

**MANHEIM AREA WATER & SEWER AUTHORITY
(FORMERLY MANHEIM BOROUGH AUTHORITY)
MANHEIM, PENNSYLVANIA**

**FINANCIAL STATEMENTS
DECEMBER 31, 2014**

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

**MANHEIM AREA WATER & SEWER AUTHORITY
MANHEIM, PENNSYLVANIA**

DECEMBER 31, 2014

C O N T E N T S

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1
BASIC FINANCIAL STATEMENTS	
STATEMENTS OF NET POSITION	3
STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION	5
STATEMENTS OF CASH FLOWS	6
STATEMENTS OF FIDUCIARY NET POSITION – PENSION TRUST FUND	8
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION – PENSION TRUST FUND	9
NOTES TO THE FINANCIAL STATEMENTS	10

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INDEPENDENT AUDITOR'S REPORT

Members of Board
Manheim Area Water & Sewer Authority
Manheim, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the pension trust fund of Manheim Area Water & Sewer Authority (the Authority), formerly Manheim Borough Authority, a component unit of Manheim Borough as of and for the year then ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Authority'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 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, the financial statements referred to above presented fairly, in all material respects, the respective financial position of the business-type activities and the pension trust fund of Manheim Area Water & Sewer Authority 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

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Sager, Swisher and Company, LLP

Columbia, Pennsylvania
May 20, 2015

**MANHEIM AREA WATER & SEWER AUTHORITY
MANHEIM, PENNSYLVANIA**

**STATEMENTS OF NET POSITION
DECEMBER 31, 2014 AND 2013**

	<u>2014</u>			<u>2013</u>
	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>	
ASSETS				
Current Assets				
Cash and Cash Equivalents	\$ 104,481	\$ 1,538,445	\$ 1,642,926	\$ 1,271,031
Accounts Receivable	162,149	259,025	421,174	430,714
Accounts Receivable – Other	8,430	160,171	168,601	--
Due from Other Funds	<u>698,602</u>	<u>--</u>	<u>698,602</u>	<u>806,510</u>
Total Current Assets	<u>973,662</u>	<u>1,957,641</u>	<u>2,931,303</u>	<u>2,508,255</u>
Restricted Assets				
Cash and Cash Equivalents	<u>--</u>	<u>--</u>	<u>--</u>	<u>25,495</u>
Total Restricted Assets	<u>--</u>	<u>--</u>	<u>--</u>	<u>25,495</u>
Capital Assets				
Water Plant	10,409,006	--	10,409,006	10,265,697
Wastewater Plant	--	29,552,802	29,552,802	29,523,060
Public Works Building	--	149,146	149,146	149,146
Machinery and Equipment	48,446	425,254	473,700	454,584
Vehicles	44,333	81,831	126,164	126,164
Construction in Progress	<u>--</u>	<u>--</u>	<u>--</u>	<u>62,513</u>
Total Capital Assets	10,501,785	30,209,033	40,710,818	40,581,164
Accumulated Depreciation	<u>3,863,442</u>	<u>10,763,037</u>	<u>14,626,479</u>	<u>13,490,617</u>
Net Capital Assets	<u>6,638,343</u>	<u>19,445,996</u>	<u>26,084,339</u>	<u>27,090,547</u>
TOTAL ASSETS	<u>\$ 7,612,005</u>	<u>\$ 21,403,637</u>	<u>\$ 29,015,642</u>	<u>\$ 29,624,297</u>

