

BOROUGH OF MYERSTOWN
BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014

**BOROUGH OF MYERSTOWN
BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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INDEPENDENT AUDITOR'S REPORT

To the Borough Council
BOROUGH OF MYERSTOWN
Myerstown, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, and the aggregate remaining fund information of the BOROUGH OF MYERSTOWN, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Borough of Myerstown'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 did not audit the financial statements of Myerstown Water Authority, which represent 100% of the assets, net position and revenues of the component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the component unit, is based solely on the report of the other auditors. 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 opinions.

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, and the aggregate remaining fund information of the Borough of Myerstown, as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other-Matters

Accounting principles generally accepted in the United States of America require that the schedule of changes in the Borough's net pension asset and related ratios, schedule of pension contributions and the budgetary comparison information on pages 31 through 33 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has not presented the management discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. The management discussion and analysis, 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 modified with respect to this matter.

Stanilla, Siegel and Maser LLC

Lebanon, Pennsylvania
May 8, 2015

BOROUGH OF MYERSTOWN
STATEMENT OF NET POSITION
December 31, 2014

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Unit
<i>ASSETS</i>				
Cash & Cash Equivalents	\$ 1,081,043	\$ 4,810,418	\$ 5,891,461	\$ 2,060,790
Cash & Cash Equivalents, Restricted	46,871			14,892
Taxes Receivable	28,725		28,725	
Accounts Receivable	17,143	218,119	235,262	130,360
Due from Other Funds	69,188	20,400	89,588	
Prepaid Expense	20,452	22,216	42,668	18,085
Capital Assets:				
Non-depreciable	71,502		71,502	275,971
Depreciable, net	1,240,095	19,224,584	20,464,679	9,496,820
Total Assets	<u>\$ 2,575,019</u>	<u>\$ 24,295,737</u>	<u>\$ 26,823,885</u>	<u>\$ 11,996,918</u>
<i>DEFERRED OUTFLOWS OF RESOURCES</i>				
Unamortized loss on early retirement of debt, net	<u>\$ -0-</u>	<u>\$ 1,113,170</u>	<u>\$ 1,113,170</u>	<u>\$ 140,623</u>
<i>LIABILITIES</i>				
Accounts Payable	\$ 30,543	\$ 83,571	\$ 114,114	\$ 108,349
Due to Related Parties				7,840
Due to Other Funds	25,891	69,159	95,050	
Accrued Payroll and Withholdings	3,363	1,806	5,169	2,079
Escrow Payable				14,892
Accrued Interest		82,708	82,708	21,452
Accrued Compensated Absences	1,846	474	2,320	1,842
Note Payable, due withing one year				410,000
Note Payable, Due in more than one year	12,761	8,827,000	8,839,761	6,994,033
Total Liabilities	<u>\$ 74,404</u>	<u>\$ 9,064,718</u>	<u>\$ 9,139,122</u>	<u>\$ 7,560,487</u>
<i>NET POSITION</i>				
Net Investment in Capital Assets	\$ 1,311,597	\$ 10,397,584	\$ 11,709,181	\$ 2,509,381
Restricted, Trust	43,393		43,393	
Restricted	145,026		145,026	
Unrestricted	1,000,599	5,946,605	6,947,204	2,067,673
Total Net Position	<u>\$ 2,500,615</u>	<u>\$ 16,344,189</u>	<u>\$ 18,844,804</u>	<u>\$ 4,577,054</u>

See Accompanying Notes to Basic Financial Statements

**BOROUGH OF MYERSTOWN
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2014**

Functions/Programs	Program Revenues		Net (Expense) Revenue and Changes in Net Assets				Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Governmental Activities:							
General Government	\$ 431,205	\$ 122,645	\$ 173,983	\$ (134,577)	\$ -0-	\$ (134,577)	\$ -0-
Public Safety	136,153	11,847		(124,306)		(124,306)	
Public Works	408,577	1,331	78,478	(328,768)		(328,768)	
Culture and Recreation	36,190	224		(35,966)		(35,966)	
Miscellaneous	128,794			(128,794)		(128,794)	
Total Governmental Activities	\$ 1,140,919	\$ 136,047	\$ 252,461	\$ (752,411)	\$ -0-	\$ (752,411)	\$ -0-
Business-Type Activities:							
Waste Water Treatment Pool	\$ 1,659,901	\$ 1,307,391	\$ 252,426	\$ -0-	\$ (100,084)	\$ -0-	\$ -0-
	58,265	23,198	109		(34,958)	(34,958)	
Total Business-Type Activities	\$ 1,718,166	\$ 1,330,589	\$ 252,535	\$ -0-	\$ (135,042)	\$ (34,958)	\$ -0-
Total Primary Government	\$ 2,859,085	\$ 1,466,636	\$ 504,996	\$ (752,411)	\$ (135,042)	\$ (787,369)	\$ -0-
Component Unit Activities:							
Water Authority	\$ 891,387	\$ 1,172,464	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 281,077
General Revenues:							
Taxes:							
Property Taxes		\$ 321,182		\$ -0-	\$ -0-	\$ 321,182	\$ -0-
Local Services Taxes		77,279				77,279	
Earned Income Taxes		272,234				272,234	
Real Estate Transfer Taxes		32,485				32,485	
Local Enabling Taxes		8,413				8,413	
Investment Earnings		437				437	1,092
Miscellaneous Transfers		29,629				29,629	
		(10,000)			10,000		
Total General Revenues and Transfers		\$ 731,659		\$ 10,000	\$ 10,000	\$ 741,659	\$ 1,092
Change in Net Position		\$ (20,752)		\$ (125,042)	\$ (125,042)	\$ (145,794)	\$ 282,169
Net Position - Beginning		2,588,301		16,402,297	16,402,297	18,990,598	4,294,885
Reclassification of Pool to Business Type		(66,934)		66,934			
Net Position - Ending		\$ 2,500,615		\$ 16,344,189	\$ 16,344,189	\$ 18,844,804	\$ 4,577,054

