended December 31, 2012, 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 opinions 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.

### **MEMBER:**

*American Institute of Certified Public Accountants  
Pennsylvania Institute of Certified Public Accountants*

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of Brookville Municipal Authority, Brookville, Pennsylvania as of December 31, 2012, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

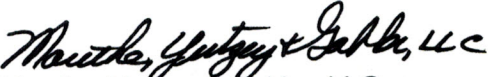
## Other Matters

### *Requirement Supplementary Information*

Management has omitted 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*

As discussed in Note 1 to the financial statements, the Authority adopted new accounting guidance, GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position and GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. Our opinion is not modified with respect to this matter.

  
Mauthe, Yutzey & Gabler, LLC  
Certified Public Accountants  
September 12, 2013

BROOKVILLE MUNICIPAL AUTHORITY

STATEMENT OF NET POSITION

December 31, 2012

	Water Revenue Fund	Sewer Revenue Fund	<u>Totals</u>
<u>ASSETS</u>			
Current Assets:			
Cash - regular	\$ 428,864	\$ 585,217	\$ 1,014,081
Cash - customer deposits	10,562	10,562	21,124
	<hr/>	<hr/>	<hr/>
Total Cash	439,426	595,779	1,035,205
Bank Certificates of Deposit	500,000	600,385	1,100,385
Accounts receivable - customers	135,202	108,816	244,018
Accounts receivable - tap fees		18,348	18,348
Accounts receivable - other	6,043	11,232	17,275
Due from Sewer Fund/Water Fund	13,366	16,883	30,249
Accrued interest	181	1,211	1,392
Inventory	58,194	18,729	76,923
	<hr/>	<hr/>	<hr/>
Total Current Assets	1,152,412	1,371,383	2,523,795
Fixed Assets:			
Land	600	15,351	15,951
Land and site improvements - net of depreciation	32,337	14,283	46,620
Buildings - net of depreciation	12,716,112	812,109	13,528,221
Water distribution system - net of depreciation	2,656,361		2,656,361
Sewer collection system - net of depreciation		3,054,615	3,054,615
Machinery and equipment - net of depreciation	87,361	26,672	114,033
Vehicles - net of depreciation		92,954	92,954
	<hr/>	<hr/>	<hr/>
Total Fixed Assets - net of depreciation	15,492,771	4,015,984	19,508,755
	<hr/>	<hr/>	<hr/>
Total Assets	16,645,183	5,387,367	22,032,550
	<hr/>	<hr/>	<hr/>
Deferred Outflows	- 0 -	- 0 -	- 0 -
	<hr/>	<hr/>	<hr/>
Total Assets and Deferred Outflows	\$ 16,645,183	\$ 5,387,367	\$ 22,032,550
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The accompanying notes are an integral part of the financial statements

BROOKVILLE MUNICIPAL AUTHORITY

STATEMENT OF NET POSITION

December 31, 2012

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	<u>Water Revenue Fund</u>	<u>Sewer Revenue Fund</u>	<u>Totals</u>
<u>LIABILITIES</u>			
Current Liabilities:			
Accounts payable	\$ 89,429	\$ 16,510	\$ 105,939
Accrued payroll	13,012	11,244	24,256
Due to Sewer Fund/Water Fund	16,883	13,366	30,249
Current portion of long-term debt	519,286	42,130	561,416
Total Current Liabilities	<u>638,610</u>	<u>83,250</u>	<u>721,860</u>
Long-Term Debt:			
Penn Vest - Water Plant	10,791,633		10,791,633
Penn Vest - Corsica Treatment Plant		187,510	187,510
Total Long-Term Debt	<u>10,791,633</u>	<u>187,510</u>	<u>10,979,143</u>
Other Liabilities:			
Customer deposits	25,038	25,038	50,076
Total Liabilities	<u>11,455,281</u>	<u>295,798</u>	<u>11,751,079</u>
Deferred Inflows	<u>- 0 -</u>	<u>- 0 -</u>	<u>- 0 -</u>
<u>NET POSITION</u>			
Invested in capital assets, net of related debt	4,181,852	3,786,344	7,968,196
Unrestricted	1,008,050	1,305,225	2,313,275
Total Net Position	<u>5,189,902</u>	<u>5,091,569</u>	<u>10,281,471</u>
Total Liabilities, Deferred Inflows and Net Position	<u>\$ 16,645,183</u>	<u>\$ 5,387,367</u>	<u>\$ 22,032,550</u>