**MANHEIM AREA WATER & SEWER AUTHORITY
MANHEIM, PENNSYLVANIA**

**STATEMENTS OF NET POSITION
DECEMBER 31, 2014 AND 2013**

	2014			2013
	Water	Wastewater	Total	
LIABILITIES				
Current Liabilities				
Accounts Payable	\$ 26,883	\$ 56,153	\$ 83,036	\$ 47,131
Developer Deposits	--	59,629	59,629	16,233
Accrued Wages	6,123	10,247	16,370	13,463
Accrued Paid Time-Off	4,136	5,730	9,866	12,332
Accrued Interest	21,237	118,829	140,066	167,072
Due to Other Funds	--	698,602	698,602	806,510
Current Portion of Long-Term Debt	433,863	709,895	1,143,758	1,194,666
Total Current Liabilities	492,242	1,659,085	2,151,327	2,257,407
Long-Term Liabilities				
Long-Term Debt, Net of Current Portion	2,126,569	13,178,646	15,305,215	16,366,384
Total Long-Term Liabilities	2,126,569	13,178,646	15,305,215	16,366,384
TOTAL LIABILITIES	2,618,811	14,837,731	17,456,542	18,623,791
NET POSITION				
Net Investment in Capital Assets	4,077,911	5,557,455	9,635,366	9,529,497
Restricted	--	--	--	25,495
Unrestricted	915,283	1,008,451	1,923,734	1,445,514
TOTAL NET POSITION	4,993,194	6,565,906	11,559,100	11,000,506
TOTAL LIABILITIES AND NET POSITION	\$ 7,612,005	\$ 21,403,637	\$ 29,015,642	\$ 29,624,297

The accompanying notes are an integral part of these financial statements.

**MANHEIM AREA WATER & SEWER AUTHORITY
MANHEIM, PENNSYLVANIA**

**STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2014 AND 2013**

	2014			2013
	Water	Wastewater	Total	
OPERATING REVENUE				
Charges for Services	\$ 1,208,318	\$ 1,956,485	\$ 3,164,803	\$ 3,128,102
Rapho Township, Participation	--	38,707	38,707	38,654
Septic Processing	--	522,345	522,345	547,326
Permits	8,675	780	9,455	2,443
Finals Fees	10,811	--	10,811	7,456
Tapping Fees	97,069	2,132	99,201	24,090
Meter Sales	17,052	--	17,052	4,763
Penalties	57,185	1,573	58,758	48,453
Miscellaneous	19,794	25,029	44,823	52,650
TOTAL OPERATING REVENUE	1,418,904	2,547,051	3,965,955	3,853,937
OPERATING EXPENSES				
Engineering Fees	47,410	29,549	76,959	61,071
Personnel Costs	303,503	468,240	771,743	706,229
Repairs and Maintenance	266,447	188,458	454,905	363,146
General Expenses	74,053	328,061	402,114	384,874
Professional Fees	20,777	41,403	62,180	108,905
Utilities	62,374	140,298	202,672	197,076
Postage	12,040	4,517	16,557	14,889
Depreciation	276,729	859,132	1,135,861	1,086,220
Insurance	15,911	41,364	57,275	55,842
TOTAL OPERATING EXPENSES	1,079,244	2,101,022	3,180,266	2,978,252
OPERATING INCOME	339,660	446,029	785,689	875,685
NONOPERATING REVENUES (EXPENSES)				
Grant Revenue	--	--	--	107,207
Interest Income	439	7,682	8,121	2,917
Interest Expense	(120,148)	(418,215)	(538,363)	(618,169)
Refund of Prior Year's Expenses	9,187	12,446	21,633	2,694
Lawsuit Settlement	17,500	332,500	350,000	--
Note Issuance Costs	--	(68,486)	(68,486)	--
TOTAL NONOPERATING REVENUES (EXPENSES)	(93,022)	(134,073)	(227,095)	(505,351)
INCOME BEFORE CONTRIBUTIONS	246,638	311,956	558,594	370,334
CAPITAL CONTRIBUTIONS	--	--	--	5,000
Changes in Net Position	246,638	311,956	558,594	375,334
Net Position – Beginning of Year	4,746,556	6,253,950	11,000,506	10,625,172
Net Position – End of Year	\$ 4,993,194	\$ 6,565,906	\$ 11,559,100	\$ 11,000,506

The accompanying notes are an integral part of these financial statements.

