

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

FINANCIAL STATEMENTS

DECEMBER 31, 2016

**BOROUGH OF MYERSTOWN
WASTE WATER TREATMENT REVENUE ACCOUNT
FINANCIAL STATEMENTS
December 31, 2016**

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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, 2016 and 2015**, 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, 2016 and 2015, 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, 2016 and 2015, 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 28, 2017

BOROUGH OF MYERSTOWN
WASTE WATER TREATMENT REVENUE ACCOUNT
STATEMENTS OF NET POSITION
December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<i>ASSETS</i>		
Current Assets:		
Cash & Cash Equivalents	\$ 2,950,450	\$ 4,453,760
Investments	1,639,963	488,577
Accounts Receivable	<u>275,523</u>	<u>286,526</u>
Total Current Assets	\$ 4,865,936	\$ 5,228,863
Noncurrent Assets:		
Capital Assets, net of Depreciation	<u>18,486,266</u>	<u>18,770,964</u>
Total Assets	<u>\$ 23,352,202</u>	<u>\$ 23,999,827</u>
<i>DEFERRED OUTFLOWS OF RESOURCES</i>		
Deferred Amount on Refunding	<u>\$ 1,011,973</u>	<u>\$ 1,062,571</u>
Total Deferred Outflows of Resources	<u>\$ 1,011,973</u>	<u>\$ 1,062,571</u>
<i>LIABILITIES</i>		
Current Liabilities:		
Accounts Payable	\$ 32,088	\$ 64,364
Note Payable, current portion	415,000	237,000
Due to Other Funds	54,895	48,702
Accrued Wages	4,251	2,598
Accrued Interest Payable	80,487	82,708
Accrued Vacation	<u>2,743</u>	<u>2,168</u>
Total Current Liabilities	\$ 589,464	\$ 437,540
Noncurrent Liabilities:		
Note Payable, net of current portion	<u>8,175,000</u>	<u>8,590,000</u>
Total Liabilities	<u>\$ 8,764,464</u>	<u>\$ 9,027,540</u>
<i>NET POSITION</i>		
Net Investment in Capital Assets	\$ 9,896,266	\$ 9,943,964
Unrestricted	<u>5,703,445</u>	<u>6,090,894</u>
Total Net Position	<u><u>\$ 15,599,711</u></u>	<u><u>\$ 16,034,858</u></u>

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, 2016 and 2015

	2016	2015
OPERATING REVENUES		
Waste Water Treatment User Charges	\$ 1,236,656	\$ 1,260,102
Fines and Penalties	7,732	11,742
Industrial Cost Recovery	20,241	20,393
Contracted Labor and Equipment	11,936	12,107
Pension Reimbursement	10,500	14,115
Reimbursement Income, net	227,790	236,188
Miscellaneous Income	13,176	19,927
Total Operating Revenues	<u>\$ 1,528,031</u>	<u>\$ 1,574,574</u>
OPERATING EXPENSES		
Shared Wastewater Treatment System Expenses		
Salaries	\$ 157,697	\$ 140,630
Materials & Supplies	28	3,921
Utilities	89,949	95,824
Chemicals	44,019	28,286
Lab Expenditures	36,986	27,693
Sludge Disposal	55,308	56,136
Trash Removal	17,318	15,899
Communications	-0-	300
Maintenance & Repairs	49,897	33,560
Vehicle Expense	2,555	1,769
Alarm System Costs	-0-	3,940
Equipment Replacement	4,653	2,638
Total Shared Wastewater Treatment System Expenses	<u>\$ 458,410</u>	<u>\$ 410,596</u>
Shared Administrative Expenses		
Borough Administrative Expenses	\$ 23,500	\$ 22,678
Materials & Supplies	934	4,773
Advertising & Printing	381	325
Dues, Conferences, and Training	1,279	496
Accounting and Legal Fees	19,150	19,693
Communications	4,904	4,764
Protective Equipment	315	433
Employee Benefits and Taxes	112,986	96,353
Insurance	20,105	30,540
Office Expense	1,367	2,305
Miscellaneous	1,914	98
Uniform Rental	2,609	1,710
Total Shared Administrative Expenses	<u>\$ 189,444</u>	<u>\$ 184,168</u>

