

**BOROUGH OF MYERSTOWN
SEWER REVENUE ACCOUNT**

FINANCIAL STATEMENTS

DECEMBER 31, 2013

**BOROUGH OF MYERSTOWN SEWER REVENUE ACCOUNT
FINANCIAL STATEMENTS
December 31, 2013**

TABLE OF CONTENTS

	PAGE NO.
INDEPENDENT AUDITOR'S REPORT	1-2
FINANCIAL STATEMENTS	
Statement of Net Position December 31, 2013	3
Statement of Revenues, Expenses and Changes in Net Position For the Year Ended December 31, 2013	4-5
Statement of Cash Flows For the Year Ended December 31, 2013	6-7
Notes to Financial Statements	8-13



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INDEPENDENT AUDITOR'S REPORT

Borough Council
BOROUGH OF MYERSTOWN
Myerstown, Pennsylvania

We have audited the accompanying financial statements of the Sewer Revenue Account of the Borough of Myerstown, Pennsylvania, as of and for the year ended December 31, 2013, 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sewer Revenue Account of the Borough of Myerstown, Pennsylvania, as of December 31, 2013, 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 Sewer 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, 2013, 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

May 20, 2014

BOROUGH OF MYERSTOWN SEWER REVENUE ACCOUNT
STATEMENT OF NET POSITION
December 31, 2013

ASSETS

CURRENT ASSETS

Cash & Cash Equivalents	\$ 3,643,337
Investments	788,028
Accounts Receivable	226,494
Due from Other Funds	34,491
Prepaid Expenses	26,243
Total Current Assets	<u>\$ 4,718,593</u>

RESTRICTED ASSETS

Investments, Restricted	718,485
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CAPITAL ASSETS, net of Depreciation

19,680,554

Total Assets	<u>\$ 25,117,632</u>
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LIABILITIES

CURRENT LIABILITIES

Accounts Payable	\$ 22,345
Note Payable, current portion	185,000
Due to Other Funds	66,402
Accrued Wages	1,293
Accrued Interest Payable	156,869
Accrued Vacation	3,426
	<u>\$ 435,335</u>

LONG-TERM LIABILITIES

Note Payable, net of current portion	<u>8,280,000</u>
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Total Liabilities	<u>\$ 8,715,335</u>
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NET POSITION

Invested in Capital Assets, net of Related Debt	\$ 11,585,554
Restricted, Debt Service Reserve, Trust	718,485
Unrestricted	<u>4,098,258</u>
Total Net Position	<u><u>\$ 16,402,297</u></u>

BOROUGH OF MYERSTOWN SEWER REVENUE ACCOUNT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
For the Year ended December 31, 2013

OPERATING REVENUES

Sewer Rental Income	\$ 1,275,319
Fines and Penalties	12,076
Industrial Cost Recovery	16,578
Contracted Labor and Equipment	8,994
Pension Reimbursement	25,860
Reimbursement Income, net Prior Year Repayment	372,511
Miscellaneous Income	<u>37,605</u>
Total Operating Revenues	<u>\$ 1,748,943</u>

OPERATING EXPENSES

Shared Wastewater Treatment System Expenses	
Salaries & Benefits	\$ 163,127
Materials & Supplies	5,720
Utilities	109,118
Chemicals	34,682
Lab Expenditures	38,360
Sludge Disposal	59,094
Trash Removal	13,708
Communications	578
Maintenance & Repairs	41,293
Flood Damage Expenses	5,340
Vehicle Expense	1,661
Alarm System Costs	3,940
Equipment Replacement	<u>5,491</u>
Total Shared Wastewater Treatment System Expenses	<u>\$ 482,112</u>

Shared Administrative Expenses	
Borough Administrative Expenses	\$ 18,500
Materials & Supplies	5,391
Dues, Conferences, and Training	1,093
Engineering Operating Services	6,050
Accounting and Legal Fees	6,207
Communications	4,217
Protective Equipment	248
Employee Benefits and Taxes	93,860
Insurance	26,953
Uniform Rental	<u>2,125</u>
Total Shared Administrative Expenses	<u>\$ 164,644</u>

(Continued)

BOROUGH OF MYERSTOWN SEWER REVENUE ACCOUNT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Year Ended December 31, 2013

OPERATING EXPENSES (CONTINUED)