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**MANHEIM AREA WATER & SEWER AUTHORITY
MANHEIM, PENNSYLVANIA**

**STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<u>2014</u>			<u>2013</u>
	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customer	\$ 1,391,530	\$ 2,539,142	\$ 3,930,672	\$ 3,819,553
Other Operating Revenues	19,794	25,029	44,823	52,650
Payments for Goods and Services	(488,268)	(705,093)	(1,193,361)	(1,217,681)
Payments to Employees	(303,007)	(468,295)	(771,302)	(693,927)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>620,049</u>	<u>1,390,783</u>	<u>2,010,832</u>	<u>1,960,595</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Grant Revenue	--	--	--	107,207
Refund of Prior Year's Expenses	9,187	12,446	21,633	2,694
Lawsuit Settlement	9,070	172,329	181,399	--
Receipt (Payment) of Interfund Activity	107,908	(107,908)	--	--
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	<u>126,165</u>	<u>76,867</u>	<u>203,032</u>	<u>109,901</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisitions of Capital Assets	(89,931)	(39,722)	(129,653)	(1,539,471)
Principal Payments on Debt	(483,634)	(9,353,443)	(9,837,077)	(1,151,739)
Interest Payments on Debt	(122,483)	(442,886)	(565,369)	(607,459)
Note Proceeds	--	8,725,000	8,725,000	--
Note Issuance Costs	--	(68,486)	(68,486)	--
NET CASH (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(696,048)</u>	<u>(1,179,537)</u>	<u>(1,875,585)</u>	<u>(3,298,669)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Earnings on Investments	439	7,682	8,121	2,917
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>439</u>	<u>7,682</u>	<u>8,121</u>	<u>2,917</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	50,605	295,795	346,400	(1,225,256)
CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR	<u>53,876</u>	<u>1,242,650</u>	<u>1,296,526</u>	<u>2,521,782</u>
CASH AND CASH EQUIVALENTS – AT END OF YEAR	<u>\$ 104,481</u>	<u>\$ 1,538,445</u>	<u>\$ 1,642,926</u>	<u>\$ 1,296,526</u>

**MANHEIM AREA WATER & SEWER AUTHORITY
MANHEIM, PENNSYLVANIA**

**STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014 AND 2013**

	2014			2013
	Water	Wastewater	Total	
Reconciliation of Operating Income to Net Cash Provided by Operating Activities				
Operating Income	\$ 339,660	\$ 446,029	\$ 785,689	\$ 875,685
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities				
Depreciation	276,729	859,132	1,135,861	1,086,220
(Increase) Decrease In Accounts Receivable	(7,580)	17,120	9,540	18,266
Increase (Decrease) In Accounts Payable	10,744	68,557	79,301	(29,183)
Accrued Wages	1,292	1,615	2,907	5,580
Accrued Paid Time-Off	(796)	(1,670)	(2,466)	4,027
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 620,049</u>	<u>\$ 1,390,783</u>	<u>\$ 2,010,832</u>	<u>\$ 1,960,595</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES				
Contributions of Capital Assets	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 5,000</u>

The accompanying notes are an integral part of these financial statements.

**MANHEIM AREA WATER & SEWER AUTHORITY
MANHEIM, PENNSYLVANIA**

**STATEMENTS OF FIDUCIARY NET POSITION – PENSION TRUST FUND
DECEMBER 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
ASSETS		
Investments	\$ 67,607	\$ 46,564
TOTAL ASSETS	<u>\$ 67,607</u>	<u>\$ 46,564</u>
LIABILITIES	\$ --	\$ --
NET POSITION		
Restricted for Pension Benefits	<u>67,607</u>	<u>46,564</u>
TOTAL NET POSITION	<u>67,607</u>	<u>46,564</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 67,607</u>	<u>\$ 46,564</u>

The accompanying notes are an integral part of these financial statements.

**MANHEIM AREA WATER & SEWER AUTHORITY
MANHEIM, PENNSYLVANIA**

**STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION –
PENSION TRUST FUND
YEARS ENDED DECEMBER 31, 2014 AND 2013**

	2014	2013
ADDITIONS		
Employer Contributions	\$ 18,271	\$ 16,632
Member Contributions	--	5,890
Investment Income	2,992	1,881
TOTAL ADDITIONS	21,263	24,403
DEDUCTIONS		
Miscellaneous Expense	--	2,694
Administrative Expense	220	180
TOTAL DEDUCTIONS	220	2,874
Changes in Net Position	21,043	21,529
Net Position – Beginning of Year	46,564	25,035
Net Position – End of Year	\$ 67,607	\$ 46,564

The accompanying notes are an integral part of these financial statements.