The accompanying notes are an integral part of the financial statements

BROOKVILLE MUNICIPAL AUTHORITY

STATEMENT OF CASH FLOWS

For The Year Ended December 31, 2012

	Water Revenue Fund	Sewer Revenue Fund	Total
<b>Cash Flows from Operating Activities:</b>			
Cash received from users	\$ 1,588,402	\$ 1,075,375	\$ 2,663,777
Cash received from other operating revenue	8,949	70,816	79,765
Cash payments to employees for services	(466,706)	(389,692)	(856,398)
Cash payments to suppliers for goods and services	(500,692)	(326,245)	(826,937)
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>629,953</u>	<u>430,254</u>	<u>1,060,207</u>
<b>Cash Flows from Non-Capital Financing Activities:</b>			
Due from Water Fund to Sewer Fund	(2,378)	2,378	- 0 -
Due from Borough of Brookville	6,029	- 0 -	6,029
<b>Net Cash Provided (Used) by Non-Capital Financing Activities</b>	<u>3,651</u>	<u>2,378</u>	<u>6,029</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>			
Advances received on loans	582,750	- 0 -	582,750
Principal paid on loans	(344,080)	(17,427)	(361,507)
Acquisition of capital assets	(526,091)	(282,459)	(808,550)
Interest paid on loans	(143,152)	(1,003)	(144,155)
Contributed capital	51,992	41,418	93,410
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<u>(378,581)</u>	<u>(259,471)</u>	<u>(638,052)</u>
<b>Cash Flows from Investing Activities:</b>			
Redemption/(purchase) of Certificate of Deposit	(500,000)	(150,252)	(650,252)
Interest income	704	4,225	4,929
<b>Net Cash Provided (Used) by Investing Activities</b>	<u>(499,296)</u>	<u>(146,027)</u>	<u>(645,323)</u>

The accompanying notes are an integral part of the financial statements

BROOKVILLE MUNICIPAL AUTHORITY

STATEMENT OF CASH FLOWS

For The Year Ended December 31, 2012

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	Water Revenue <u>Fund</u>	Sewer Revenue <u>Fund</u>	<u>Total</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	(244,273)	27,134	(217,139)
Cash and Cash Equivalents - Jan. 1, 2012	<u>683,699</u>	<u>568,645</u>	<u>1,252,344</u>
Cash and Cash Equivalents - Dec. 31, 2012	<u>\$ 439,426</u>	<u>\$ 595,779</u>	<u>\$ 1,035,205</u>
Cash Flows from Operating Activities:			
Operating income (loss)	\$ 463,157	\$ 318,429	\$ 781,586
Adjustments to reconcile operating income (loss) to net cash provided by operations:			
Depreciation	252,162	125,065	377,227
(Increase) Decrease in accounts receivable	(16,198)	(13,193)	(29,391)
(Increase) Decrease in prepaid expenses		1,186	1,186
(Increase) Decrease in inventory	(34,861)	(3,379)	(38,240)
Increase (Decrease) in accounts payable	(36,565)	(3,146)	(39,711)
Increase (Decrease) in accrued payroll	166	3,200	3,366
Increase (Decrease) in customer deposits	2,092	2,092	4,184
Net Cash Provided (Used) by Operations	<u>\$ 629,953</u>	<u>\$ 430,254</u>	<u>\$ 1,060,207</u>

The accompanying notes are an integral part of the financial statements



BROOKVILLE MUNICIPAL AUTHORITY

COMBINING STATEMENT OF REVENUES, EXPENSES AND

CHANGES IN NET POSITION

For The Year Ended December 31, 2012

	Water Revenue <u>Fund</u>	Sewer Revenue <u>Fund</u>	<u>Totals</u>
Operating Revenue:			
System usage charges	\$ 1,603,159	\$ 1,086,351	\$ 2,689,510
Miscellaneous revenue	8,298	70,941	79,239
	<hr/>	<hr/>	<hr/>
Total Operating Revenue	1,611,457	1,157,292	2,768,749
	<hr/>	<hr/>	<hr/>
Total Operating Expenses	1,148,300	838,863	1,987,163
	<hr/>	<hr/>	<hr/>
Income (Loss) from Operations	463,157	318,429	781,586
	<hr/>	<hr/>	<hr/>
Non-Operating Income (Expense)	(142,519)	1,564	(140,955)
	<hr/>	<hr/>	<hr/>
Income (Loss) before Capital Contributions and Transfers	320,638	319,993	640,631
	<hr/>	<hr/>	<hr/>
Capital contributions and transfers	28,475	979,624	1,008,099
	<hr/>	<hr/>	<hr/>
Change in Net Position	349,113	1,299,617	1,648,730
	<hr/>	<hr/>	<hr/>
Net Position, January 1, 2012	4,840,789	3,791,952	8,632,741
	<hr/>	<hr/>	<hr/>
Net Position, December 31, 2012	\$ 5,189,902	\$ 5,091,569	\$ 10,281,471
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The accompanying notes are an integral part of the financial statements