(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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
OPERATING EXPENSES (CONTINUED)		
Expenses Allocated to Millcreek - Richland Only		
Maintenance & Repairs	\$ 390	\$ 531
Total Expenses Allocated to Millcreek - Richland Only	<u>\$ 390</u>	<u>\$ 531</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	\$ 141,591	\$ 288,802
Administrative Services, Not Shared	32,000	25,106
Professional Fees	541	1,877
Insurance	7,150	3,664
Depreciation	457,283	453,620
Amortiation	50,599	50,599
Miscellaneous Expense	1,796	1,370
Total Expenses Allocated to Myerstown Only	<u>\$ 690,960</u>	<u>\$ 825,038</u>
Total Operating Expenses	<u>\$ 1,339,204</u>	<u>\$ 1,420,333</u>
Operating Income	<u>\$ 188,827</u>	<u>\$ 154,241</u>
NON-OPERATING REVENUES (EXPENSES)		
Investment Income	\$ (20,073)	\$ (10,047)
Transfers to Other Funds	(407,514)	(253,766)
Interest Expense	(196,387)	(157,783)
Total Non-Operating Revenue (Expenses)	<u>\$ (623,974)</u>	<u>\$ (421,596)</u>
CHANGE IN NET ASSETS	<u>\$ (435,147)</u>	<u>\$ (267,355)</u>
NET ASSETS - BEGINNING OF YEAR	<u>16,034,858</u>	<u>16,302,213</u>
NET ASSETS - END OF YEAR	<u><u>\$ 15,599,711</u></u>	<u><u>\$ 16,034,858</u></u>

BOROUGH OF MYERSTOWN
WASTE WATER TREATMENT REVENUE ACCOUNT
STATEMENTS OF CASH FLOWS
For the Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 1,255,391	\$ 1,203,437
Miscellaneous Cash Received	35,612	46,149
Reimbursements	227,790	236,188
Operating Expenses Paid	(706,953)	(769,781)
Cash Paid to Employees	(156,044)	(139,895)
Net Cash Provided by Operating Activities	<u>\$ 655,796</u>	<u>\$ 576,098</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income Received	\$ 7,988	\$ 10,527
Redemption/(Purchase) of Investments	(1,151,386)	(490,177)
Net Cash Provided By Investing Activities	<u>\$ (1,143,398)</u>	<u>\$ (479,650)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal Payments	\$ (237,000)	\$ -0-
Purchase of Equipment	(172,587)	-0-
Interest Paid	(198,608)	(157,783)
Net Cash Used By Capital and Related Financing Activities	<u>\$ (608,195)</u>	<u>\$ (157,783)</u>
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES		
Transfers to Other Funds	\$ (407,514)	\$ (253,766)
Tapping Fees	-0-	-0-
Net Cash Provided By Non-Capital and Related Financing Activities	<u>\$ (407,514)</u>	<u>\$ (253,766)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>\$ (1,503,311)</u>	<u>\$ (315,101)</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>4,453,761</u>	<u>4,768,862</u>
END OF YEAR	<u><u>\$ 2,950,450</u></u>	<u><u>\$ 4,453,761</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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	<u>\$ 188,827</u>	<u>\$ 154,241</u>
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Depreciation	\$ 457,283	\$ 453,620
Amortization	50,599	50,599
Gain on Sale of Investments	(28,061)	(18,974)
(Increase) Decrease in:		
Accounts Receivable	11,003	(68,407)
Prepaid Insurance	-0-	22,216
Due from Other Funds	-0-	-0-
Increase (Decrease) in:		
Accounts Payable	(32,276)	(19,683)
Due to Other Funds	6,193	-0-
Accrued Wages	1,653	735
Accrued Compensated Absences	<u>575</u>	<u>1,751</u>
Total Adjustments	<u>\$ 466,969</u>	<u>\$ 421,857</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 655,796</u></u>	<u><u>\$ 576,098</u></u>

**BOROUGH OF MYERSTOWN
WASTE WATER TREATMENT REVENUE ACCOUNT
FINANCIAL STATEMENTS
December 31, 2016**

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, 2016**

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.

