

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

**FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**AND**

**REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

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

**DECEMBER 31, 2015**

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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), a component unit of Manheim Borough as of and for the year then ended December 31, 2015 and 2014, 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, 2015 and 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**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Schedule of Changes in Net Pension Liability and Schedule of Employer Contributions on pages 22 and 23 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 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 26, 2016

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

**STATEMENTS OF NET POSITION  
DECEMBER 31, 2015 AND 2014**

	<u>2015</u>			<u>2014</u>
	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>	
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and Cash Equivalents	\$ 183,694	\$ 1,825,661	\$ 2,009,355	\$ 1,642,926
Accounts Receivable	150,271	257,342	407,613	421,174
Accounts Receivable – Other	--	--	--	168,601
Due from Other Funds	<u>682,312</u>	<u>--</u>	<u>682,312</u>	<u>698,602</u>
<b>Total Current Assets</b>	<u>1,016,277</u>	<u>2,083,003</u>	<u>3,099,280</u>	<u>2,931,303</u>
<b>Capital Assets</b>				
Water Plant	10,512,855	--	10,512,855	10,409,006
Wastewater Plant	--	29,585,688	29,585,688	29,552,802
Public Works Building	--	149,146	149,146	149,146
Machinery and Equipment	48,446	333,470	381,916	473,700
Vehicles	44,333	81,831	126,164	126,164
Construction in Progress	<u>4,167</u>	<u>--</u>	<u>4,167</u>	<u>--</u>
<b>Total Capital Assets</b>	10,609,801	30,150,135	40,759,936	40,710,818
Accumulated Depreciation	<u>4,140,813</u>	<u>11,476,467</u>	<u>15,617,280</u>	<u>14,626,479</u>
<b>Net Capital Assets</b>	<u>6,468,988</u>	<u>18,673,668</u>	<u>25,142,656</u>	<u>26,084,339</u>
<b>TOTAL ASSETS</b>	<u>\$ 7,485,265</u>	<u>\$ 20,756,671</u>	<u>\$ 28,241,936</u>	<u>\$ 29,015,642</u>

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

**STATEMENTS OF NET POSITION  
DECEMBER 31, 2015 AND 2014**

	<b>2015</b>			<b>2014</b>
	<b>Water</b>	<b>Wastewater</b>	<b>Total</b>	
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Accounts Payable	\$ 17,796	\$ 64,503	\$ 82,299	\$ 83,036
Developer Deposits	--	26,875	26,875	59,629
Accrued Wages	6,369	10,259	16,628	16,370
Accrued Paid Time-Off	4,394	6,238	10,632	9,866
Accrued Interest	18,729	121,175	139,904	140,066
Due to Other Funds	--	682,312	682,312	698,602
Current Portion of Long-Term Debt	478,038	676,241	1,154,279	1,143,758
<b>Total Current Liabilities</b>	525,326	1,587,603	2,112,929	2,151,327
<b>Long-Term Liabilities</b>				
Long-Term Debt, Net of Current Portion	1,580,055	12,570,330	14,150,385	15,305,215
<b>Total Long-Term Liabilities</b>	1,580,055	12,570,330	14,150,385	15,305,215
<b>TOTAL LIABILITIES</b>	2,105,381	14,157,933	16,263,314	17,456,542
<b>NET POSITION</b>				
Net Investment in Capital Assets	4,410,895	5,427,097	9,837,992	9,635,366
Unrestricted	968,989	1,171,641	2,140,630	1,923,734
<b>TOTAL NET POSITION</b>	5,379,884	6,598,738	11,978,622	11,559,100
<b>TOTAL LIABILITIES AND NET POSITION</b>	\$ 7,485,265	\$ 20,756,671	\$ 28,241,936	\$ 29,015,642