BROOKVILLE MUNICIPAL AUTHORITY

WATER REVENUE FUND

STATEMENT OF REVENUES, EXPENSES AND CHANGES

IN NET POSITION

For The Year Ended December 31, 2012

Operating Revenue:		
Water sales	\$ 1,603,159	
Hydrant fees	1,800	
Miscellaneous revenue	6,498	
	<hr/>	
Total Operating Revenue		<u>1,611,457</u>
Operating Expenses:		
Purification:		
Chemicals	21,193	
Laboratory	19,570	
Materials and supplies	1,968	
Sludge disposal	2,399	
Repair and maintenance - plant	9,238	
	<hr/>	
Total Purification Expense		54,368
Pumping:		
Salaries and wages	146,723	
Utilities	165,219	
	<hr/>	
Total Pumping Expense		311,942
Distribution:		
Salaries and wages	80,033	
Water dam inspection fees	377	
Repair and maintenance - system	40,518	
Repair and maintenance - hydrants and meters	11,505	
	<hr/>	
Total Distribution Expense		132,433

The accompanying notes are an integral part of the financial statements

BROOKVILLE MUNICIPAL AUTHORITY

WATER REVENUE FUND

STATEMENT OF REVENUES, EXPENSES AND CHANGES

IN NET POSITION

For The Year Ended December 31, 2012

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Administration:

Salaries and wages	128,621
Engineering services	61,419
Legal	5,350
Audit and accounting	10,187
Insurance	29,542
Dues and conventions	7,641
Postage	6,745
Office supplies and expense	1,574
Vehicle expense	7,451
Telephone	10,759
Employee benefits	100,750
Depreciation	252,162
Office rent	7,838
Computer upgrade/software	4,348
Pension expense	10,744
Miscellaneous	4,426

Total Administration Expense

649,557

Total Operating Expenses

1,148,300

Income (Loss) from Operations

463,157

The accompanying notes are an integral part of the financial statements

BROOKVILLE MUNICIPAL AUTHORITY

WATER REVENUE FUND

STATEMENT OF REVENUES, EXPENSES AND CHANGES

IN NET POSITION

For The Year Ended December 31, 2012

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Non-Operating Income and (Expense):		
Interest expense	(143,152)	
Interest income	633	
	<hr/>	
Total Non-Operating Income (Expense)		<hr/> (142,519)
Income (Loss) before capital contributions and transfers		320,638
Capital Contributions and Transfers:		
Capital contribution - CRUMA	25,000	
I-80 Ramp Project - Penn		
Dot Reimbursement	3,475	
	<hr/>	
Total Capital Contributions and Transfers		<hr/> 28,475
Change in Net Position		349,113
Net Position, January 1, 2012		<hr/> 4,840,789
Net position, December 31, 2012		<hr/> <hr/> \$ 5,189,902

The accompanying notes are an integral part of the financial statements

BROOKVILLE MUNICIPAL AUTHORITY

SEWER REVENUE FUND

STATEMENT OF REVENUES, EXPENSES AND CHANGES

IN NET POSITION

For The Year Ended December 31, 2012

Operating Revenue:		
Sewer usage charges	\$ 1,086,351	
Solid waste collection fees	67,186	
Miscellaneous revenue	3,755	
	<hr/>	
Total Operating Revenue		1,157,292
Operating Expenses:		
Salaries and wages - administration	120,890	
Salaries and wages - operation	173,638	
Chemicals	12,464	
Lab fees	12,682	
Utilities	72,814	
Sludge disposal	20,914	
Telephone	2,836	
Engineering services	37,007	
Audit and accounting	5,654	
Legal	10,866	
Office expense	2,493	
Vehicle expense	18,909	
Repairs and maintenance	57,489	
Postage	4,937	
Employee benefits	91,214	
Pension expense	7,150	
Insurance	32,351	
PA DEP civil penalties	6,000	
Miscellaneous expense	2,509	
Office rent	7,838	
Computer upgrade/software	4,598	
Dues and conventions	4,503	

