

**BOROUGH OF MYERSTOWN
WASTE WATER TREATMENT REVENUE ACCOUNT**

FINANCIAL STATEMENTS

DECEMBER 31, 2017

**BOROUGH OF MYERSTOWN
WASTE WATER TREATMENT REVENUE ACCOUNT
FINANCIAL STATEMENTS
December 31, 2017**

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Thomas I. Siegel, CPA

Maxine R. Maser, CPA

David H. Siegel, CPA

Daniel S. Siegel, CPA

Rachel L. Siegel, CPA

Samuel R. Siegel, CPA

INDEPENDENT AUDITOR'S REPORT

Borough Council
BOROUGH OF MYERSTOWN
Myerstown, Pennsylvania

We have audited the accompanying financial statements of the Waste Water Treatment Revenue Account of the Borough of Myerstown, Pennsylvania, as of and for the year ended **December 31, 2017 and 2016**, and the related notes to the 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 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Waste Water Treatment Revenue Account of the Borough of Myerstown, Pennsylvania, as of December 31, 2017 and 2016, 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

As discussed in Note 1, the financial statements present only the Waste Water Treatment Revenue Account and do not purport to, and do not, present fairly the financial position of the Borough of Myerstown, Pennsylvania, as of December 31, 2017 and 2016, the changes in its financial position, or its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Stanilla, Siegel and Maser LLC

Lebanon, Pennsylvania

April 11, 2018

BOROUGH OF MYERSTOWN
WASTE WATER TREATMENT REVENUE ACCOUNT
STATEMENTS OF NET POSITION
December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<i>ASSETS</i>		
Current Assets:		
Cash & Cash Equivalents	\$ 3,443,518	\$ 2,950,450
Investments	1,842,391	1,639,963
Accounts Receivable	249,154	275,523
Total Current Assets	\$ 5,535,063	\$ 4,865,936
Noncurrent Assets:		
Capital Assets, net of Depreciation	18,043,910	18,486,266
Total Assets	\$ 23,578,973	\$ 23,352,202
 <i>DEFERRED OUTFLOWS OF RESOURCES</i>		
Deferred Amount on Refunding	\$ 951,374	\$ 1,011,973
Total Deferred Outflows of Resources	\$ 951,374	\$ 1,011,973
 <i>LIABILITIES</i>		
Current Liabilities:		
Accounts Payable	\$ 32,567	\$ 32,088
Note Payable, current portion	425,000	415,000
Due to Other Funds	60,210	54,895
Accrued Wages	6,418	4,251
Accrued Interest Payable	84,376	80,487
Accrued Vacation	3,808	2,743
Total Current Liabilities	\$ 612,379	\$ 589,464
Noncurrent Liabilities:		
Note Payable, net of current portion	7,750,000	8,175,000
Total Liabilities	\$ 8,362,379	\$ 8,764,464
 <i>NET POSITION</i>		
Net Investment in Capital Assets	\$ 9,868,910	\$ 9,896,266
Unrestricted	6,299,058	5,703,445
Total Net Position	\$ 16,167,968	\$ 15,599,711

See Accompanying Notes to Financial Statements

BOROUGH OF MYERSTOWN
WASTE WATER TREATMENT REVENUE ACCOUNT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
For the Years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES		
Waste Water Treatment User Charges	\$ 1,242,692	\$ 1,236,656
Fines and Penalties	8,419	7,732
Industrial Cost Recovery	20,344	20,241
Contracted Labor and Equipment	11,743	11,936
Pension Reimbursement	11,012	10,500
Reimbursement Income, net	312,092	227,790
Miscellaneous Income	18,899	13,176
	<u>1,625,201</u>	<u>1,528,031</u>
Total Operating Revenues	\$ 1,625,201	\$ 1,528,031
OPERATING EXPENSES		
Shared Wastewater Treatment System Expenses		
Salaries	\$ 160,544	\$ 157,697
Materials & Supplies	7,162	28
Utilities	87,727	89,949
Chemicals	36,374	44,019
Lab Expenditures	29,425	36,986
Sludge Disposal	61,187	55,308
Trash Removal	12,834	17,318
Maintenance & Repairs	47,958	49,897
Vehicle Expense	3,270	2,555
Alarm System Costs	3,940	-0-
Equipment Replacement	5,349	4,653
	<u>455,770</u>	<u>458,410</u>
Total Shared Wastewater Treatment System Expenses	\$ 455,770	\$ 458,410
Shared Administrative Expenses		
Borough Administrative Expenses	\$ 25,000	\$ 23,500
Materials & Supplies	749	934
Advertising & Printing	-0-	381
Dues, Conferences, and Training	1,466	1,279
Accounting and Legal Fees	19,338	19,150
Communications	5,583	4,904
Protective Equipment	310	315
Employee Benefits and Taxes	124,029	112,986
Insurance	16,800	20,105
Office Expense	1,092	1,367
Miscellaneous	791	1,914
Uniform Rental	2,720	2,609
	<u>197,878</u>	<u>189,444</u>
Total Shared Administrative Expenses	\$ 197,878	\$ 189,444