See Accompanying Notes to Basic Financial Statements

**BOROUGH OF MYERSTOWN
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2014**

	<u>General</u>	<u>Non-Major Funds</u>	<u>Total Governmental Funds</u>
<i>ASSETS</i>			
Cash and Cash Equivalents	\$ 444,266	\$ 683,648	\$ 1,127,914
Taxes Receivable	18,399		18,399
Due from Other Funds	49,188	20,000	69,188
Accounts Receivable	<u>17,143</u>		<u>17,143</u>
 Total Assets	 <u><u>\$ 528,996</u></u>	 <u><u>\$ 703,648</u></u>	 <u><u>\$ 1,232,644</u></u>
 <i>LIABILITIES</i>			
Accounts Payable	\$ 27,276	\$ 3,267	\$ 30,543
Due to Other Funds	25,891		25,891
Accrued Payroll	<u>3,363</u>		<u>3,363</u>
 Total Liabilities	 <u><u>\$ 56,530</u></u>	 <u><u>\$ 3,267</u></u>	 <u><u>\$ 59,797</u></u>
 <i>FUND BALANCES</i>			
Nonspendable-Permanent Fund	\$ 43,393	\$ -0-	\$ 43,393
Restricted	5,593	139,433	145,026
Committed	91,933		91,933
Assigned	21,900	560,948	582,848
Unassigned	<u>309,647</u>		<u>309,647</u>
 Total Fund Balances	 <u><u>\$ 472,466</u></u>	 <u><u>\$ 700,381</u></u>	 <u><u>\$ 1,172,847</u></u>
 Total Liabilities and Fund Balances	 <u><u>\$ 528,996</u></u>	 <u><u>\$ 703,648</u></u>	 <u><u>\$ 1,232,644</u></u>

See Accompanying Notes to Basic Financial Statements

BOROUGH OF MYERSTOWN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2014

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES COLLECTED			
Taxes	\$ 701,266	\$ -0-	\$ 701,266
Licenses and Permits	55,558		55,558
Fines	10,143		10,143
Intergovernmental	230,045	75,416	305,461
Charges for Services	52,973	183	53,156
Investment Earnings	367	70	437
Rental Income	17,190		17,190
Miscellaneous	29,630		29,630
	<u>1,097,172</u>	<u>75,669</u>	<u>1,172,841</u>
Total Revenues Collected	\$ 1,097,172	\$ 75,669	\$ 1,172,841
EXPENDITURES PAID			
General Government	\$ 399,493	\$ 11,503	\$ 410,996
Public Safety	189,595		189,595
Public Works	309,878	98,699	408,577
Culture and Recreation	21,772	14,418	36,190
Miscellaneous	50,086		50,086
	<u>970,824</u>	<u>124,620</u>	<u>1,095,444</u>
Total Expenditures Paid	\$ 970,824	\$ 124,620	\$ 1,095,444
Excess (Deficiency) of Revenues Collected Over Expenditures Paid	\$ 126,348	\$ (48,951)	\$ 77,397
OTHER FINANCING SOURCES (USES)			
Operating Transfers - In	\$ 15,692	\$ 169,857	\$ 185,549
Operating Transfers - Out	(127,351)	(68,198)	(195,549)
	<u>(111,659)</u>	<u>101,659</u>	<u>(10,000)</u>
Total Other Financing Sources (Uses)	\$ (111,659)	\$ 101,659	\$ (10,000)
Excess (Deficiency) of Revenues Collected and Other Financing Sources Over (Under) Expenditures Paid and Other Financing Uses	\$ 14,689	\$ 52,708	\$ 67,397
Fund Balances - Beginning	524,711	647,673	1,172,384
Reclassification of Pool to Proprietary Fund	(66,934)		(66,934)
	<u>472,466</u>	<u>700,381</u>	<u>1,172,847</u>
Fund Balances - Ending	\$ 472,466	\$ 700,381	\$ 1,172,847

See Accompanying Notes to Basic Financial Statements

BOROUGH OF MYERSTOWN
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2014

	<i><u>Waste Water</u></i>	<i><u>Pool</u></i>	<i><u>Total</u></i>
<i>ASSETS</i>			
CURRENT ASSETS			
Cash & Cash Equivalents	\$ 4,768,862	\$ 41,556	\$ 4,810,418
Accounts Receivable	218,119	555	218,674
Due from Other Funds	20,400		20,400
Prepaid Expenses	22,216		22,216
Capital Assets, net of Depreciation	<u>19,224,584</u>	<u></u>	<u>19,224,584</u>
Total Assets	<u>\$ 24,254,181</u>	<u>\$ 42,111</u>	<u>\$ 24,296,292</u>
<i>DEFERRED OUTFLOWS OF RESOURCES</i>			
Deferred Amount on Refunding	<u>\$ 1,113,170</u>	<u>\$</u>	<u>\$ 1,113,170</u>
<i>LIABILITIES</i>			
Accounts Payable	\$ 84,048	\$ 78	\$ 84,126
Due to Other Funds	69,102	57	69,159
Accrued Wages	1,806		1,806
Accrued Interest Payable	82,708		82,708
Accrued Vacation	474		474
Note Payable, due within one year			-0-
Note Payable, due in more than one year	<u>8,827,000</u>	<u></u>	<u>8,827,000</u>
Total Liabilities	<u>\$ 9,065,138</u>	<u>\$ 135</u>	<u>\$ 9,065,273</u>
<i>NET POSITION</i>			
Invested in Capital Assets, net of Related Debt	\$ 10,397,584	\$ -0-	\$ 10,397,584
Unrestricted	<u>5,904,629</u>	<u>41,976</u>	<u>5,946,605</u>
Total Net Position	<u>\$ 16,302,213</u>	<u>\$ 41,976</u>	<u>\$ 16,344,189</u>

See Accompanying Notes to Basic Financial Statements

BOROUGH OF MYERSTOWN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUND
December 31, 2014

	<u>Waste Water</u>	<u>Pool</u>	<u>Total</u>
OPERATING REVENUES			
Sewer Charges for Services	\$ 1,305,307	\$ -0-	\$ 1,305,307
Pool Revenue		23,198	23,198
Other Operating Income	27,238		27,238
Reimbursements - Operating, net	98,861		98,861
Reimbursements - Pension Costs	19,031		19,031
	<u> </u>	<u> </u>	<u> </u>
Total Operating Revenues	\$ 1,450,437	\$ 23,198	\$ 1,473,635
	<u> </u>	<u> </u>	<u> </u>
OPERATING EXPENSES			
Sewer Operations and Maintenance	\$ 773,514	\$ -0-	\$ 773,514
Pool Operating Costs		58,265	58,265
Depreciation Expense	455,970		455,970
	<u> </u>	<u> </u>	<u> </u>
Total Operating Expenses	\$ 1,229,484	\$ 58,265	\$ 1,287,749
	<u> </u>	<u> </u>	<u> </u>
Net Operating Income	\$ 220,953	\$ (35,067)	\$ 185,886
	<u> </u>	<u> </u>	<u> </u>
NON-OPERATING REVENUES (EXPENSES)			
Investment Income (Loss)	\$ 107,296	\$ 109	\$ 107,405
Tapping Fees	2,084		2,084
Transfer In		10,000	10,000
Debt issuance costs	(78,339)		(78,339)
Interest Expense	(352,078)		(352,078)
	<u> </u>	<u> </u>	<u> </u>
Total Non-Operating Revenues (Expenses)	\$ (321,037)	\$ 10,109	\$ (310,928)
	<u> </u>	<u> </u>	<u> </u>
CHANGE IN NET POSITION	\$ (100,084)	\$ (24,958)	\$ (125,042)
	<u> </u>	<u> </u>	<u> </u>
NET POSITION - BEGINNING	16,402,297		16,402,297
Reclassification of Pool to Proprietary Fund		66,934	66,934
	<u> </u>	<u> </u>	<u> </u>
NET POSITION - ENDING	<u>\$ 16,302,213</u>	<u>\$ 41,976</u>	<u>\$ 16,344,189</u>