**BOROUGH OF MYERSTOWN
WASTE WATER TREATMENT REVENUE ACCOUNT
FINANCIAL STATEMENTS
December 31, 2016**

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 28, 2017, 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, 2016 and 2015, respectively, the Waste Water Treatment Fund's carrying amount of bank deposits was \$622,272 and \$378,960 and the bank balance was \$736,940 and \$388,028. 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, 2016 and 2015 were \$540,857 and \$634,272. 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. Total Certificates of Deposit held through the broker were \$1,709,872 and 3,022,914 at December 31, 2016 and 2015. Money market funds of \$77,249 and \$357,415 at December 31, 2016 and 2015 are covered up to \$500,000 by the securities investor protection corporation.

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
WASTE WATER TREATMENT REVENUE ACCOUNT
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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.

In 2016 a brokerage account was opened and the following investments were held by the Waste Water funds

<u>Investment Type.</u>	<u>Fair Value</u>	
	<u>2016</u>	<u>2015</u>
Government and Agency Securities	\$ 42,295	\$ -0-
Federally Tax Exempt Municipal Bonds	<u>1,597,668</u>	<u>488,577</u>
	<u>\$ 1,639,963</u>	<u>\$ 488,577</u>

NOTE 5 – CAPITAL ASSETS

The following summarizes the changes in capital assets for the fund for the year ended December 31, 2016:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Depreciable Assets:				
Sewer Plant and Improvements	\$ 28,771,455	\$ 105,200	\$ -0-	\$ 28,876,655
Equipment	161,580	33,000	-0-	194,580
Vehicles	<u>25,795</u>	<u>34,385</u>	<u>-0-</u>	<u>60,180</u>
Total Depreciable Assets	<u>\$ 28,958,830</u>	<u>\$ 172,585</u>	<u>\$ -0-</u>	<u>\$ 29,131,415</u>
Less: Accumulated Depreciation:				
Sewer Plant and Improvements	\$ 10,034,056	\$ 440,256	\$ -0-	\$ 10,474,312
Equipment	130,595	11,010	-0-	141,604
Vehicles	<u>23,215</u>	<u>6,017</u>	<u>-0-</u>	<u>29,233</u>
Total Depreciable Assets	<u>\$ 10,187,866</u>	<u>\$ 457,283</u>	<u>\$ -0-</u>	<u>\$ 10,645,149</u>
Net Capital Assets	<u>\$ 18,770,964</u>	<u>\$ (284,698)</u>	<u>\$ -0-</u>	<u>\$ 18,486,266</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 has been removed from the books of the Borough. The outstanding principal of the defeased bonds is \$7,880,000 at December 31, 2016.

BOROUGH OF MYERSTOWN
WASTE WATER TREATMENT REVENUE ACCOUNT
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December 31, 2016

NOTE 6– LONG-TERM DEBT (continued)

The 2014 Note bears interest at 2.25% until August 1, 2021 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>
2017	\$ 415,000	\$ 193,275	\$ 608,275
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
2022-2026	1,675,000	1,372,750	3,047,750
2027-2031	2,095,000	937,175	3,032,175
2032-2036	<u>2,650,000</u>	<u>389,025</u>	<u>3,039,025</u>
	<u>\$ 8,590,000</u>	<u>\$ 3,569,814</u>	<u>\$ 12,159,814</u>

The Long-Term Debt activity for 2016 is as follows:

	<u>Balance 12/31/15</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/16</u>
2014 GO Note, Series A	<u>\$ 8,827,000</u>	<u>\$ -0-</u>	<u>\$ 237,000</u>	<u>\$ 8,590,000</u>

NOTE 7 – CONCENTRATION OF CREDIT RISK

During 2016 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, 2016**

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. \$10,500 and \$14,115 of the State contribution was applied for waste water revenue account employees for the years ended December 31, 2016 and 2015. The Borough contributed \$23,549 and \$27,645 to this plan for the waste water revenue account for the years ended December 31, 2016 and 2015, respectively.