

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

FINANCIAL STATEMENTS

DECEMBER 31, 2014

**BOROUGH OF MYERSTOWN
WASTE WATER TREATMENT REVENUE ACCOUNT
FINANCIAL STATEMENTS
December 31, 2014**

TABLE OF CONTENTS

	PAGE NO.
INDEPENDENT AUDITOR'S REPORT	1-2
FINANCIAL STATEMENTS	
Statement of Net Position December 31, 2014	3
Statement of Revenues, Expenses and Changes in Net Position For the Year Ended December 31, 2014	4-5
Statement of Cash Flows For the Year Ended December 31, 2014	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 Waste Water Treatment Revenue Account of the Borough of Myerstown, Pennsylvania, as of and for the year ended December 31, 2014, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Waste Water Treatment Revenue Account of the Borough of Myerstown, Pennsylvania, as of December 31, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other-Matters

As discussed in Note 1, the financial statements present only the Waste Water Treatment Revenue Account and do not purport to, and do not, present fairly the financial position of the Borough of Myerstown, Pennsylvania, as of December 31, 2014, 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 8, 2015

BOROUGH OF MYERSTOWN
WASTE WATER TREATMENT REVENUE ACCOUNT
STATEMENT OF NET POSITION
December 31, 2014

ASSETS

Current Assets:

Cash & Cash Equivalents	\$ 4,768,862
Accounts Receivable	218,119
Prepaid Expenses	<u>22,216</u>
Total Current Assets	\$ 5,009,197

Noncurrent Assets:

Capital Assets, net of Depreciation	<u>19,224,584</u>
Total Assets	<u>\$ 24,233,781</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred Amount on Refunding	<u>\$ 1,113,170</u>
Total Deferred Outflows of Resources	<u>\$ 1,113,170</u>

LIABILITIES

Current Liabilities:

Accounts Payable	\$ 84,048
Note Payable, current portion	-0-
Due to Other Funds	48,702
Accrued Wages	1,863
Accrued Interest Payable	82,708
Accrued Vacation	<u>417</u>
Total Current Liabilities	\$ 217,738

Noncurrent Liabilities:

Note Payable, net of current portion	<u>8,827,000</u>
Total Liabilities	<u>\$ 9,044,738</u>

NET POSITION

Net Investment in Capital Assets	\$ 10,397,584
Unrestricted	<u>5,904,629</u>
Total Net Position	<u><u>\$ 16,302,213</u></u>

BOROUGH OF MYERSTOWN
WASTE WATER TREATMENT REVENUE ACCOUNT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
For the Year ended December 31, 2014

OPERATING REVENUES

Waste Water Treatment User Charges	\$ 1,260,855
Fines and Penalties	12,002
Industrial Cost Recovery	20,938
Contracted Labor and Equipment	11,512
Pension Reimbursement	19,031
Reimbursement Income, net	98,861
Miscellaneous Income	<u>27,238</u>
Total Operating Revenues	<u>\$ 1,450,437</u>

OPERATING EXPENSES

Shared Wastewater Treatment System Expenses

Salaries	\$ 132,511
Materials & Supplies	192
Utilities	107,304
Chemicals	48,424
Lab Expenditures	32,425
Sludge Disposal	62,955
Trash Removal	13,739
Communications	248
Maintenance & Repairs	76,630
Vehicle Expense	2,583
Alarm System Costs	3,940
Equipment Replacement	<u>2,373</u>
Total Shared Wastewater Treatment System Expenses	<u>\$ 483,324</u>

Shared Administrative Expenses

Borough Administrative Expenses	\$ 20,000
Materials & Supplies	3,816
Dues, Conferences, and Training	1,056
Engineering Operating Services	1,513
Accounting and Legal Fees	16,576
Communications	4,571
Protective Equipment	220
Employee Benefits and Taxes	97,404
Insurance	34,947
Office Expense	1,366
Uniform Rental	<u>1,722</u>
Total Shared Administrative Expenses	<u>\$ 183,191</u>

(Continued)

BOROUGH OF MYERSTOWN
WASTE WATER TREATMENT REVENUE ACCOUNT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
For the Year ended December 31, 2014

OPERATING EXPENSES (CONTINUED)

Expenses Allocated to Millcreek - Richland Only	
Maintenance & Repairs	\$ 487
Total Expenses Allocated to Millcreek - Richland Only	<u>\$ 487</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	\$ 89,270
Administrative Services, Not Shared	18,000
Contracted Services, Billing, and Collection	-0-
Professional Fees	4,684
Insurance	1,684
Depreciation	455,970
Miscellaneous Expense	<u>71,213</u>
Total Expenses Allocated to Myerstown Only	<u>\$ 640,821</u>
Total Operating Expenses	<u>\$ 1,307,823</u>
Operating Income	<u>\$ 142,614</u>
NON-OPERATING REVENUES (EXPENSES)	
Investment Income	\$ 107,296
Tapping Fees	2,084
Interest Expense	<u>(352,078)</u>
Total Non-Operating Revenue (Expenses)	<u>\$ (242,698)</u>
CHANGE IN NET ASSETS	<u>\$ (100,084)</u>
NET ASSETS - BEGINNING OF YEAR	<u>16,402,297</u>
NET ASSETS - END OF YEAR	<u><u>\$ 16,302,213</u></u>

BOROUGH OF MYERSTOWN
WASTE WATER TREATMENT REVENUE ACCOUNT
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2014

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from Customers	\$ 1,302,170
Miscellaneous Cash Received	57,781
Reimbursements	106,648
Operating Expenses Paid	(485,272)
Cash Paid to Employees	(229,916)
	<hr/>
Net Cash Provided by Operating Activities	\$ 751,411