(Continued)

BOROUGH OF MYERSTOWN
WASTE WATER TREATMENT REVENUE ACCOUNT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
For the Years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
OPERATING EXPENSES (CONTINUED)		
Expenses Allocated to Millcreek - Richland Only		
Maintenance & Repairs	\$ 644	\$ 390
Total Expenses Allocated to Millcreek - Richland Only	<u>\$ 644</u>	<u>\$ 390</u>
Expenses Allocated to Jackson Only		
Maintenance & Repairs	\$ -0-	\$ -0-
Total Expenses Allocated to Jackson Only	<u>\$ -0-</u>	<u>\$ -0-</u>
Expenses Allocated to Myerstown Only		
Collection System	\$ 110,147	\$ 141,591
Administrative Services, Not Shared	66,000	32,000
Professional Fees	-0-	541
Insurance	6,362	7,150
Depreciation	462,085	457,283
Miscellaneous Expense	534	1,796
Total Expenses Allocated to Myerstown Only	<u>\$ 645,128</u>	<u>\$ 640,361</u>
Total Operating Expenses	<u>\$ 1,299,420</u>	<u>\$ 1,288,605</u>
Operating Income	<u>\$ 325,781</u>	<u>\$ 239,426</u>
NON-OPERATING REVENUES (EXPENSES)		
Investment Income	\$ 85,059	\$ (20,073)
Transfers to (from) Other Funds	409,750	(407,514)
Gain on Sale of Fixed Assets	5,400	-0-
Amortization	(60,599)	(50,599)
Interest Expense	(197,134)	(196,387)
Total Non-Operating Revenue (Expenses)	<u>\$ 242,476</u>	<u>\$ (674,573)</u>
CHANGE IN NET ASSETS	\$ 568,257	\$ (435,147)
NET ASSETS - BEGINNING OF YEAR	<u>15,599,711</u>	<u>16,034,858</u>
NET ASSETS - END OF YEAR	<u><u>\$ 16,167,968</u></u>	<u><u>\$ 15,599,711</u></u>

See Accompanying Notes to Financial Statements

BOROUGH OF MYERSTOWN
WASTE WATER TREATMENT REVENUE ACCOUNT
STATEMENTS OF CASH FLOWS
For the Years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 1,277,480	\$ 1,255,391
Miscellaneous Cash Received	41,654	35,612
Reimbursements	312,092	227,790
Operating Expenses Paid	(603,723)	(706,953)
Cash Paid to Employees	<u>(158,377)</u>	<u>(156,044)</u>
Net Cash Provided by Operating Activities	<u>\$ 869,126</u>	<u>\$ 655,796</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received on Deposits	\$ 14,197	\$ 7,988
Income Received from Investments	111,327	42,872
Redemption/(Purchase) of Investments	<u>(283,358)</u>	<u>(1,194,258)</u>
Net Cash Provided By Investing Activities	<u>\$ (157,834)</u>	<u>\$ (1,143,398)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal Payments	\$ (415,000)	\$ (237,000)
Purchase of Equipment	(19,729)	(172,587)
Interest Paid	<u>(193,245)</u>	<u>(198,608)</u>
Net Cash Used By Capital and Related Financing Activities	<u>\$ (627,974)</u>	<u>\$ (608,195)</u>
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES		
Transfers to Other Funds	\$ 409,750	\$ (407,514)
Tapping Fees	<u>-0-</u>	<u>-0-</u>
Net Cash Provided By Non-Capital and Related Financing Activities	<u>\$ 409,750</u>	<u>\$ (407,514)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>\$ 493,068</u>	<u>\$ (1,503,311)</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>2,950,450</u>	<u>4,453,761</u>
END OF YEAR	<u><u>\$ 3,443,518</u></u>	<u><u>\$ 2,950,450</u></u>