See Accompanying Notes to Basic Financial Statements

**BOROUGH OF MYERSTOWN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2014**

	<u>Waste Water</u>	<u>Pool</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Customers	\$ 1,302,170	\$ 23,198	\$ 1,325,368
Miscellaneous Cash Received	57,781		57,781
Reimbursements	106,648		106,648
Operating Expenses Paid	(413,527)	(26,057)	(439,584)
Cash Paid to Employees	(229,916)	(32,628)	(262,544)
Net Cash Provided by Operating Activities	<u>\$ 823,156</u>	<u>\$ (35,487)</u>	<u>\$ 787,669</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest Income Received	\$ 42,923	\$ 109	\$ 43,032
Redemptions of Investments	650,918		650,918
Net Cash Provided By Investing Activities	<u>\$ 693,841</u>	<u>\$ 109</u>	<u>\$ 693,950</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal Payments	\$ (185,000)	\$ -0-	\$ (185,000)
Proceeds from Notes Payable	221,860		221,860
Note Issuance Costs	(78,338)		(78,338)
Interest Paid	(352,078)		(352,078)
Net Cash Used By Capital and Related Financing Activities	<u>\$ (393,556)</u>	<u>\$ -0-</u>	<u>\$ (393,556)</u>
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES			
Transfer in	\$ -0-	\$ 10,000	\$ 10,000
Transfer from Governmental Type		66,934	66,934
Tapping Fees	2,084		2,084
Net Cash Provided By Non-Capital and Related Financing Activities	<u>\$ 2,084</u>	<u>\$ 76,934</u>	<u>\$ 79,018</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>\$ 1,125,525</u>	<u>\$ 41,556</u>	<u>\$ 1,167,081</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>3,643,337</u>	<u>-0-</u>	<u>3,643,337</u>
END OF YEAR	<u><u>\$ 4,768,862</u></u>	<u><u>\$ 41,556</u></u>	<u><u>\$ 4,810,418</u></u>

See Accompanying Notes to Basic Financial Statements

**BOROUGH OF MYERSTOWN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2014**

	<u>Waste Water</u>	<u>Pool</u>	<u>Total</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Income	\$ 220,953	\$ (35,067)	\$ 185,886
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Depreciation	\$ 455,970	\$ -0-	\$ 455,970
Gain on Sale of Investments	64,373		64,373
(Increase) Decrease in:			
Accounts Receivable	8,375	(555)	7,820
Prepaid Insurance	4,027		4,027
Due from Other Funds	9,497		9,497
Increase (Decrease) in:			
Accounts Payable	61,700	78	61,778
Due to Other Funds	700	57	757
Accrued Wages	570		570
Accrued Compensated Absences	(3,009)		(3,009)
Total Adjustments	\$ 602,203	\$ (420)	\$ 601,783
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 823,156</u>	<u>\$ (35,487)</u>	<u>\$ 787,669</u>

NON-CASH TRANSACTION

Notes Payable in the amount of \$8,820,000 and closing costs of \$ 75,339 were advance refunded with proceeds from the 2014 Series A General Obligation Notes and \$641,709 in restricted cash.

BOROUGH OF MYERSTOWN
STATEMENT OF NET POSITION
FIDUCIARY FUND
December 31, 2014

	<u>Agency Funds</u>	<u>Police Pension Fund</u>	<u>Non-Uniform Pension Fund</u>
<i>ASSETS</i>			
Cash	\$ 4,482	\$ -0-	\$ -0-
Investments		1,170,119	761,969
Due from Other Funds			5,356
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 4,482</u>	<u>\$ 1,170,119</u>	<u>\$ 767,325</u>
<i>LIABILITIES</i>			
Other Current Liabilities	\$ -0-		
Escrow Payable	<u>4,482</u>		
	<u> </u>		
Total Liabilities	<u>\$ 4,482</u>		
<i>NET POSITION</i>			
Held in trust for pension benefits		<u>\$ 1,170,119</u>	<u>\$ 767,325</u>

See Accompanying Notes to Basic Financial Statements

BOROUGH OF MYERSTOWN
COMBINED STATEMENT OF CHANGES IN NET POSITION
PENSION TRUST FUNDS
For the Year Ended December 31, 2014

	<u>Police Pension Fund</u>	<u>Non-Uniform Pension Fund</u>
ADDITIONS		
Contributions:		
Employer	\$ -0-	\$ 12,486
Employee	-0-	-0-
Commonwealth	-0-	42,290
	<u>-0-</u>	<u>42,290</u>
Total Contributions	\$ -0-	\$ 54,776
INVESTMENT INCOME		
Interest and Dividends	\$ 66,257	\$ -0-
Net Appreciation in Fair Value of Investments	<u>(6,133)</u>	<u>31,102</u>
Net Investment Income	\$ 60,124	\$ 31,102
Total Additions	\$ 60,124	\$ 85,878
DEDUCTIONS		
Benefits Paid	\$ 62,956	\$ -0-
Administrative Expenses	<u>-0-</u>	<u>-0-</u>
Total Deductions	\$ 62,956	\$ -0-
CHANGE IN NET POSITION	\$ (2,832)	\$ 85,878
NET POSITION		
- BEGINNING OF YEAR	<u>1,172,951</u>	<u>676,091</u>
- END OF YEAR	<u>\$ 1,170,119</u>	<u>\$ 761,969</u>

See Accompanying Notes to Basic Financial Statements

BOROUGH OF MYERSTOWN
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Borough of Myerstown is a municipal corporation organized in 1912 under the Commonwealth of Pennsylvania. Borough Council members are elected by the citizens. The daily operations and management of the Borough are performed by the administrative staff of the Borough, headed by the Borough Manager, who is appointed by the Borough Council. Services provided by the Borough include public safety, public works, public health and welfare, community planning, and culture and recreation.

Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the Borough are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the Borough.

As required by generally accepted accounting principles, these financial statements are to present the Borough of Myerstown (the primary government) and organizations for which the primary government is financially accountable. The Borough is financially accountable for an organization if the Borough appoints a voting majority of the organization's governing board and (1) the Borough is able to significantly influence the programs or services performed or provided by the organization; or (2) the Borough is legally entitled to or can otherwise access the organization's resources; the Borough is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Borough is obligated for the debt of the organization. Component units may also include organizations that are financially dependent on the Borough in that the Borough approved the budget, the issuance of debt, or the levying of taxes.