**MANHEIM AREA WATER & SEWER AUTHORITY
MANHEIM, PENNSYLVANIA**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Manheim Borough Authority (the Authority) was incorporated on October 26, 1939 under the Municipal Authorities Act of 1935. The purpose of the Authority was to provide financing for sewer and water projects in the Borough of Manheim, as well as portions of Penn and Rapho Townships. In December 2014, the Authority adopted Resolution 1-2015 to change the Authority's name to Manheim Area Water & Sewer Authority (MAWSA). The financial statements of the Manheim Area Water & Sewer Authority have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles. The more significant of these accounting policies are as follows:

A. Reporting Entity

In evaluating the Authority as a reporting entity, management has addressed all potential component units, which may or may not fall within the Authority's financial accountability. The criteria used to evaluate component units for possible inclusion as part of the Authority's reporting entity are financial accountability and the nature and significance of the relationship.

Based on the criteria, the Manheim Area Water & Sewer Authority is a component unit of Borough of Manheim. Borough Council of the Borough of Manheim organized the Authority. The Borough appoints members to the Authority and has a potential burden as the guarantor of the Authority's debt.

These financial statements include all the funds of the Manheim Area Water & Sewer Authority. As such, these financial statements are not intended to present fairly the financial position of the Borough of Manheim and the results of its operations and cash flows of its proprietary trust funds. Audited financial statements for the Borough of Manheim can be obtained at the Borough office.

B. Basis of Accounting

The Authority uses the accrual method of accounting. Revenue is recognized in the period in which earned and becomes measurable. Expenses are recognized at the time they are incurred.

C. Basis of Presentation

Fund financial statements are also provided in the report for all of the proprietary funds and the fiduciary fund of the Authority. All individual enterprise funds are reported as separate columns in the fund financial statements. Fiduciary funds are reported by fund type.

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. The principal operating revenues of the Authority's enterprise funds include water and wastewater charges. Operating expenses for the Authority's enterprise fund include water and wastewater system costs, supplies, administrative costs, and depreciation on capital assets. All revenues or expenses not meeting this definition are reported as non-operating revenues and expenses.

The Authority operates two enterprise funds, the water fund and wastewater fund. These funds are used to account for the activities of the Authority's water and wastewater funds primarily through user charges.

Fiduciary Fund Types are used to account for the assets held by the Authority as a trustee or agent for individuals, private organizations and/or governmental units. The fund included in this category is the pension trust fund which provides benefits for Authority employees. The principal revenue source for this fund is municipal contributions.

**MANHEIM AREA WATER & SEWER AUTHORITY
MANHEIM, PENNSYLVANIA**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Accounts Receivable

It is the Authority's policy to record an allowance for doubtful accounts based on management's assessment of the collectability of specific balances and the aging of accounts receivable. Management has determined that no valuation allowance for uncollectible accounts is required as of December 31, 2014.

E. Cash, Cash Equivalents and Investments

Cash and cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and include investments with original maturities of three months or less.

All investments are stated at cost including accrued interest, which approximates fair value.

F. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., water and sanitary sewer lines and facilities), are reported at cost. Capital assets are defined by the Authority as assets with an individual cost of more than \$5,000 and estimated useful life in excess of one year. In addition, capital assets purchased with long-term debt may be capitalized regardless of the thresholds established. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Capital contributions are recorded at estimated fair market value at the date of donation. The Authority received water and wastewater lines from developers.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

All reported capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Water Plant	5 to 40
Wastewater Plant	10 to 40
Public Works Building	30
Machinery and Equipment and Vehicles	5 to 15

G. 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.

H. Reclassifications

Certain items have been reclassified to meet current year presentations.

**MANHEIM AREA WATER & SEWER AUTHORITY
MANHEIM, PENNSYLVANIA**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources until then. During the year ended December 31, 2014, the Authority did not have any deferred outflows of resources.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources until that time. During the year ended December 31, 2014, the Authority did not have any deferred inflows of resources.