See Accompanying Notes to Financial Statements

BOROUGH OF MYERSTOWN
WASTE WATER TREATMENT REVENUE ACCOUNT
STATEMENTS OF CASH FLOWS
For the Years ended December 31, 2017 and 2016

	<u>2016</u>	<u>2015</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 325,781	\$ 239,426
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Depreciation	\$ 462,085	\$ 457,283
(Gain) Loss on Investments	45,865	(28,061)
(Increase) Decrease in:		
Accounts Receivable	26,369	11,003
Increase (Decrease) in:		
Accounts Payable	479	(32,276)
Due to Other Funds	5,315	6,193
Accrued Wages	2,167	1,653
Accrued Compensated Absences	1,065	575
Total Adjustments	<u>\$ 543,345</u>	<u>\$ 416,370</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 869,126</u></u>	<u><u>\$ 655,796</u></u>

See Accompanying Notes to Financial Statements

**BOROUGH OF MYERSTOWN
WASTE WATER TREATMENT REVENUE ACCOUNT
FINANCIAL STATEMENTS
December 31, 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Borough of Myerstown, Waste Water Treatment Revenue Account (Fund) are funds of the Borough of Myerstown (Borough) used to account for the operations of the Borough's Wastewater Treatment Facility.

Basis of Accounting

The Fund uses the accrual basis of accounting and is accounted for as a proprietary fund. Accordingly, revenues are recognized when earned and expenses are recorded when the related liability is incurred, regardless of the timing of cash flows. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and short-term certificates of deposit and governmental securities.

Investments

Investments are stated at fair value which is based on quoted market price.

Receivables

Receivables consist of all revenues earned at year-end and not yet received. The Borough monitors outstanding accounts receivable and considers accounts receivable at year end to be fully collectible, therefore, no allowance for uncollectible amounts was recorded.

Restricted Assets

Restricted assets include cash and investments of the proprietary fund that are legally restricted as to their use. There are currently no assets restricted by any party.

Proprietary Fund Net Position

Proprietary fund Net Position is divided into three components:

- Invested in capital assets, net of related debt - consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
- Restricted Net Position - consist of Net Position that are restricted by the state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors.
- Unrestricted - all other Net Position amounts are reported in this category.

**BOROUGH OF MYERSTOWN
WASTE WATER TREATMENT REVENUE ACCOUNT
FINANCIAL STATEMENTS
December 31, 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Restricted Resources

When an expense is incurred that can be paid using either restricted or unrestricted resources (Net Position), the Borough's policy is to first apply the expense toward restricted resources and then toward unrestricted resources.

Interfund Activity

Interfund activity is reported as reimbursements or transfers. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between funds within the sewer account are netted. Intercompany balances are present when there is a time lag in the reimbursement and/or transfer.

Capital Assets

Capital assets are carried at cost. A capitalization threshold of \$500 is used to report capital assets. Contributed property is recorded at the estimated market value at the date of contribution. The cost of maintenance and repairs is charged against income as incurred, whereas significant renewals and betterments are capitalized and deduction is made for retirements resulting from renewals or betterments.

Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of assets is as follows:

Sewer System	39 years
Buildings	50 years
Equipment	3-15 years
Vehicles	5 years

Compensated Absences

The Borough's employee policy allows employees to carry over up to 40 hours of paid time off with the option to be paid for any unused time, no later than February 15th of the following year. Accumulated compensated absences are reported as accrued paid time off in the financial statements.

Risk Management

The Borough is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, and errors and omissions for which it carries commercial insurance.

Operating Revenues and Expenses

Operating revenues and expenses are those that result from providing services and producing and delivering goods and/or services. It also includes all revenues and expenses not related to capital and related financing, non-capital financing, or inventory activities. Amounts are classified as shared or not by contract between participating municipalities for the treatment of wastewater as disclosed in Note 2.