Myerstown Water Authority has been determined by the above criteria as being part of the reporting entity. The significant factor for including the Authority is the appointment of a voting majority of the Authority board members and guarantees the debt of the Authority. Myerstown Water Authority issues a separate report which a copy of the audit is held in the Borough's office and is available for public review.

Measurement Focus and Basis of Accounting

In preparing the financial statements, accounting and financial reporting treatment is determined by the basis of accounting and the measurement focus. Measurement focus indicates the type of resources being measured such as current financial resources vs. economic resources. The basis of accounting refers to the timing of transactions or events recognized in the financial statements.

In the government-wide Statement of Net Position and Statement of Activities both governmental and business-like activities are presented using the economic measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Grant income is recognized as revenue when the eligibility requirements have been met.

In the fund financial statements, governmental funds are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter (within 60 days of period end) to pay current liabilities. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest and compensated absences which are reported when due.

BOROUGH OF MYERSTOWN
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus and Basis of Accounting (continued)

All proprietary funds and pension funds utilize the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. The agency fund has no measurement focus but uses the accrual basis of accounting.

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Borough of Myerstown Police Pension Fund and additions to/deductions from the Borough of Myerstown Police Pension Fund's fiduciary net position have been determined on the same basis as they are reported by the Borough of Myerstown Police Pension Fund. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, cash receipts/ revenues, and cash disbursements/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Non-major funds by category are summarized into a single column. GASBS No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/ expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The non-major funds are combined in a single column in the fund financial statements.

Governmental Funds

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income.

BOROUGH OF MYERSTOWN
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental Funds (continued)

The General Fund is the primary operating fund of the Borough and is always classified as a major fund. It is used to account for all activities except those required to be accounted for in another fund.

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed to disbursements for specified purposes other than debt service or capital projects. The Borough's State Liquid Fuels Fund is the sole Special Revenue Fund included in the governmental non-major funds.

Capital Project Funds are used to account for financial resources to be used for capital outlays. The Borough maintains one capital project fund - the General Reserve Fund - reported as a non-major fund.

Permanent Funds are used to account for financial resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the government's programs. The Beautification Trust Fund is reported as a non-major fund.

Proprietary Funds

Enterprise Fund

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the Sewer Fund. This fund accounts for the operating activities of the Borough's sewer system. Also starting in 2014, the operations of the Borough's pool were removed from the general fund and are now accounted for as a separate enterprise fund.

Fiduciary Funds

Trust and Agency Funds

Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support Borough programs. The reporting focus is on net assets and changes in net assets.

The Borough's fiduciary funds are presented in the fiduciary fund financial statements by type. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally segregated for the specific purpose.

Net Position

Net position of the government-wide funds is categorized as restricted or unrestricted. The restricted category represents the balance of assets restricted by requirements, externally imposed constraints or by legislation.

Cash and Cash Equivalents

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

Investments

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

BOROUGH OF MYERSTOWN
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating Revenues and Expenses

Operating revenues and expenses are those that result from providing services and producing and delivering goods. It also includes all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities

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 are recorded.

Prepaid Expenditures

The Borough uses the purchase method of accounting for prepaid expenditures in its governmental funds where items are expensed when purchased rather than when consumed. Prepaid expenses of the governmental activities, proprietary funds and the component unit consist of insurance policies amortized over their effective dates.

Compensated Absences

It is the Borough's policy to allow employees to accumulate earned but unused vacation up to forty hours per year with no limit on the total number of accumulated hours. Component Unit employees may accumulate up to a maximum of 40 hours to be used in the next calendar quarter. Compensated absences are reported as accrued in the government-wide, proprietary, and component unit financial statements. Governmental funds report only matured compensated absences payable to currently terminating employees and is included in wages and benefits payable, when applicable.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All purchased capital assets are carried at cost. Contributed property is recorded at the estimated market value at the date of contribution. Depreciation is computed using the straight-line method. 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 of capital assets is recorded as an allocated expense in the Statement of Activities, with the accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. A capitalization threshold of \$500 is used to report capital assets for the Borough and \$1,000 for the component unit. The range of estimated useful lives by type of assets is as follows:

Buildings and Improvements	40-50 years
Sewer System	15-39 years
Water System	20-75 years
Equipment	3-20 years
Vehicles	5-10 years

BOROUGH OF MYERSTOWN
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restricted Assets

Restricted assets include cash and investments of the proprietary fund that are legally restricted as to their use. The primary restricted assets are related to the bond trustee accounts.

Government-wide and Proprietary Fund Net Position

Government wide and proprietary fund net position are 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 - consists of net position that is 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 assets are reported in this category.

Governmental Fund Balances

In the governmental fund financial statements, fund balances are classified as follows:

- Nonspendable - Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.
- Restricted - Amounts that can be spent only for specific purposes because of enabling legislation, the township code, state or federal laws, or externally imposed conditions by grantors or creditors.
- Committed - Amounts that can be used only for specific purposes determined by a formal action by Borough Council ordinance or resolution.
- Assigned - Amounts that are designated by the Borough Council for a particular purpose.
- Unassigned - All amounts not included in other spendable classifications.

Use of Restricted Resources

When an expense is incurred that can be paid using either restricted or unrestricted resources (net assets), the Borough's policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In governmental funds, the Borough's policy is to first apply the expenditure toward restricted fund balance and then to other, less restrictive classifications - committed and then assigned fund balances before using unassigned fund balances.

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. These risks are covered by commercial insurance.

BOROUGH OF MYERSTOWN
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 governmental funds are netted as part of the reconciliation to the government-wide financial statements. Intercompany balances are present when there is a time lag in the reimbursement and/or transfer.

Budgetary Procedures and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all funds of the Borough. All annual appropriations lapse at year end.

During August, a draft budget is prepared by the Borough Manager and forwarded to the Finance Committee. This committee then prepares the final budget for approval by the Borough Council. The Borough makes available to the public its proposed operating budget of all funds. The operating budget includes proposed expenditures and the means of financing them. The Council holds public hearings and a final budget must be prepared and adopted no later than December 31 through the passage of an ordinance.

All budget revisions require the approval of the Borough Council. There were no budget revisions made during the year.

The legal level of budgetary control is at the fund level. The carryover fund balance from the prior year and the current year excess of revenues collected over expenditures paid are available for the appropriation without formal budget revision.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires the Borough's 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 May 8, 2015, the date the financial statements were available to be issued.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Compliance with Finance Related Legal and Contractual Provisions

The Borough has no known material violations of finance related legal and contractual provisions.

Deficit Fund Balance or Retained Earnings of Individual Funds

There are no deficits in fund balances or net assets at December 31, 2014.

Excess of Expenditures Over Budgeted Appropriations in Individual Funds

The Borough did not incur expenditure in excess of appropriations for the year ended December 31, 2014.