The accompanying notes are an integral part of the financial statements

BROOKVILLE MUNICIPAL AUTHORITY

SEWER REVENUE FUND

STATEMENT OF REVENUES, EXPENSES AND CHANGES

IN NET POSITION

For The Year Ended December 31, 2012

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I and I work	4,042	
Depreciation	<u>125,065</u>	
Total Operating Expenses		<u>838,863</u>
Income (Loss) from Operations		318,429
Non-Operating Income and (Expense):		
Interest expense	(1,003)	
Interest income	<u>2,567</u>	
Total Non-Operating Income (Expense)		<u>1,564</u>
Income (Loss) before capital contributions and transfers		319,993
Capital Contributions and Transfers:		
Capital contribution - Borough of Corsica	934,689	
I-80 Ramp Project - Penn Dot reimbursement	3,517	
Capital contribution - Borough of Brookville - CDBG funds	<u>41,418</u>	
Total Capital Contributions and Transfers		<u>979,624</u>
Change in Net Position		1,299,617
Net Position, January 1, 2012		<u>3,791,952</u>
Net position, December 31, 2012		<u><u>\$ 5,091,569</u></u>

The accompanying notes are an integral part of the financial statements

**BROOKVILLE MUNICIPAL AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2012

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF OPERATIONS**

**Description of Operations and Basis of Presentation**

The Brookville Municipal Authority is an operating water and sewer authority incorporated by the Borough of Brookville, Pennsylvania, under the Municipal Authorities Act of 1945, as amended. The Authority provides water delivery service to the residents of the Borough of Brookville and surrounding areas as well as provides for collection and treatment of waste water. The activities of providing water delivery service is accounted for in the Water Revenue Fund and the collection and treatment of waste water is accounted for in the Sewer Revenue Fund.

The Authority is considered a component unit of the Borough of Brookville, Pennsylvania. These financial statements present only the financial position, results of operations and cash flows of the component unit.

**Fund Accounting and Basis of Presentation**

The accounts of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The operation of each fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenses.

Both funds of the Authority are categorized as Proprietary Fund Type. This fund type accounts for Authority activities that are similar to business operations in the private sector where the reporting focus is on determining net income, financial position and changes in financial position (economic resources measurement focus).

The two funds of the Authority consist of the Water Revenue Fund and the Sewer Revenue Fund. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expense generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the Water Revenue Fund are potable water sales and of the Sewer Revenue Fund are wastewater collection and treatment fees. Operating expenses of both funds include salaries and benefits, chemicals and supplies, utilities and depreciation on fixed assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**Measurement Focus and Basis of Accounting**

Proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. User fees are recognized as revenues in the year for which services are provided. Grant and similar items are recognized as revenues as soon as all eligible requirements imposed by the provider have been met. Net position (total assets and deferred outflows less total liabilities and deferred inflows) are used as a practical measure of economic resources and the operating statement includes all transactions and events that increased or decreased net position. Depreciation is charged as expense against current operations and accumulated depreciation is deducted from the cost of fixed assets on the statement of net position.

## New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) issued Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position" effective for years beginning after December 15, 2011. This statement amends the net asset reporting by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the financial position and renaming the residual measure as net position rather than net assets. GASB 63 only applies to full accrual basis financial statements. The Brookville Municipal Authority has implemented GASB 63 for the year ended December 31, 2012.

GASB also issued Statement No. 65 "Items Previously Reported as Assets and Liabilities" which is effective for years beginning after December 15, 2012, with early implementation allowed. This statement establishes accounting and financial reporting standards that reclassify certain items previously reported as assets or liabilities as deferred outflows of resources or deferred inflows of resources and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The Brookville Municipal Authority has implemented GASB 65 for the year ended December 31, 2012. The Authority did not have any items which would have created an adjustment to previously reported statements.

## Other Significant Accounting Policies:

### Deposits and Investments

The deposit and investment policy of the Authority adheres to state statutes. There were no deposits or investment transactions during the year that were in violation of either state statutes or the policy of the Authority.