**BOROUGH OF MYERSTOWN
WASTE WATER TREATMENT REVENUE ACCOUNT
FINANCIAL STATEMENTS
December 31, 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Event Review

The Borough has evaluated subsequent events through April 11, 2018, the date the financial statements were available to be issued.

NOTE 2 – INTER-MUNICIPAL AGREEMENTS

The Borough has entered into two agreements with other local municipalities, one with the Township of Millcreek, the Borough of Richland and the Richland-Millcreek Joint Sewer Authority and the other with Jackson Township and the Jackson Township Authority. The purpose of these agreements is to define how the municipalities will share the cost of operating the wastewater treatment facility and share the costs of future expansion.

NOTE 3 - CASH AND CASH EQUIVALENTS

Custodial Risk

The risk for deposits is that in the event of a bank failure, the government's deposits may not be returned to it. The Borough is authorized by statute to invest in government securities and insured accounts or their equivalents. The Borough deposits cash in a local financial institution. At December 31, 2017 and 2016, respectively, the Waste Water Treatment Fund's carrying amount of bank deposits was \$1,158,919 and \$622,272 and the bank balance was \$1,168,769 and \$736,940. The bank balance up to \$250,000 is covered by federal depository insurance. The depository pledges assets to secure deposits in excess of \$250,000 in accordance with Act 72.

Cash equivalents of the Fund consist of funds deposited in the Pennsylvania Local Government Investment Trust (PLGIT). These funds are invested in federal securities and rated AAAM by Standard & Poor's. Balances at December 31, 2017 and 2016 were \$546,767 and \$540,857. The cash equivalents are not categorized by level of credit risk as they are pooled funds and securities are not used as evidence of investment. Market values of the above instruments are at cost.

Certificates of Deposit are purchased through a broker from various bank depositories with a maximum value of \$250,000 at each bank imposed by the Borough. Total Certificates of Deposit held through the broker were \$1,099,608 and 1,709,872 at December 31, 2017 and 2016. Cash and money market funds of \$638,025 and \$77,249 at December 31, 2017 and 2016 are covered up to \$500,000 by the securities investor protection corporation through the broker. A large deposit at the end of the year was immediately invested subsequent to year end.

The Borough places no limit on the amount of deposits in any one issuer other than the limit imposed on the broker.

**BOROUGH OF MYERSTOWN
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NOTE 4 - INVESTMENTS

The Pennsylvania Borough Code provides for the deposit of governmental funds into certain authorized investment types including U.S. Treasury bills, U.S. Treasury notes, other short term U.S. and Pennsylvania government obligations or their agencies or instrumentalities and insured or collateralized time deposits and certificates of deposits.

The following investments were held by the Waste Water funds:

<u>Investment Type.</u>	<u>Fair Value</u>	
	<u>2017</u>	<u>2016</u>
Government and Agency Securities	\$ 33,714	\$ 42,295
Taxable Municipal Bonds	282,082	-0-
Federally Tax Exempt Municipal Bonds	<u>1,526,595</u>	<u>1,597,668</u>
	<u>\$ 1,842,391</u>	<u>\$1,639,963</u>

NOTE 5 – CAPITAL ASSETS

The following summarizes the changes in capital assets for the fund for the year ended December 31, 2017:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Depreciable Assets:				
Sewer Plant and Improvements	\$ 28,876,655	\$ 19,729	\$ -0-	\$ 28,896,684
Equipment	194,581	-0-	-0-	194,581
Vehicles	<u>60,180</u>	<u>-0-</u>	<u>-0-</u>	<u>60,180</u>
Total Depreciable Assets	<u>\$ 29,131,416</u>	<u>\$ 19,729</u>	<u>\$ -0-</u>	<u>\$ 29,151,145</u>
Less: Accumulated Depreciation:				
Sewer Plant and Improvements	\$ 10,474,312	\$ 444,420	\$ -0-	\$ 10,918,732
Equipment	141,604	10,788	-0-	152,392
Vehicles	<u>29,233</u>	<u>6,877</u>	<u>-0-</u>	<u>36,110</u>
Total Depreciable Assets	<u>\$ 10,645,149</u>	<u>\$ 462,085</u>	<u>\$ -0-</u>	<u>\$ 11,107,234</u>
Net Capital Assets	<u>\$ 18,486,267</u>	<u>\$ (442,356)</u>	<u>\$ -0-</u>	<u>\$ 18,043,911</u>