BOROUGH OF MYERSTOWN
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2014

NOTE 3 - CASH AND CASH EQUIVALENTS

Primary Government

Custodial Risk

The Borough is authorized by statute to invest in government securities and insured accounts or their equivalents. There were no deposit transactions during the year that were in violation of either state statutes or Borough policy. The Borough deposits cash in one local financial institution. At the year-end, the Borough's carrying amount of deposits was \$4,720,064 excluding \$789 petty cash and the bank balance was \$4,758,165. The total bank balance up to \$250,000 is covered by federal depository insurance. The depository pledges assets, not in the Borough's name, to secure deposits in excess of \$250,000 in accordance with Act 72 of 1971.

Cash equivalents of the Borough 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, 2014 totaled \$1,221,958 per book and \$1,222,684 per bank. 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.

The Borough places no limit on the amount deposited in any one issuer. The Borough does not have a formal investment policy that addresses custodial risk, interest rate risk or credit risk, although the Borough held no investments exposed to these risks at December 31, 2014.

Component Unit

Custodial Risk

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

At year end, the carrying amount of the Authority's cash deposits were \$2,075,682 and the bank balance was \$2,084,262 of which \$500,000 was fully insured and \$1,584,262 was collateralized by securities held by the pledging financial institution's trust department or agent but not in the Authority's name. When collateral is required in excess of insured limits, the requirements with Act 72 of 1971 are followed with respect to pooling, custody and type of collateral.

The Authority places no limit on the amounts deposited in any one issuer. The Authority's investments in Fulton Bank and Jonestown Bank and Trust Company represented approximately 80% and 20% of the total deposits, respectively.

The Authority does not have a formal investment policy that addresses custodial credit risk, concentration of credit risk, or foreign currency risk. However, the Authority held no investments that were exposed to these risks as of December 31, 2014.

BOROUGH OF MYERSTOWN
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2014

NOTE 4 – RESTRICTED ASSETS

The Authority component unit maintains separate escrow accounts for developers who advance the Authority funds to cover expenses for the developer. Developer's escrow cash and corresponding liabilities represent amounts received under terms of agreements between the Authority and a developer with respect to construction by the developer. The escrow amounts represent security for payment of all costs and expenses incurred by the Authority pursuant to the terms of the agreement. Upon payment of all Authority costs and expenses, any unexpended balance is returnable to the developer, therefore these are reported as restricted assets.

The accounts held and administered by a local trust department in conjunction with a bond issue are reported as restricted assets since their use is restricted by bond indenture.

NOTE 5 - INVESTMENTS

The 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 Borough does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair values losses arising from increasing interest rates, addresses custodial credit risk, concentration of credit risk, or foreign currency risk. At December 31, 2014, the Borough holds no investments other than those in its pension funds.

Pension plans are authorized to invest in legal investments permitted under the Pennsylvania Fiduciaries Investment Act. As of December 31, 2014, the Borough's pension investment balances were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>
Bond Mutual Funds	\$ 360,708	Various

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Obligations of the U.S. Government are not considered to have credit risk and do not require disclosure of credit quality. The Borough has no investment policy regarding credit risk. At December 31, 2014, the credit risk of the Borough's investments in debt securities (including external investment pools, money market funds, bond mutual funds and other pooled investments of fixed-income securities) was rated as follows:

	<u>Fair Value</u>	<u>Average Credit Quality</u>
Bond Fund of America	\$ 96,586	BBB
Franklin Limited Maturity US Gov. Sec.	36,946	AAA
Franklin US Gov. Securities	82,691	AA
Lord Abbett Core Fixed Income Fund	66,310	A
Templeton Global Bond Fund	78,175	BBB

BOROUGH OF MYERSTOWN
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2014

NOTE 5 - INVESTMENTS (continued)

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure the counterparty to the transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Investments in external investment pools and in open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. The Borough has no investment policy regarding custodial credit risk for investments.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the plan's name, and are held by either: a) the counterparty or b) the counterparty's trust department or agent, but not in the Borough's name.

At December 31, 2014, the Borough held no investments that were exposed to custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment or a deposit. Investments in mutual funds, 2a7-like external investment pools are excluded from this requirement.

Concentration of Credit Risk and Foreign Currency Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issue. The Borough held no investments that were exposed to concentration of credit risk or foreign currency risk as of December 31, 2014.

Separate accounts held at The Edward Jones Company and Hartford Life are commingled pools, rather than individual securities. As a result, these accounts are not rated. These accounts are not subject to concentration of credit risk, custodial credit risk or foreign currency risk.

NOTE 6 – FUND BALANCE REPORTING

At December 31, 2014, fund balances are made up of the following:

Non-spendable – Beautification Trust	\$ 43,393
Restricted: Liquid Fuels	\$ 139,433
Traffic Light	5,593
	<u>\$ 145,026</u>
Committed: Unemployment Compensation	<u>\$ 91,933</u>
Assigned: Recreation	\$ 21,900
General Reserve	560,948
	<u>\$ 582,848</u>

BOROUGH OF MYERSTOWN
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2014

NOTE 7 - CAPITAL ASSETS

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
<u>Primary Government</u>				
<u>Governmental Activities:</u>				
Non-depreciable Assets				
Land	\$ 71,502	\$ - 0 -	\$ - 0 -	\$ 71,502
Total Non-depreciable Assets	<u>\$ 71,502</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 71,502</u>
Depreciable Assets				
Buildings and Improvements	\$ 1,342,892	\$ - 0 -	\$ - 0 -	\$ 1,342,892
Infrastructure	1,013,203	- 0 -	- 0 -	1,013,203
Equipment	409,359	- 0 -	- 0 -	409,359
Vehicles	211,017	- 0 -	- 0 -	211,017
Total Depreciable Assets	<u>\$ 2,976,471</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 2,976,471</u>
Less: Accumulated Depreciation for:				
Buildings and Improvements	\$ 1,093,834	\$ 16,524	\$ - 0 -	\$ 1,110,358
Infrastructure	94,497	33,774	- 0 -	128,271
Equipment	335,856	15,996	- 0 -	351,852
Vehicles	135,792	10,103	- 0 -	145,895
Total Accumulated Depreciation	<u>\$ 1,659,979</u>	<u>\$ 76,397</u>	<u>\$ - 0 -</u>	<u>\$ 1,736,376</u>
Net Depreciable Capital Assets	<u>\$ 1,316,492</u>	<u>\$ 76,397</u>	<u>\$ - 0 -</u>	<u>\$ 1,240,095</u>
<u>Business Type Activities:</u>				
Depreciable Assets				
Sewer Plant and Improvements	\$ 28,771,455	\$ - 0 -	\$ - 0 -	\$ 28,771,455
Equipment	161,581	- 0 -	- 0 -	161,581
Vehicles	25,795	- 0 -	- 0 -	25,795
Total Depreciable Assets	<u>\$ 28,958,831</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 28,958,831</u>
Less: Accumulated Depreciation for:				
Sewer Plant and Improvements	\$ 9,160,560	\$ 436,748	\$ - 0 -	\$ 9,597,308
Equipment	104,820	14,063	- 0 -	118,883
Vehicles	12,897	5,159	- 0 -	18,056
Total Accumulated Depreciation	<u>\$ 9,278,277</u>	<u>\$ 455,970</u>	<u>\$ - 0 -</u>	<u>\$ 9,734,247</u>
Net Capital Assets	<u>\$ 19,680,554</u>	<u>\$ 455,970</u>	<u>\$ - 0 -</u>	<u>\$ 19,244,584</u>
Total Net Depreciable Capital Assets	<u>\$ 20,997,046</u>	<u>\$ 532,367</u>	<u>\$ - 0 -</u>	<u>\$ 20,464,679</u>