J. Net Position Flow Assumption

Sometimes the Authority will fund outlays for a particular purpose from both restricted and unrestricted resources. It is the Authority's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

K. Date of Management's Review

Management has evaluated subsequent events through May 20, 2015, the date the financial statements were available to be issued.

NOTE 2 – DEPOSITS AND INVESTMENTS

The Pennsylvania Municipal Authorities Act, Section 7.1 requires that the Authority's deposits be federally insured. Deposits above the insured maximum are required to have collateral pledged in the name of the financial institution. In addition, the following types of investments are authorized:

1. United States Treasury Bills
2. Short-term obligations of the United States Government, its agencies or its instrumentalities
3. Obligations of the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, the Commonwealth of Pennsylvania or any of its agencies or instrumentalities.

The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of governmental funds for investment purposes.

Deposits of the Authority consist of demand deposits at financial institutions. The cash and cash equivalents are stated at cost, which is equal to fair value.

**MANHEIM AREA WATER & SEWER AUTHORITY
MANHEIM, PENNSYLVANIA**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)

Cash

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. The Authority does not have a policy for custodial credit risk. As of December 31, 2014, \$1,339,326 of the Authority's bank balance of \$1,656,241 was exposed to custodial credit risk.

Reconciliation to Financial Statements

Uninsured Amount	\$ 1,339,326
Plus: Insured Amount	316,914
Less: Outstanding Checks	<u>(13,314)</u>
Total Cash per Financial Statements	<u>\$ 1,642,926</u>

Beginning January 1, 2013, all interest and noninterest bearing demand accounts are aggregated in total by financial institution and fully insured up to \$250,000. Time and savings accounts also have FDIC insurance coverage up to \$250,000.

Investments

As of December 31, 2014, the Authority had the following investments:

<u>Investment</u>	<u>Fair Value</u>
Pension Trust Fund – Pooled Investments – Pennsylvania Municipal Retirement System (PMRS)	<u>\$ 67,607</u>

Interest Rate Risk

The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The Authority has no investment policy that limits its investment choices other than by statutes.

Concentration of Credit Risk – Deposits and Investments

The Authority's deposits and investments are held at the following financial institutions:

	<u>Deposits and/or Investments</u>	<u>Concentration Percentage</u>
Fulton Bank	\$ 66,914	3.9%
Susquehanna Bank	1,589,327	92.2%
Pennsylvania Municipal Retirement System (PMRS)	<u>67,607</u>	<u>3.9%</u>
	<u>\$ 1,723,848</u>	<u>100.0%</u>

**MANHEIM AREA WATER & SEWER AUTHORITY
MANHEIM, PENNSYLVANIA**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 3 – CHANGES IN CAPITAL ASSETS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets, Not Being Depreciated				
Construction in Progress	\$ 62,513	\$ --	\$ 62,513	\$ --
Total Capital Assets Not Being Depreciated	<u>62,513</u>	<u>--</u>	<u>62,513</u>	<u>--</u>
Capital Assets Being Depreciated				
Water Plant	10,265,697	143,309	--	10,409,006
Wastewater Plant	29,523,060	29,742	--	29,552,802
Public Works Building	149,146	--	--	149,146
Machinery and Equipment	454,584	19,116	--	473,700
Vehicles	<u>126,164</u>	<u>--</u>	<u>--</u>	<u>126,164</u>
Total Assets Being Depreciated	<u>40,518,651</u>	<u>192,167</u>	<u>--</u>	<u>40,710,818</u>
Less Accumulated Depreciation				
Water Plant	3,523,607	267,996	--	3,791,603
Wastewater Plant	9,582,175	814,037	--	10,396,212
Public Works Building	9,943	4,972	--	14,915
Machinery and Equipment	297,529	30,287	--	327,816
Vehicles	<u>77,363</u>	<u>18,570</u>	<u>--</u>	<u>95,933</u>
Total Accumulated Depreciation	<u>13,490,617</u>	<u>1,135,862</u>	<u>--</u>	<u>14,626,479</u>
Total Capital Assets, Being Depreciated Net	<u>27,028,034</u>	<u>(943,695)</u>	<u>--</u>	<u>26,084,339</u>
Total Capital Assets, Net	<u>\$ 27,090,547</u>	<u>\$ (943,695)</u>	<u>\$ 62,513</u>	<u>\$ 26,084,339</u>