CASH FLOWS FROM INVESTING ACTIVITIES

Interest Income Received	\$ 42,923
Redemptions of Investments	718,485
	<hr/>
Net Cash Provided By Investing Activities	\$ 761,408

**CASH FLOWS FROM CAPITAL
AND RELATED FINANCING ACTIVITIES**

Principal Payments	\$ (185,000)
Procceds from Notes Payable	221,861
Interest Paid	(426,239)
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Net Cash Used By Capital and Related Financing Activities	\$ (389,378)

**CASH FLOWS FROM NON-CAPITAL
AND RELATED FINANCING ACTIVITIES**

Tapping Fees	\$ 2,084
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Net Cash Provided By Non-Capital and Related Financing Activities	\$ 2,084

**NET INCREASE IN CASH AND
CASH EQUIVALENTS**

\$ 1,125,525

**CASH AND CASH EQUIVALENTS -
BEGINNING OF YEAR**

3,643,337

END OF YEAR

\$ 4,768,862

BOROUGH OF MYERSTOWN
WASTE WATER TREATMENT REVENUE ACCOUNT
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2014

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

Operating Income	\$ 142,614
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**ADJUSTMENTS TO RECONCILE
OPERATING INCOME TO NET CASH
PROVIDED BY OPERATING ACTIVITIES**

Depreciation	\$ 455,970
Gain on Sale of Investments	64,373
(Increase) Decrease in:	
Accounts Receivable	8,375
Prepaid Insurance	4,027
Due from Other Funds	16,091
Increase (Decrease) in:	
Accounts Payable	61,700
Due to Other Funds	700
Accrued Wages	570
Accrued Compensated Absences	(3,009)
Total Adjustments	<u>\$ 608,797</u>

**NET CASH PROVIDED BY
OPERATING ACTIVITIES**

<u>\$ 751,411</u>

Non-Cash Activities

In 2014, the Millcreek-Richland Bonds, Series A of 2007 in the amount of \$8,280,000 were advance refunded with new borrowing of \$8,827,000, resulting in a deferred asset of \$1,113,170.

**BOROUGH OF MYERSTOWN
WASTE WATER TREATMENT REVENUE ACCOUNT
FINANCIAL STATEMENTS
December 31, 2014**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Borough of Myerstown, Waste Water Treatment 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
WASTE WATER TREATMENT REVENUE ACCOUNT
FINANCIAL STATEMENTS
December 31, 2014**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Restricted Resources

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

Interfund Activity

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

Capital Assets

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

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

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

Compensated Absences

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 could 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. In 2014, the police force was disbanded and the uniformed employees were paid all allowed time. Compensated absences are reported as accrued vacation in the financial statements.

Risk Management

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

Operating Revenues and Expenses

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

**BOROUGH OF MYERSTOWN
WASTE WATER TREATMENT REVENUE ACCOUNT
FINANCIAL STATEMENTS
December 31, 2014**

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 8, 2015, 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 a local financial institution. At the year-end, the Fund's carrying amount of deposits was \$3,777,518 and the bank balance was \$3,838,751. The 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, 2014 were \$943,929. 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 of deposits in any one issuer.

**BOROUGH OF MYERSTOWN
WASTE WATER TREATMENT REVENUE ACCOUNT
FINANCIAL STATEMENTS
December 31, 2014**

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 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.

During 2014, all of the securities held for debt service were sold in the refinancing of its debt. See Note 6.

NOTE 5 – CAPITAL ASSETS

The following summarizes the changes in capital assets for the fund for the year ended December 31, 2014:

	<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	<u>25,795</u>	<u>- 0 -</u>	<u>- 0 -</u>	<u>25,795</u>
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	\$ 9,160,560	\$ 436,748	\$ - 0 -	\$ 9,597,308
Equipment	104,820	14,063	- 0 -	118,883
Vehicles	<u>12,897</u>	<u>5,159</u>	<u>- 0 -</u>	<u>18,056</u>
Total Depreciable Assets	<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>\$ 19,224,584</u>

NOTE 6– 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. The 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.

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.

**BOROUGH OF MYERSTOWN
WASTE WATER TREATMENT REVENUE ACCOUNT
FINANCIAL STATEMENTS
December 31, 2014**

NOTE 6– LONG-TERM DEBT

The 2014 Note bears interest at 2.25% until August 1, 2021 and thereafter at a variable rate equal to 65% of the Wall Street Journal Prime Rate, not to exceed 4.75% per annum, until August 1, 2036, the final maturity date. Principal and interest payments for the next five years and thereafter on the Note, Series A of 2014, assuming the maximum variable interest rate are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
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>

The Long-Term Debt activity for 2014 is as follows:

	<u>Balance 12/31/13</u>	<u>Additions</u>	<u>Reductions</u>	<u>Defeasance</u>	<u>Balance 12/31/14</u>
2014 GO Note, Series A	\$ -0-	\$8,827,000	\$ -0-	\$ -0-	\$8,827,000
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>\$8,827,000</u>	<u>\$ 185,000</u>	<u>\$8,280,000</u>	<u>\$8,827,000</u>

NOTE 7 – CONCENTRATION OF CREDIT RISK

During 2014 two customers represent 21% of user charges for the year.

NOTE 8 - NON-UNIFORMED EMPLOYEE'S RETIREMENT

The Borough 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.

**BOROUGH OF MYERSTOWN
WASTE WATER TREATMENT REVENUE ACCOUNT
FINANCIAL STATEMENTS
December 31, 2014**

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

As employees of the Borough of Myerstown, employees are also participants 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. \$19,031 of the State contribution was applied for sewer revenue account employees. The Borough contributed \$6,585 in addition to the State contribution to this plan for the year ended December 31, 2014.