BOROUGH OF MYERSTOWN
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2014

NOTE 7 - CAPITAL ASSETS (continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
<u>Component Unit:</u>				
Non-depreciable Assets				
Land	\$ 275,971	\$ - 0 -	\$ - 0 -	\$ 275,971
Construction in Progress	<u>121,283</u>	<u>1,092,130</u>	<u>- 0 -</u>	<u>1,213,413</u>
Total Non-depreciable Assets	<u>\$ 397,254</u>	<u>\$ 1,092,130</u>	<u>\$ - 0 -</u>	<u>\$ 1,489,384</u>
Depreciable Assets				
Site Improvements	\$ 9,244	\$ - 0 -	\$ - 0 -	\$ 9,244
Buildings	84,288	- 0 -	- 0 -	84,288
Water Systems	12,253,799	- 0 -	- 0 -	12,253,799
Equipment	279,524	- 0 -	- 0 -	279,524
Vehicles	<u>75,329</u>	<u>- 0 -</u>	<u>- 0 -</u>	<u>75,329</u>
Total Depreciable Assets	<u>\$ 12,702,184</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 12,702,184</u>
Less: Accumulated Depreciation for:				
Site Improvements	\$ 7,779	\$ 924	\$ - 0 -	\$ 8,703
Buildings	7,984	2,454	- 0 -	10,438
Water Systems	3,968,424	221,975	- 0 -	4,190,399
Equipment	141,749	13,196	- 0 -	154,945
Vehicles	<u>51,089</u>	<u>3,203</u>	<u>- 0 -</u>	<u>54,292</u>
Total Accumulated Depreciation	<u>\$ 4,177,025</u>	<u>\$ 241,752</u>	<u>\$ - 0 -</u>	<u>\$ 4,418,777</u>
Net Depreciable Capital Assets	<u>\$ 8,525,159</u>	<u>\$ 850,378</u>	<u>\$ - 0 -</u>	<u>\$ 9,772,791</u>

Depreciation expense was charged to functions of the primary government as follows:

General Government	\$ 20,419
Public Safety	3,396
Public Works	50,568
Culture and Recreation	2,014
Business-Type Activities	455,970
Component Unit Activities	<u>241,752</u>
Total	<u>\$ 774,119</u>

NOTE 8 - PROPERTY TAXES

The total taxable assessed real estate valuation for the year ended December 31, 2014 was \$176,808,900. The Borough's property tax is levied March 1. The municipal tax rate for 2014 was 1.7622 mills. A 2% discount is allowed on taxes paid by April 30. Taxes are payable at face value during May and June. A 10% penalty is added to taxes paid after June 30.

BOROUGH OF MYERSTOWN
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2014

NOTE 9 – DEFERRED OUTFLOWS OF RESOURCES

Business-Type Activities

The advance refunding of the Series A of 2007 guaranteed sewer revenue bonds discussed in Note 10 resulted in a deferred asset of \$1,113,170, the difference between the carrying amount of the old debt and the amount deposited with the escrow agent to pay the future debt service. The amount will be amortized over twenty-two years, the remaining life of the 2007 bond series at the refunding date beginning in 2015.

Component Unit

Unamortized bond issuance costs and discount from the advance refunding of the 2006 Bond Series are capitalized as Loss on Early Retirement of Debt and are being amortized ratable over twenty-two years, the remaining term of the 1998 bond series at the refunding date.

The costs and related accumulated amortization as of December 31, 2014, are as follow:

	<u>Business- Type</u>	<u>Component Unit</u>
Costs	\$1,113,170	\$ 148,991
Accumulated Amortization	<u>-0-</u>	<u>(8,368)</u>
	<u>\$1,113,170</u>	<u>\$ 140,623</u>

NOTE 10 –NOTES PAYABLE

Governmental Activities

Simultaneously with the issuance of the Series A of 2014, General Obligation Notes Payable discussed under Business-Type Activities, the Borough issued the General Obligation Notes, Series B of 2014 in the amount of \$1,173,000. The Borough may draw down the proceeds of the Note from the closing date through October 15, 2016. At December 31, 2014, the balance of \$12,761 was outstanding, the amount drawn on the note to pay closing costs. The note bears interest at 2.25% through August, 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.

Business-Type Activities

Millcreek-Richland Joint Authority (Authority) issued guaranteed revenue bonds, Series A of 2007, on September 20, 2007, in the amount of \$9,285,000. Proceeds of the Bonds, together with other available funds, were loaned to the Borough of Myerstown, (the "Borough"), and used to finance a sewer project on behalf of the Borough.

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 \$8,280,000 at December 31, 2014.

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.

BOROUGH OF MYERSTOWN
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2014

NOTE 10 –NOTES PAYABLE (continued)

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 Ended</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ -0-	\$ 157,783	\$ 157,783
2016	237,000	198,608	435,608
2017	415,000	193,275	608,275
2018	425,000	183,938	608,938
2019	435,000	174,375	609,375
2020-2025	1,855,000	1,189,950	3,044,950
2025-2029	1,915,000	1,123,137	3,038,137
2030-2034	2,410,000	623,675	3,033,675
2035-2036	<u>1,135,000</u>	<u>81,462</u>	<u>1,216,462</u>
	<u>\$8,827,000</u>	<u>\$3,926,203</u>	<u>\$12,753,203</u>

Component Unit

2006 Bond Series

The Myerstown Water Authority, the component unit of the Borough, issued guaranteed water revenue bonds, Series of 2006, on December 14, 2006 in the amount of \$8,220,000. The bonds were issued to provide financing for the purposes of paying costs and expenses associated with the construction of certain projects, the advanced refunding of the Series of 1998 bonds, funding a debt service reserve, providing for interest on the 2006 bond series, and to pay costs and expenses associated with issuing the Series of 2006 bonds. This bond series was advance refunded through the 2013 Note Series. The advance refunding met the requirements of an in-substance defeasance and the bonds were removed from the Authority's financial statements. As of December 31, 2014, the outstanding amount of the 1998 Bonds and the 2006 Bonds was \$4,405,000 and \$6,860,000, respectively.