NOTE 6– LONG-TERM DEBT

In October, 2014 the Borough of Myerstown issued General Obligation Note, Series A of 2014 in the amount of \$8,827,000. The note was issued to advance refund the remaining \$8,280,000 of outstanding Millcreek-Richland Joint Authority guaranteed sewer revenue bonds, Series A of 2007. The proceeds of the 2014 Series A issue were deposited irrevocably into a trust to be invested in direct obligations of the United States of America until which time they are used to provide for debt service on the 2007 Series A bonds. The 2007 Series A bonds are therefore considered defeased and the note payable to the Authority to pay off the bonds was removed from the books of the Borough. The outstanding defeased bonds were called and paid off in 2017.

**BOROUGH OF MYERSTOWN
WASTE WATER TREATMENT REVENUE ACCOUNT
FINANCIAL STATEMENTS
December 31, 2017**

NOTE 6– LONG-TERM DEBT (continued)

The 2014 Note, as amended, bears interest at 2.25% until August 1, 2023 and thereafter at a variable rate equal to 65% of the Wall Street Journal Prime Rate, not to exceed 4.75% per annum, until August 1, 2036, the final maturity date. Principal and interest payments for the next five years and thereafter on the Note, Series A of 2014, assuming the maximum variable interest rate are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2018	\$ 425,000	\$ 183,938	\$ 608,938
2019	435,000	174,375	609,375
2020	440,000	164,588	604,588
2021	455,000	154,688	609,688
2022	305,000	144,450	449,450
2023-2027	1,750,000	1,140,353	2,890,353
2028-2032	2,200,000	837,663	3,037,663
2033-2036	<u>2,165,000</u>	<u>263,150</u>	<u>2,428,150</u>
	<u>\$ 8,175,000</u>	<u>\$ 3,063,205</u>	<u>\$ 11,238,205</u>

The Long-Term Debt activity for 2017 is as follows:

	<u>Balance 12/31/16</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/17</u>
2014 GO Note, Series A	<u>\$ 8,590,000</u>	<u>\$ -0-</u>	<u>\$ 415,000</u>	<u>\$ 8,175,000</u>

NOTE 7 – CONCENTRATION OF CREDIT RISK

During 2017 two customers represent 21% of user charges for the year.

NOTE 8 - NON-UNIFORMED EMPLOYEE'S RETIREMENT

The Borough maintains a deferred compensation plan for its non-uniform employees. The plan is governed by the Borough Council which is responsible for management of the plan assets. The Borough delegated the authority to administer and manage plan assets to Mass Mutual Life Insurance Company. Refer to the plan document for a detail description of plan benefits. Participants may elect to contribute to the Plan a percentage of compensation as defined in the Plan. Deferrals may not exceed the dollar limit that is set by law. The Borough does not provide matching contributions to this plan.

**BOROUGH OF MYERSTOWN
WASTE WATER TREATMENT REVENUE ACCOUNT
FINANCIAL STATEMENTS
December 31, 2017**

NOTE 8 - NON-UNIFORMED EMPLOYEE'S RETIREMENT (continued)

As employees of the Borough of Myerstown, employees are also participants in a defined contribution plan which covers non-uniformed employees. The plan is governed by the Borough Council which is responsible for management of the plan assets. The Borough has delegated the authority to administer and manage plan assets to Mass Mutual Life Insurance Company. The Borough contributes 16 percent of plan participants' compensation per year. The plan is eligible for an annual allocation from the General Municipal Pension System State Aid Program which must be used to reduce or eliminate the required municipal contributions. Employees may also contribute to the plan as long as their total contributions do not exceed 25% of their compensation. \$11,012 and \$10,500 of the State contribution was applied for waste water revenue account employees for the years ended December 31, 2017 and 2016. The Borough contributed \$25,187 and \$23,549 to this plan for the waste water revenue account for the years ended December 31, 2017 and 2016, respectively.