NOTE 4 – LONG-TERM DEBT

The ending balance consisted of the following:

PennVest Loans:	
Water Line	\$ 51,272
Water Plant	778,781
Susquehanna Commercial Finance, Inc. – Water Meters	375,698
Susquehanna Commercial Finance, Inc. – Truck Lease	16,222
Guaranteed Water and Sewer Revenue Note – Series of 2014 (MidPenn Bank)	4,740,000
Guaranteed Water and Sewer Revenue Note – Series of 2008 (PNC Bank)	6,502,000
Guaranteed Water and Sewer Revenue Note – Series A of 2014 (Fulton Bank)	<u>3,985,000</u>
	<u>\$ 16,448,973</u>

During the year ended December 31, 2014, long-term debt changed as follows:

Beginning of Year	\$ 17,561,050
Additional Borrowing	8,725,000
Principal Retirement	<u>(9,837,077)</u>
End of Year	<u>\$ 16,448,973</u>

**MANHEIM AREA WATER & SEWER AUTHORITY
MANHEIM, PENNSYLVANIA**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 4 – LONG-TERM DEBT (Continued)

The future annual payments required to amortize all debt outstanding as of December 31, 2014 are as follows:

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 1,143,758	\$ 473,554	\$ 1,617,312
2016	1,154,830	483,248	1,638,078
2017	1,008,967	412,662	1,421,629
2018	1,041,503	380,424	1,421,927
2019	1,054,128	370,956	1,425,084
2020-2024	5,205,033	1,902,582	7,107,615
2025-2029	<u>5,840,754</u>	<u>765,919</u>	<u>6,606,673</u>
	<u>\$ 16,448,973</u>	<u>\$ 4,789,345</u>	<u>\$ 21,238,318</u>

Guaranteed Water and Sewer Revenue Note – Series of 2014

In September 2014, the Authority authorized a Guaranteed Water and Sewer Revenue Note, Series of 2014 in the amount of \$4,740,000. The purpose of the note was to refinance the Guaranteed Water and Sewer Revenue Note – Series of 2009 and to pay the costs of issuing the note. Manheim Borough guarantees the debt. Interest and principal is payable in March and September of each year at the rate of 2.68% through 4.00%. Principal payments range from \$67,000 to \$1,152,000 with final payment due September 1, 2026.

Guaranteed Water and Sewer Revenue Note – Series A of 2014

In September 2014, the Authority authorized a Guaranteed Water and Sewer Revenue Note, Series A of 2014 in the amount of \$3,985,000. The purpose of the note was to refinance the Guaranteed Water and Sewer Revenue Note – Series A of 2009 and to pay the costs of issuing the note. Manheim Borough guarantees the debt. Interest and principal is payable in March and September of each year at the rate of 2.70% through 4.625%. Principal payments range from \$39,000 to \$878,000 with final payment due September 1, 2029.

Guaranteed Water and Sewer Revenue Note – Series of 2009

In April 2009, the Authority authorized a Guaranteed Water and Sewer Revenue Note, Series of 2009 in the amount of \$5,080,000. During 2012, the Authority negotiated a reduction of the interest rate from 3.55% to 3.125% through November 14, 2019. Interest and principal is payable in March and September of each year at the rate of 3.125% until November 14, 2019, at which time the rate is adjusted based on one-month London Interbank Offered Rate (LIBOR) plus 175 basis points with a cap of 6.25% and a floor of 3%. Principal payments range from \$3,000 to \$1,240,000 with final payment due September 1, 2027. In September 2014, the note was paid off.