2013 Note Series

The Authority issued guaranteed water revenue note, Series of 2013, on August 21, 2013, in the maximum amount of \$9,045,000. The note was issued to provide financing for the purpose of paying costs and expenses associated with the construction of certain projects, the advance refunding of Series of 2006 bonds, and to pay costs and expenses associated with issuing the Series 2013 note. The note pays interest semi-annually at an annual interest rate of 2.25% through November, 2020 at which time it becomes a variable rate at 65% of the national prime rate not to exceed 4.75% Principal payments are due annually to November 15, 2033. The note is guaranteed by the Borough of Myerstown.

BOROUGH OF MYERSTOWN
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2014

NOTE 10 –NOTES PAYABLE (continued)

Principal and interest payments for the next five years and thereafter are as follows:

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 410,000	\$ 187,425	\$ 597,425
2016	420,000	178,200	598,200
2017	430,000	168,750	598,750
2018	440,000	159,075	599,075
2019	450,000	149,175	599,175
2020-2024	1,870,000	1,128,950	2,998,950
2025-2029	2,175,000	826,500	3,001,500
2030-2033	<u>1,209,033</u>	<u>259,113</u>	<u>1,468,146</u>
	<u>\$ 7,404,033</u>	<u>\$ 3,057,188</u>	<u>\$ 10,461,221</u>

Long-term liabilities changed during the year ended December 31, 2014, as follows:

	<u>Balance 12/31/13</u>	<u>Additions</u>	<u>Reductions</u>	<u>Defeasance</u>	<u>Balance 12/31/14</u>
Governmental Activities:					
2014 GO Note, Series B	<u>\$ -0-</u>	<u>\$ 12,761</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 12,761</u>
Business Type Activities:					
2014 GO Note, Series A	<u>\$ -0-</u>	<u>\$8,827,000</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$8,827,000</u>
Note Payable MRJA	<u>8,465,000</u>	<u>-0-</u>	<u>185,000</u>	<u>8,280,000</u>	<u>-0-</u>
Total	<u>\$8,465,000</u>	<u>\$8,839,761</u>	<u>\$ 185,000</u>	<u>\$8,280,000</u>	<u>\$8,839,761</u>
Component Unit:					
Series of 2013	<u>\$7,350,000</u>	<u>\$1,044,874</u>	<u>\$ (405,000)</u>	<u>\$ -0-</u>	<u>\$7,404,033</u>

NOTE 11 - LEASE AGREEMENTS

The Borough entered into a lease agreement for the rental of office space in March, 1987 for an initial term of 20 years. The lease is automatically renewable with 4 five year options. Rental income for this property was \$17,333 for the year ended December 31, 2014.

BOROUGH OF MYERSTOWN
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2014

NOTE 12 – RELATED PARTY TRANSACTIONS

The Authority reimburses the Borough of Myerstown for its share of administrative and operating expenses provided by the Borough of Myerstown. The Authority also pays monthly bookkeeping and quarterly administrative charges to the Borough of Myerstown. No formal agreements exist. A summary of these related party transactions are as follows:

Operating Supplies	\$ 134
Transmission and Distributions	878
Administrative - Other	<u>2,062</u>
	<u>\$ 3,074</u>

The Authority reported a payable to the Borough of \$7,840 at December 31, 2014 which represents sewer and debt service receipts not yet transferred.

NOTE 13 – PENSION TRUST FUNDS

Uniformed Employee's Pension

Plan description. The Borough maintains a defined benefit pension plan, Borough of Myerstown Police Pension Fund, which covers prior full-time members of the police force of the Borough. All members of the force retired in 2014. The Borough of Myerstown Police Pension Fund is a single-employer defined benefit pension plan which had been controlled by the provisions of Ordinance No. 81 adopted pursuant to Act 600. During 2014, Ordinance No. 822 was adopted to convert to a non-Act 205 plan whereby normal retirement dates were revised so that all members were eligible for retirement benefits. The Borough of Myerstown governs the plan and has the authority to establish and amend the benefit terms and to manage the plan assets. The Borough has delegated the authority to manage certain plan assets to Edward Jones Company.

Benefits provided. The Borough of Myerstown Police Pension Fund provides retirement, disability, and death benefits to plan members and their beneficiaries. At December 31, 2014 a member is eligible for normal retirement after attainment of age 60 and completion of 21 years of service. The normal retirement pension is payable monthly during the member's lifetime, with payments continuing after the member's death to the surviving spouse, or eligible child, equal to 50% of the amount payable at the member's death. The amount of the monthly pension is equal to 50% of average monthly compensation which is based upon total compensation reported on Form W-2 over the last 60 months of employment. If a member continues working after his normal retirement date, his pension does not start until he actually retires. The late retirement benefit is the benefit accrued to the late retirement date.

If a member becomes disabled in the line of duty, he is eligible for a disability pension. The disability pension is equal to 50% of average monthly compensation determined as of the time of disablement, but no less than 50% of salary at the time of disablement, less social security disability benefits being paid for the same illness or injury. A member's benefits vest upon completion of 12 years of service. The vested benefit is a deferred pension beginning at normal retirement equal to the benefit accrued to the date of termination. The benefit accrued at any date other than the normal retirement date is equal to the projected normal retirement benefit multiplied by the ratio of the number of years and completed months of service to date to the number of years and completed months of service projected to normal retirement.

BOROUGH OF MYERSTOWN
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2014

NOTE 13 – PENSION TRUST FUNDS (continued)

Employees covered. At December 31, 2014, the following employees were covered by the plan:

Inactive employees or beneficiaries currently receiving benefits	3
Inactive employees entitled to but not yet receiving benefits	0
Active employees	<u>0</u>
	<u><u>3</u></u>

Contributions. Member contributions may be reduced or suspended by annual Borough resolution. Contributions are currently suspended. Act 205 requires that annual contributions to the plan be based upon the plan's Minimum Municipal Obligation (MMO), which is based on the plan's biennial actuarial valuation. In accordance with the plan's governing document, employees are not required to contribute to the plan. The plan may also be eligible to receive an allocation of state aid from the General Municipal Pension System State Aid Program which must be used for pension funding. Any funding requirements established by the MMO in excess of employee contributions and state aid must be paid by the municipality in accordance with Act 205. The Plan had no contributions required in 2013. A separately issued report of the plan may be obtained in the Borough office. All three of the participants have retired and it has been determined the plan has sufficient assets to cover the pension liability.