### Custodial Credit Risk

Custodial credit risk related to deposits is risk that in the event of a bank failure, the government's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. At year-end, \$1,682,122 of the Authority's bank balance of \$2,182,122 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Authority's name (as permitted under PA Act 72 of 1971).

### Reconciliation to Financial Statements

Uncollateralized amount above	\$ 1,682,122
Plus: Insured amount	500,000
Deposits in transit	5,777
Less: Outstanding checks	<u>(54,341)</u>
Carrying amount – bank balance	2,133,558
Plus: Deposits in PLGIT	2,032
Less: Certificates of deposit – investments	<u>(1,100,385)</u>
Total cash per statement of net position	<u>\$ 1,035,205</u>

As of December 31, 2012 the Authority had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>
Bank Certificates of Deposit	6 to 12 months	<u>\$1,100,385</u>



The Authority invests funds in the Pennsylvania Local Government Investment Trust. The Trust is governed by a Board of Trustees each of whom is an active local government or school district official. The Board monitors the Trust and its investments. The allowable investments of the Trust consists of obligations of the United States Government or its agencies or instrumentalities; the Commonwealth of Pennsylvania or its agencies, instrumentalities or political subdivision; and deposits in savings accounts or time deposits of institutions fully insured by the Federal Deposit Insurance Corporation and, when required, collateralized under the provisions of Act 72 (P.L. 181 No. 72 as amended).

### Bank Certificates of Deposit

The Authority has the following bank certificates of deposit as of December 31, 2012:

#### Water Revenue Fund

S&T Bank – purchased August 7, 2012 for a term of 182 days with interest payable at .245 percent.	\$ 500,000
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#### Sewer Revenue Fund

S&T Bank – purchased January 19, 2012 for a term of 12 months with interest payable at .495 percent.	250,000
S&T Bank – purchased December 21, 2012 for a term of 12 months with interest payable at .395 percent.	<u>350.385</u>

Total Bank Certificates of Deposit	<u>\$ 1,100.385</u>
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### Interest Rate Risk

The Authority does not have a formal investment policy that limits investment maturities as a means of limiting its exposure to fair value losses arising from rising interest rates.

### Credit Risk

The Authority has no investment policy that would limit its investment choices to certain credit ratings.

### Concentration of Credit Risk – Investments

The Authority places no limit on the amount the Authority may invest in any one issuer. All of the Authority's investments are in S&T Bank certificates of deposit.

### Inventory

Inventory of materials and supplies are valued at cost on a first in-first out basis.

### Fixed Assets

Fixed assets, which includes property, plant, collection and distribution systems, and equipment are valued at cost or estimated fair market value at the date of acquisition. Fixed assets are defined by the Municipal Authority as assets with an initial acquisition cost of more than \$5,000 and an estimated useful life in excess of one year.

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

All reported capital assets are depreciated using the straight-line method utilizing the half-year convention with no consideration given to salvage value, over the following estimated useful lives:

<u>Assets</u>	<u>Useful Life</u>
Buildings	30 - 40 years
Site Improvements	15 - 40 years
Infrastructure - Collection and Distribution Systems	50 years
Machinery and Equipment	8 - 20 years
Vehicles	8 years

### Compensated Absences

Employees earn vacation based upon years of continuous service to the Authority. Vacation time earned is to be used during the year earned unless demands of the work schedule prohibit the employee from using the vacation, in which case the vacation time may be carried over for one year with the consent of the Authority or payment in lieu of vacation may be made. Employees also earn twelve days of sick leave annually, which may be accumulated up to a maximum of 120 days. Sick leave must be used during employment with the Authority. Upon termination or retirement, no payment is made to the employee for unused accumulated sick leave. If an employee dies as a result of a work related injury or disease, all unused sick leave will be paid as a death benefit. The cost of vacation and sick leave is recognized when payment is made to the employee. No provision has been made to record accumulated cost of unused vacation or sick leave as of December 31, 2012.

### Long Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Under GASB #65, bond and note issuance costs are written off in the year incurred.

### Statement of Cash Flows

For purposes of the statement of cash flows, the Authority considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

### Allowance for Uncollectible Accounts

No allowance is maintained for uncollectible accounts receivable. Accounts determined to be uncollectible are specifically charged off in the year of uncollectibility.

## Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, expenses and expenditures. Accordingly, upon settlement, actual results may differ from estimated amounts.

## Subsequent Events

Management has evaluated subsequent events through September 12, 2013, the date the financial statements were available.