Guaranteed Water and Sewer Revenue Note – Series A of 2009

In September 2009, the Authority authorized a Guaranteed Water and Sewer Revenue Note, Series A of 2009 in the amount of \$5,400,000. The proceeds of the note have been used to upgrade the wastewater treatment plant. During 2012, the Authority negotiated a reduction of the interest rate from 3.50% to 2.8% through January 15, 2020. Interest and principal is payable in March and September of each year at the rate of 2.8% until January 15, 2020, at which time the rate is adjusted in five-year increments equal to the sum of five-year London Interbank Offered Rate (LIBOR) plus 300 basis points multiplied by 66.3% with a cap of 7% and a floor of 2.8%. In September 2014, the note was paid off.

**MANHEIM AREA WATER & SEWER AUTHORITY
MANHEIM, PENNSYLVANIA**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 4 – LONG-TERM DEBT (Continued)

Guaranteed Water and Sewer Revenue Note – Series of 2008

In June 2008, the Authority issued a Guaranteed Water and Sewer Revenue Note, Series of 2008 in the amount of \$9,950,000 for the purpose of (1) providing funds for and toward the current refunding of all of the Authority's outstanding Guaranteed Water and Sewer Revenue Bonds, Series of 2001, plus interest accrued thereon to the date of payment and discharge and (2) to pay the issuance costs of issuing the 2008 note. Manheim Borough guarantees the debt. The Series of 2008 note bears interest at the rate of 3.25% until September 1, 2018, at which time the interest rate is adjusted based on the sum of one-month LIBOR plus 160 basis points times 65% plus 25 basis points with a cap of 5.75%. The note will mature in September 2022.

Lease/Purchase Agreements

In 2009, the Authority signed an agreement with Susquehanna Commercial Finance Inc. for the purpose of providing funding of up to \$1,072,236 for the replacement of water meters. The agreement requires principal and interest payments of \$17,817 monthly. The lease will mature in October 2016.

In 2012, the Authority executed a lease/purchase agreement for two vehicles through Susquehanna Commercial Finance, Inc. The lease is payable in four years with principal and interest payable in monthly installments of \$1,281. The lease terminates in January 2016.

PennVest Loans

The Authority received a \$1,300,000 loan from Pennsylvania Infrastructure Investment Authority (PennVest) to upgrade the water treatment filtration system. The loan is guaranteed by the Borough. The principal and interest on the loan are to be paid from revenues derived from the operation of the Authority's water system. Principal and interest payments of \$7,335 are to be paid monthly at an interest rate of 3.468%. The loan will mature July 2015.

The Authority received a \$100,000 loan from Pennsylvania Infrastructure Investment Authority (PennVest) to construct a water line extension on Orchard Road. The loan is guaranteed by the Borough. The principal and interest on the loan are to be paid from revenues derived from the operation of the Authority's water system. Principal and interest payments of \$571 are to be paid monthly at an interest rate of 3.468%. The loan will mature August 2023.

NOTE 5 – PENSION PLAN

Plan Description

The Manheim Area Water & Sewer Authority Pension Plan is a single-employer cash balance pension plan controlled by the provisions of Resolution No. 7-2011 adopted pursuant to Act 15 of 1974. The plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer public retirement system that acts as a common investment and administrative agent to the participating municipal pension plans. PMRS issues a separate Comprehensive Annual Financial Report (CAFR). The CAFR is available on the PMRS website. A copy of the CAFR can be obtained by contacting the PMRS accounting office.

Eligibility Requirements and Benefits Description

The Authority's plan provides retirement, disability and death benefits to plan members and their beneficiaries. Cost-of-living allowances are provided at the discretion of the plan. All benefits vest after five years of credited service. Employees who retire at or after age 55 are entitled to a monthly retirement benefit, payable for life, in an amount equal to a single life annuity starting on the effective date of retirement with a present value equal to all monies credited to the member's account. A member who completes 20 years of credited service and voluntarily terminates prior to reaching the normal retirement may receive an immediate pension. The pension is the accrued pension, reduced by an actuarial factor to account for early retirement.