The Borough's annual pension cost and related information is as follows:

Annual Pension Cost	\$ - 0 -
Contributions Made	\$ - 0 -
Actuarial Valuation Date	1/1/13
Actuarial Cost Method	Entry Age – Normal
Mortality	RP2000 Table
Disability	SOA 1987 LTD Table
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return, net of investment expenses	7.5%
Projected salary increases	4.5%

Non-Uniformed Employee's Retirement

The Borough participates in a defined contribution plan under Section 401 of the Internal Revenue Code which covers non-uniformed employees. The plan uses the accrual basis of accounting. The plan is governed by the Borough Council which is responsible for the management of the plan assets. The Borough has delegated the authority to administer and manage plan assets to Hartford 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. The State contributed \$42,291 and the Borough contributed \$12,485 to this plan for the year ended December 31, 2014.

BOROUGH OF MYERSTOWN
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2014

NOTE 13 – PENSION TRUST FUNDS (continued)

Non-Uniformed Employee's Retirement (continued)

The Borough also participates in a deferred compensation plan under Section 457 of the Internal Revenue Code. The Borough has delegated the authority to administer and manage plan assets to Hartford Life Insurance Company. Refer to the plan document for a detail description of plan benefits. This plan is offered to all non-uniformed employees of the Borough. 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 contributed \$8,238 to this plan in 2014.

NOTE 14 – INTER-MUNICIPAL AGREEMENTS

The Borough has entered into two agreements with 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 15 – CONCENTRATIONS OF CREDIT RISK

There were two customers of the Borough that represented a concentration of credit risk at December 31, 2014. These customers represent 21% of customer charges for business-type sewer activities.

These two customers also represent 55% of the accounts receivable balance and approximately 33% of the customer charges for water services for the component unit for the year.

NOTE 16 - COMMITMENTS

The Borough has signed an inter-municipal agreement "Grumbine Plan" pertaining to the repayment from the overpaid municipalities (that agreed to the plan) to the underpaid entities relating to the former EIT issue. The Borough agreed to repay the amount owed of \$44,387 over a 10 year period at 0% interest beginning in 2011. The Borough's annual payments are \$4,439. Payments are made to Fulton Bank, paying agent, and the bank is responsible for distribution of the funds to the underpaid entities. The balance remaining on this commitment at December 31, 2014 was \$26,631.

At December 31, 2011, the Borough had underfunded the Non-Uniform Pension Plan by \$5,355. This amount was paid subsequent to December 31, 2014.

The Component Unit Authority entered into contracts for improvements to the water system. At December 31, 2014, there was \$399,260 remaining on these commitments.

BOROUGH OF MYERSTOWN
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2014

NOTE 17 - CONTINGENCIES

The Borough provides unemployment compensation to eligible claimants through its own self-funded plan with the Commonwealth of Pennsylvania. The Borough is liable for unemployment compensation claims out of its general revenues. Currently \$91,933 is set aside for future possible claims.

REQUIRED SUPPLEMENTARY INFORMATION

BOROUGH OF MYERSTOWN
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE BOROUGH'S NET PENSION ASSET AND RELATED RATIOS
December 31, 2014

Historical trend information about the plan is presented herewith as required supplementary information. It is intended to help users assess the plan's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) Entry Age	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	[(b-a)/c] UAAL as a Percent of Covered Payroll
1/1/13	\$ 1,015,036	\$ 680,709	\$ (334,327)	149.1%	\$ 174,124	(192.0%)
1/1/11(1)	908,591	600,405	(308,186)	151.3%	169,432	(181.9%)
1/1/09	726,981	523,785	(203,196)	138.8%	149,387	(136.0%)
1/1/07	978,304	666,224	(312,080)	146.8%	192,810	(161.9%)
1/1/05	820,789	575,205	(245,584)	142.7%	191,987	(127.9%)
1/1/03	562,908	443,212	(119,696)	127.0%	179,031	(66.9%)

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, accrued liability and unfunded (assets in excess of) accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the accrued liability (column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

Trends in unfunded (assets in excess of) accrued liability and annual covered payroll are both affected by inflation. Expressing unfunded (assets in excess of) accrued liability as a percentage of annual covered payroll (column 6) approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, where there is an unfunded accrued liability, the smaller this percentage, the stronger the plan. However, when assets are in excess of the accrued liability, the higher the bracketed percentage, the stronger the plan.

The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations, if applicable.

- (1) The actuarial mortality assumption was updated from the group annuity tables to the RP-2000 mortality table.

BOROUGH OF MYERSTOWN
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF BOROUGH CONTRIBUTIONS
Last 10 Years
December 31, 2014

The following table provides an analysis of the contributions for the last ten years for the Police Pension Plan.

<u>Plan Year Ended</u>	<u>Actuarially Determined Contribution</u>	<u>Employer Contribution</u>	<u>Percentage Contributed</u>
12-31-05	\$14,301	\$14,301	100%
12-31-06	-0-	-0-	100%
12-31-07	-0-	-0-	100%
12-31-08	-0-	-0-	100%
12-31-09	-0-	-0-	100%
12-31-10	-0-	-0-	100%
12-31-11	-0-	-0-	100%
12-31-12	-0-	-0-	100%
12-31-13	-0-	-0-	100%
12-31-14	-0-	-0-	100%

BOROUGH OF MYERSTOWN
REQUIRED SUPPLEMENTARY INFORMATION
STATEMENT OF CHANGES IN REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended December 31, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 627,217	\$ 627,217	\$ 701,266	\$ 74,049
Licenses and Permits	50,910	50,910	55,558	4,648
Fines	7,575	7,575	10,143	2,568
Intergovernmental	73,100	73,100	230,045	156,945
Charges for Services	51,035	51,035	52,973	1,938
Investment Earnings	75	75	367	292
Rental Income	18,000	18,000	17,190	(810)
Miscellaneous	22,300	22,300	29,630	7,330
TOTAL REVENUES	\$ 850,212	\$ 850,212	\$ 1,097,172	\$ 246,960
EXPENDITURES				
General Government	\$ 263,315	\$ 263,315	\$ 399,493	\$ (136,178)
Public Safety	236,750	236,750	189,595	47,155
Public Works	246,735	246,735	309,878	(63,143)
Culture and Recreation	17,795	17,795	21,772	(3,977)
Miscellaneous	274,875	274,875	50,086	224,789
TOTAL EXPENDITURES	\$ 1,039,470	\$ 1,039,470	\$ 970,824	\$ 68,646
Excess of Revenues Over (Under) Expenditures	\$ (189,258)	\$ (189,258)	\$ 126,348	\$ 315,606
OTHER FINANCING SOURCES (USES)				
Operating Transfers - Net	\$ -0-	\$ -0-	\$ (111,659)	\$ (111,659)
TOTAL OTHER FINANCING SOURCES (USES)	\$ -0-	\$ -0-	\$ (111,659)	\$ (111,659)
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	\$ (189,258)	\$ (189,258)	\$ 14,689	\$ 203,947