## NOTE 2 - CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012 was as follows:

<u>Water Revenue Fund</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 600	\$ -	\$ -	\$ 600
Construction in progress	<u>12,418,495</u>	<u>290,935</u>	<u>12,709,430</u>	<u>-</u>
Total Capital Assets Not Being Depreciated	<u>12,419,095</u>	<u>290,935</u>	<u>12,709,430</u>	<u>600</u>
Capital assets being depreciated:				
Land and site improvements	99,041	-	-	99,041
Buildings	670,283	12,787,504	-	13,457,787
Water distribution system	3,272,524	232,083	-	3,504,607
Machinery and equipment	419,235	-	-	419,235
Vehicles	<u>42,078</u>	<u>-</u>	<u>-</u>	<u>42,078</u>
Total Capital Assets Being Depreciated	<u>4,503,161</u>	<u>13,019,587</u>	<u>-</u>	<u>17,522,748</u>
Less Accumulated Depreciation:				
Land and site improvements	60,943	5,761	-	66,704
Buildings	578,202	163,474	-	741,676
Water distribution system	780,474	67,771	-	848,245
Machinery and equipment	316,718	15,156	-	331,874
Vehicles	<u>42,078</u>	<u>-</u>	<u>-</u>	<u>42,078</u>
Total Accumulated Depreciation	<u>1,778,415</u>	<u>252,162</u>	<u>-</u>	<u>2,030,577</u>
Total Capital Assets Being Depreciated, Net	<u>2,724,746</u>	<u>12,767,425</u>	<u>-</u>	<u>15,492,171</u>
Total Water Revenue Fund Capital Assets, Net	<u>\$ 15,143,841</u>	<u>\$ 13,058,360</u>	<u>\$ 12,709,430</u>	<u>\$ 15,492,771</u>

<u>Sewer Revenue Fund</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 11,641	\$ 3,710	\$ -	\$ 15,351
Total Capital Assets not being depreciated	<u>11,641</u>	<u>3,710</u>	<u>-</u>	<u>15,351</u>
Capital assets being depreciated:				
Land and site improvements	43,876	-	-	43,876
Buildings	1,710,029	137,263	-	1,847,292
Sewer collection system	2,274,263	1,715,945	-	3,990,208
Machinery and equipment	2,132,287	-	-	2,132,287
Vehicles	417,623	26,055	-	443,678
Total Capital Assets Being Depreciated	<u>6,578,078</u>	<u>1,879,263</u>	<u>-</u>	<u>8,457,341</u>
Less Accumulated Depreciation:				
Land and site improvements	29,028	564	-	29,592
Buildings	994,724	40,459	-	1,035,183
Sewer collection system	456,852	478,741	-	935,593
Machinery and equipment	2,099,935	5,680	-	2,105,615
Vehicles	332,346	18,379	-	350,725
Total Accumulated Depreciation	<u>3,912,885</u>	<u>543,823</u>	<u>-</u>	<u>4,456,708</u>
Total Capital Assets Being Depreciated, Net	<u>2,665,193</u>	<u>1,335,440</u>	<u>-</u>	<u>4,000,633</u>
Total Sewer Revenue Fund Capital Assets, Net	<u>\$ 2,676,834</u>	<u>\$ 1,339,150</u>	<u>\$ -</u>	<u>\$ 4,015,984</u>

Included in the Capital Assets schedules above are the following completed projects and capital additions:

1. Water Revenue Fund

The Water Revenue Fund capital additions consisted of the following items:

Water treatment plant – total costs	\$ 12,787,504
I-80 Exit 78 Ramp Project	8,876
System improvements – Corsica, Rose, Union distribution systems	<u>223,207</u>
	<u>\$13,019,587</u>

2. Sewer Revenue Fund

The Sewer Revenue Fund capital additions consisted of the following items:

Land from Borough of Corsica	\$ 3,710
Acquisition of Wastewater Treatment System from Borough of Corsica	1,596,805
I-80 Exit 78 Ramp Project	8,876
RBC Units 2, 4 and 6	137,263
Other collection system improvements	110,264
Vehicle	<u>26,055</u>
	<u>\$ 1,882,973</u>

The Authority completed construction of a new membrane filtration water treatment facility which began in 2009. Total costs of the project was \$12,709,430 plus additional furniture, fixtures and equipment. Details of the cost of the facility is as follows:

Engineering	\$ 895,000
General contractor	10,365,955
Electrical contractor	1,077,255
Construction period interest	154,196
Other construction costs	217,024
Furniture, fixtures and equipment	<u>78,074</u>
	<u>\$ 12,787,504</u>

**NOTE 3 - ACQUISITION OF BOROUGH OF CORSICA WASTEWATER TREATMENT SYSTEM**

By mutual agreement, the Brookville Municipal Authority accepted ownership and operational responsibilities for the wastewater collection and treatment system of the Borough of Corsica, Pennsylvania. Effective August 1, 2012 all wastewater collection and treatment assets were transferred to the Brookville Municipal Authority and the Brookville Municipal Authority assumed the outstanding Pennvest loan balance payable on the system (as discussed in Note 6). The book value of the wastewater collection and treatment system transferred to the Brookville Municipal Authority as of August 1, 2012 was as follows:

<u>Item</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Land	\$ 3,710.00	\$ - 0 -	\$ 3,710.00
Sewer System	<u>1,596,804.61</u>	<u>418,758.10</u>	<u>1,178,046.51</u>
Total Assets	<u>\$ 1,600,514.61</u>	<u>\$ 418,758.10</u>	1,181,756.51
Penn Vest Loan Balance			<u>(247,067.40)</u>
Net Equity			<u>\$ 934,689.11</u>

**NOTE 4 - DUE AMONG FUNDS**

The amount due from the Sewer Revenue Fund to the Water Revenue Fund of \$13,366 consists of the following items:

1.) Reimbursement for payment made by Water Revenue Fund to the Borough of Corsica for sewer billing revenue received for July 2012	\$ 8,597
2.) Reimbursement for payment of legal fees by Water Revenue Fund in connection with the acquisition of the Corsica wastewater treatment plant	4,167
3.) Water Revenue Fund share of rebate received for the demand smart program	<u>602</u>
	<u>\$ 13,366</u>

The amount due from the Water Revenue Fund to the Sewer Revenue Fund of \$16,883 consists of the following items:

1.) Collection of August and September wastewater service fees deposited into the Water Revenue Fund	\$ 13,366
2.) Sewer Revenue Fund share of Comm. of PA, Dept. of Transportation reimbursement of I-80 Ramp project costs	<u>3,517</u>
	<u>\$ 16,883</u>

**NOTE 5 - ACCOUNTS RECEIVABLE – OTHER**

Accounts receivable - other consist of various fees, charges, reimbursements and grants due the Authority as of December 31, 2012 as follows:

	<u>Water Revenue Fund</u>	<u>Sewer Revenue Fund</u>	<u>Total</u>
Miscellaneous service fees	\$ 5,820	\$ 11,220	\$ 17,040
Other accounts receivable	<u>223</u>	<u>12</u>	<u>235</u>
<b>Total</b>	<b><u>\$ 6,043</u></b>	<b><u>\$ 11,232</u></b>	<b><u>\$ 17,275</u></b>

**NOTE 6 - LONG-TERM DEBT**

**Pennsylvania Infrastructure Investment Authority – Water Plant Loan**

The Authority obtained permanent financing for the cost of construction of a new water treatment plant from the Pennsylvania Infrastructure Investment Authority (Pennvest). The total loan amount is for \$11,655,000. The interest rate on the loan for years 1 through 5 is at 1.274 percent and for years 6 through maturity is at 2.547 percent. The loan provides for interest only payments for up to 36 months and amortization of loan principal and interest of 240 months (20 years). The note is secured by a lien on the water revenues of the Authority and the Authority's resolution providing for increases in the water rates of the Authority sufficient to support the projected future operating expenses and debt service requirements of the Water Revenue Fund.

Interest only payments were made on the loan up through April 1, 2012. An interim amortization schedule for the note began May 1, 2012 with monthly payments of \$55,037.45. Upon final payment of the loan amount of \$582,750.00 in June 2012, the final amortization schedule was prepared which adjusted the actual monthly payment amount to \$55,030.15. Total principal payments made in 2012 were \$344,080.36 and interest paid was \$143,151.93. Scheduled debt service requirements on the loan as of December 31, 2012 is as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Dec. 31, 2013	\$ 519,285.90	\$ 141,075.90	\$ 660,361.80
Dec. 31, 2014	525,940.37	134,421.43	660,361.80
Dec. 31, 2015	532,680.13	127,681.67	660,361.80
Dec. 31, 2016	539,506.23	120,855.57	660,361.80
Dec. 31, 2017 *	513,130.59	189,322.57	702,453.16
2018 to 2022	2,675,991.32	941,502.88	3,617,494.20
2023 to 2027	3,039,019.52	578,474.68	3,617,494.20
2028 to 2032	<u>2,965,365.58</u>	<u>169,796.03</u>	<u>3,135,161.61</u>
	<b><u>\$ 11,310,919.64</u></b>	<b><u>\$ 2,403,130.73</u></b>	<b><u>\$ 13,714,050.37</u></b>

\* Interest rate change from 1.274% to 2.547% on April 1, 2017.