**MANHEIM AREA WATER & SEWER AUTHORITY
MANHEIM, PENNSYLVANIA**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 5 – PENSION PLAN (Continued)

Plan Membership

Membership of the plan consisted of the following at December 31, 2014:

	<u>2014</u>	<u>2013</u>
Active plan members	11	9
Retirees and beneficiaries currently receiving benefits	--	--
Terminated plan members entitled to but not yet receiving benefits	--	--
	<u>11</u>	<u>9</u>

Funding Policy

The plan is funded through municipal contributions and member contributions. Municipal contributions equal 4% of covered payroll. Members are not required to contribute to the plan, but may contribute up to 20% of covered payroll.

Administrative costs, including the investment manager, custodial trustee, and actuarial services are charged to the plan and funded through investment earnings.

Schedule of Contributions

<u>Year Ended December 31</u>	<u>Annual Required Contribution</u>	<u>Actuarial Valuation Date Basis for Contributions</u>	<u>Percentage Contributed</u>
2012	9,740	2009	100%
2013	16,664	2011	100%
2014	18,383	2011	100%

Actuarial Valuation

An actuarial valuation was completed as of January 1, 2013. The actuarial cost method used was the entry age normal cost method. The actuarial assumptions included (a) 5.5% investment rate of return (net of administrative expenses) and (b) projected salary increases of 3% plus age related scale for merit/seniority. The unfunded actuarial accrued liability is being amortized as a level dollar of projected payroll on a closed basis.

NOTE 6 – DEFERRED COMPENSATION PLAN

In 2012, the Authority adopted a deferred compensation plan. The deferred compensation plan qualifies under Section 457 of the Internal Revenue Code. Employees are eligible to participate on their date of hire. Employees must notify the Authority of their election to defer compensation. Employee contributions to the deferred compensation plan are discretionary and there is no Authority contribution. Total employee contributions to the deferred compensation plan for 2014 were \$5,527.

**MANHEIM AREA WATER & SEWER AUTHORITY
MANHEIM, PENNSYLVANIA**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 7 – OPERATING LEASES

Effective November 1, 2011, the Authority entered into an operating lease agreement for office space. In April 2014, the lease was renewed for an additional 3-year term with monthly rent of \$850 plus utilities. The lease will expire October 31, 2017. Future minimum payments are as follows:

<u>Year Ended December 31,</u>	
2015	\$ 10,200
2016	10,200
2017	<u>8,500</u>
	<u>\$ 28,900</u>

In 2013, the Authority entered into two lease agreements with LEAF Capital Funding, LLC to lease to copiers. The leases are for a period of 60 months and are payable monthly. The future minimum payments are as follows:

<u>Year Ended December 31,</u>	
2015	\$ 2,757
2016	2,757
2017	2,757
2018	<u>1,920</u>
	<u>\$ 10,191</u>

NOTE 8 – RISK MANAGEMENT

Manheim Area Water & Sewer Authority is exposed to various risks of loss related to theft of, damage to, and destruction of assets; error and omissions; and natural disasters. The Authority has purchased various insurance policies to safeguard its assets from risk of loss. Insurance coverage appears to be consistent with previous years. During the year ended December 31, 2014, and the two previous years, no settlements exceeded insurance coverage.

NOTE 9 – SELF INSURANCE

Health Insurance

In 2013, the Authority became a member of the Intergovernmental Insurance Cooperative (IIC) through which it self-insures for employee health claims. These claims are administered by Highmark. During the year ended December 31, 2014, the Authority remitted their contracted monthly amount to IIC who pays the funds directly to Highmark. Under the shared pooling agreement with IIC, the Authority's claims may exceed their monthly contributions and no additional payments are required to cover their underpayment. At the end of the Pool's fiscal year, the excess or deficit of the Pool is allocated to all the members. As of December 31, 2014, the Authority was allocated \$20,355 of the Pool's excess. The Authority was limited to liability for 2014 claims to \$35,000 individually.

As of December 31, 2014, there are no additional assessments relating to the health plan.

NOTE 10 – COMMITMENTS

Effective March 2012, the Authority entered into an agreement in the amount of \$320,850 for water tank maintenance through 2016. As of December 31, 2014, \$163,664 of the contract was paid to date. The balance to be paid on the contract was \$157,186 as of December 31, 2014.