Expenses Allocated to Millcreek - Richland Only	
Maintenance & Repairs	\$ 599
Total Expenses Allocated to Millcreek - Richland Only	<u>\$ 599</u>
Expenses Allocated to Jackson Only	
Maintenance & Repairs	\$ -0-
Total Expenses Allocated to Jackson Only	<u>\$ -0-</u>
Expenses Allocated to Myerstown Only	
Collection System	\$ 42,844
Administrative Services, Not Shared	5,784
Contracted Services, Billing, and Collection	4,800
Professional Fees	2,823
Insurance	2,531
Depreciation	456,709
Miscellaneous Expense	<u>(997)</u>
Total Expenses Allocated to Myerstown Only	<u>\$ 514,494</u>
Total Operating Expenses	<u>\$ 1,161,849</u>
Operating Income	<u>\$ 587,094</u>

NON-OPERATING REVENUES (EXPENSES)

Investment Gain (Loss)	\$ (115,413)
PEMA Flood Reimbursement	28,681
FEMA Flood Reimbursement	68,703
Interest Expense	<u>(458,373)</u>
Total Non-Operating Revenue (Expenses)	<u>\$ (476,402)</u>

CHANGE IN NET ASSETS

\$ 110,692

NET ASSETS - BEGINNING OF YEAR

\$ 16,679,150

Prior Period Adjustment - Issuance Costs

(387,545)

\$ 16,291,605

NET ASSETS - END OF YEAR

\$ 16,402,297

BOROUGH OF MYERSTOWN SEWER REVENUE ACCOUNT
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from Customers	\$ 1,312,967
Miscellaneous Cash Received	37,605
Reimbursements	398,371
Operating Expenses Paid	(607,624)
Cash Paid to Employees	<u>(175,680)</u>

Net Cash Provided by Operating Activities	<u>\$ 965,639</u>
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CASH FLOWS FROM INVESTING ACTIVITIES

Interest Income Received	\$ 33,237
(Purchases) Redemptions of Investments, net	<u>(1,180)</u>

Net Cash Provided By Investing Activities	<u>\$ 32,057</u>
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**CASH FLOWS FROM CAPITAL
AND RELATED FINANCING ACTIVITIES**

Principal Payments	\$ (180,000)
Interest Paid	<u>(461,709)</u>

Net Cash Used By Capital Activities	<u>\$ (641,709)</u>
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**CASH FLOWS FROM NON-CAPITAL
AND RELATED FINANCING ACTIVITIES**

PEMA Flood Receipts	\$ 28,681
FEMA Flood Receipts	<u>68,703</u>

Net Cash Provided By Non-Capital Activities	<u>\$ 97,384</u>
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**NET INCREASE IN CASH AND
CASH EQUIVALENTS**

	\$ 453,371
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**CASH AND CASH EQUIVALENTS -
BEGINNING OF YEAR**

	<u>3,189,966</u>
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**CASH AND CASH EQUIVALENTS -
END OF YEAR**

	<u><u>\$ 3,643,337</u></u>
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BOROUGH OF MYERSTOWN SEWER REVENUE ACCOUNT
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2013

**RECONCILIATION OF OPERATING
INCOME TO NET CASH PROVIDED
BY OPERATING ACTIVITIES**

Operating Income	\$ 587,094
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**ADJUSTMENTS TO RECONCILE
OPERATING INCOME TO NET CASH
PROVIDED BY OPERATING ACTIVITIES**

Depreciation	\$ 456,709
(Increase) Decrease in:	
Accounts Receivable	(556)
Prepaid Insurance	(3,386)
Due from Other Funds	(4,000)
Increase (Decrease) in:	
Accounts Payable	(52,541)
Due to Other Funds	(11,974)
Accrued Wages	(5,707)
Accrued Compensated Absences	-0-
Total Adjustments	<u>\$ 378,545</u>

**NET CASH PROVIDED BY
OPERATING ACTIVITIES**

	<u><u>\$ 965,639</u></u>
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BOROUGH OF MYERSTOWN SEWER REVENUE ACCOUNT
FINANCIAL STATEMENTS
December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Borough of Myerstown, Sewer Revenue Account (Fund) is a fund of the Borough of Myerstown (Borough) and is 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 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 were recorded.

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.

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 SEWER REVENUE ACCOUNT
FINANCIAL STATEMENTS
December 31, 2013

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 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.

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

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. Uniformed employees can also accumulate up to 285 days of sick leave and upon termination are paid thirty-three percent of their hourly rates for those sick days. Compensated absences are reported as accrued 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 SEWER REVENUE ACCOUNT
FINANCIAL STATEMENTS
December 31, 2013

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 May 20, 2014, the date the financial statements were available to be issued.

NOTE 2 – 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 3 - CASH AND CASH EQUIVALENTS

Custodial Risk

The Borough is authorized by statute to invest in government securities and insured accounts or their equivalents. The Borough deposits cash in local financial institutions. At the year-end, the Fund's carrying amount of deposits was \$3,407,933 and the bank balance was \$3,425,244. The total bank balances up to \$250,000 are covered by federal depository insurance. Depositories pledge assets to secure deposits in excess of \$250,000 in accordance to 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, 2013 were \$973,050. 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.