## Pennsylvania Infrastructure Investment Authority – Corsica Wastewater System Loan

In connection with the acquisition of the Borough of Corsica, Pennsylvania, wastewater treatment plant and collection system, the Brookville Municipal Authority entered into an Assumption Agreement with the Pennsylvania Infrastructure Investment Authority (Pennvest) in which the Brookville Municipal Authority assumed all the obligations of the Borough of Corsica in respect of the loan the Borough had received from Pennvest in order to construct the sewer treatment plant and collection system. The assumed note is secured by a lien on revenues granted in the loan agreement. The outstanding loan obligation assumed by the Brookville Municipal Authority was \$247,067.40. The interest rate on the note is 1 percent and monthly payments are \$3,686.12. Total principal payments made in 2012 after assumption of the note was \$17,427.26 and interest paid was \$1,003.34. Scheduled debt service requirements on the loan as of December 31, 2012 is as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Dec. 31, 2013	\$ 42,129.79	\$ 2,103.65	\$ 44,233.44
Dec. 31, 2014	42,553.00	1,680.44	44,233.44
Dec. 31, 2015	42,980.49	1,252.95	44,233.44
Dec. 31, 2016	43,412.29	821.15	44,233.44
Dec. 31, 2017	43,848.43	385.01	44,233.44
Dec. 31, 2018	<u>14,716.14</u>	<u>30.67</u>	<u>14,746.81</u>
	<u>\$ 229,640.14</u>	<u>\$ 6,273.87</u>	<u>\$ 235,914.01</u>

### NOTE 7 - PENSION

The Brookville Municipal Authority maintains a single-employer defined benefit pension plan controlled by the provisions of resolution dated May 14, 1996 adopted pursuant to Act 15. The plan participates in the Pennsylvania Municipal Retirement System (PMRS) which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. The plans assets with PMRS are pooled for investment purposes and, therefore, do not represent specific identifiable investment securities. Disclosures required by Statement No. 3 of the Governmental Accounting Standards Board are included in PMRS's separately issued Comprehensive Annual Financial Report, which can be obtained by contacting the PMRS accounting office or is available on the PMRS website.

The plan covers substantially all full-time employees and provides retirement, disability and death benefits to plan members and their beneficiaries. Members are required to contribute 4.00 percent of compensation to the plan.

Based upon the Act 205 Actuarial Valuation Report dated Jan. 1, 2011, the market value of plan assets was \$2,175,927, the actuarial accrued liability was \$2,105,583, and the plan had a positive unfunded liability (excess funding) of \$70,344.

The total pension contribution paid by the Authority during the year was \$17,874, which was the Minimum Municipal Obligation computed under Act 205. The Water Revenue Fund was charged \$10,724 and the Sewer Revenue Fund was charged \$7,150. The Authority has contributed 100 percent of the Minimum Municipal Obligation for the past ten years.

## NOTE 8 - CONTRACTS, COMMITMENTS AND CONTINGENCIES

### Consent Order and Agreement

The Authority has entered into a consent order and agreement with the Commonwealth of Pennsylvania, Department of Environmental Protection dated April 2, 2012. The agreement is the result of various sanitary sewer overflows occurring at the Brookville Municipal Authority wastewater treatment plant. Under the Agreement, the Authority must undertake various actions to bring the plant into compliance with the NPDES permit and various other state and federal laws. The wastewater treatment plant and facilities are to be in compliance by December 31, 2016.

In addition, the Authority is subject to civil penalties for overflows that have accrued or may occur until the plant is in compliance. A penalty of \$2,000 was paid at the time of the consent agreement. Additional penalties of \$4,000 have been paid during 2012.

## NOTE 9 - RISK MANAGEMENT

The Municipal Authority is exposed to various risks of loss related to limited torts; theft, damage or destruction of assets; errors and omissions and natural disasters for which the Authority carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.