Cash equivalents of the Fund also consist of money market funds in a local financial institution trust department. These funds are invested in federal securities and rated AAAM by Standard & Poor's. Balances at December 31, 2013 were \$20,984. These funds are restricted.

The Borough places no limit on the amount of deposits in any one issuer.

BOROUGH OF MYERSTOWN SEWER REVENUE ACCOUNT
FINANCIAL STATEMENTS
December 31, 2013

NOTE 4 - 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 investments of the Fund at December 31, 2013 are uninsured and unregistered with the securities held by the counterparty, or by its trust department or agent but not in the Borough's name. The investments of the Fund consist of the following:

	<u>Cost</u>	<u>Market Value</u>
Government Debt – FNMA, Restricted	631,730	697,501

The Borough does not have formal investment policies that limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates, addresses custodial credit risk, concentration of credit risk, or foreign currency risk.

NOTE 5 – CAPITAL ASSETS

The following summarizes the changes in capital assets for the fund for the year ended December 31, 2013:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</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:				
Sewer Plant and Improvements	\$ 8,723,811	\$ 436,749	\$ - 0 -	\$ 9,160,560
Equipment	90,019	14,801	- 0 -	104,820
Vehicles	7,739	5,158	- 0 -	12,897
Total Depreciable Assets	<u>\$ 8,821,569</u>	<u>\$ 456,708</u>	<u>\$ - 0 -</u>	<u>\$ 9,278,277</u>
Net Capital Assets	<u>\$ 20,137,262</u>	<u>\$ (456,708)</u>	<u>\$ - 0 -</u>	<u>\$ 19,680,554</u>

BOROUGH OF MYERSTOWN SEWER REVENUE ACCOUNT
FINANCIAL STATEMENTS
December 31, 2013

NOTE 7 – LONG-TERM DEBT

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 project on behalf of the Borough consisting of, among other things: (1) construction and installation of a new sewage treatment plant and the construction and/or acquisition of additions, extensions, alterations and improvements to the Borough's existing sewage collection system serving the residents of the Borough; (2) to acquire machinery and equipment; (3) the funding of a deposit to the Debt Service Reserve Fund; and (4) to pay all costs and expenses of issuance of the Bonds.

In accordance with the loan agreement, the Borough covenants to pay the Authority payments per a loan repayment schedule requiring semi-annual loan payments before January 10 and July 10 each year. The repayments are subject to prepayment prior to scheduled dates pursuant to the same terms upon which the Series A of 2007 Bonds are subject to redemption. To secure the loan, the Borough pledges all of its rights, title and interest in and to the receipts and revenues of the sewer system.

The Authority has assigned its right to the loan payments over to the Trustee to apply the loan payments in accordance with the Trust indenture to pay principal and interest of the Bonds as they become due.

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

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2014	\$ 185,000	\$ 453,699	\$ 638,699
2015	195,000	445,374	640,374
2016	205,000	436,209	641,209
2017	215,000	426,574	641,574
2018	225,000	416,469	641,469
2019-2023	1,305,000	1,893,606	3,198,606
2024-2028	1,690,000	1,506,638	3,196,638
2029-2033	2,205,000	993,025	3,198,025
2034-2037	2,240,000	316,250	2,556,250
	<u>\$ 8,465,000</u>	<u>\$ 6,887,844</u>	<u>\$ 15,352,844</u>

The Long-Term Debt activity for 2013 is as follows:

	<u>Balance 12/31/12</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/13</u>
Note Payable	<u>\$ 8,645,000</u>	<u>\$ -0-</u>	<u>\$ 180,000</u>	<u>\$ 8,465,000</u>

BOROUGH OF MYERSTOWN SEWER REVENUE ACCOUNT
FINANCIAL STATEMENTS
December 31, 2013

NOTE 8 – CONCENTRATION OF CREDIT RISK

At December 31, 2013, there were two customers that represent 30% of the accounts receivable balance. These two customers also represent 45% of user charges for the year.

NOTE 9 - NON-UNIFORMED EMPLOYEE'S RETIREMENT

As employees of the Borough of Myerstown, employees are 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 \$48,461 if which \$25,860 was applied for sewer revenue account employees. The Borough contributed \$-0- to this plan for the year ended December 31, 2013.

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 does not provide matching contributions to this plan.

NOTE 10 – PRIOR PERIOD ADJUSTMENT

Governmental Accounting Standards Board Statement Number 65, *Items Previously Reported as Assets and Liabilities*, was adopted by the Borough during 2013. It requires note financing costs to be expensed in the year of issuance. Net position in the amount of \$387,545 was adjusted.