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, 2015 AND 2014**

	2015			2014
	Water	Wastewater	Total	
<b>OPERATING REVENUE</b>				
Charges for Services	\$ 1,213,415	\$ 1,963,681	\$ 3,177,096	\$ 3,164,803
Rapho Township, Participation	--	38,832	38,832	38,707
Septic Processing	--	524,371	524,371	522,345
Permits	6,492	1,035	7,527	9,455
Finals Fees	9,125	--	9,125	10,811
Tapping Fees	80,133	8,666	88,799	99,201
Meter Sales	17,360	--	17,360	17,052
Penalties	59,448	2,462	61,910	58,758
Miscellaneous	17,144	18,502	35,646	44,823
Meter Reads	78,375	--	78,375	--
	<b>TOTAL OPERATING REVENUE</b>	<b>2,557,549</b>	<b>4,039,041</b>	<b>3,965,955</b>
<b>OPERATING EXPENSES</b>				
Engineering Fees	25,106	57,972	83,078	76,959
Personnel Costs	294,465	461,138	755,603	771,743
Repairs and Maintenance	231,348	121,044	352,392	454,905
General Expenses	62,647	430,986	493,633	402,114
Professional Fees	23,021	37,285	60,306	62,180
Utilities	52,664	141,807	194,471	202,672
Postage	8,664	3,609	12,273	16,557
Depreciation	283,741	858,655	1,142,396	1,135,861
Insurance	18,296	37,433	55,729	57,275
	<b>TOTAL OPERATING EXPENSES</b>	<b>2,149,929</b>	<b>3,149,881</b>	<b>3,180,266</b>
	<b>OPERATING INCOME</b>	<b>407,620</b>	<b>889,160</b>	<b>785,689</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Loss on Disposal of Capital Asset	--	(17,169)	(17,169)	--
Interest Income	242	5,289	5,531	8,121
Interest Expense	(101,142)	(370,776)	(471,918)	(538,363)
Refund of Prior Year's Expenses	6,050	7,868	13,918	21,633
Lawsuit Settlement	--	--	--	350,000
Note Issuance Costs	--	--	--	(68,486)
	<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>(374,788)</b>	<b>(469,638)</b>	<b>(227,095)</b>
	<b>Changes in Net Position</b>	<b>32,832</b>	<b>419,522</b>	<b>558,594</b>
<b>Net Position – Beginning of Year</b>	<b>4,993,194</b>	<b>6,565,906</b>	<b>11,559,100</b>	<b>11,000,506</b>
<b>Net Position – End of Year</b>	<b>\$ 5,379,884</b>	<b>\$ 6,598,738</b>	<b>\$ 11,978,622</b>	<b>\$ 11,559,100</b>

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, 2015 AND 2014**

	<u>2015</u>			<u>2014</u>
	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from Customer	\$ 1,397,851	\$ 2,540,730	\$ 3,938,581	\$ 3,930,672
Other Operating Revenues	95,519	18,502	114,021	44,823
Payments for Goods and Services	(430,833)	(460,618)	(891,451)	(1,193,361)
Payments to Employees	<u>(293,961)</u>	<u>(854,538)</u>	<u>(1,148,499)</u>	<u>(771,302)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>768,576</u>	<u>1,244,076</u>	<u>2,012,652</u>	<u>2,010,832</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>				
Refund of Prior Year's Expenses	6,050	7,868	13,918	21,633
Lawsuit Settlement	8,619	163,769	172,388	181,399
Receipt (Payment) of Interfund Activity	<u>16,290</u>	<u>(16,290)</u>	<u>--</u>	<u>--</u>
<b>NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES</b>	<u>30,959</u>	<u>155,347</u>	<u>186,306</u>	<u>203,032</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Acquisitions of Capital Assets	(114,386)	(103,497)	(217,883)	(129,653)
Principal Payments on Debt	(502,339)	(641,971)	(1,144,310)	(9,837,077)
Interest Payments on Debt	(103,650)	(368,430)	(472,080)	(565,369)
Note Proceeds	--	--	--	8,725,000
Note Issuance Costs	<u>--</u>	<u>--</u>	<u>--</u>	<u>(68,486)</u>
<b>NET CASH (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(720,375)</u>	<u>(1,113,898)</u>	<u>(1,834,273)</u>	<u>(1,875,585)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Earnings on Investments	<u>53</u>	<u>1,691</u>	<u>1,744</u>	<u>8,121</u>
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<u>53</u>	<u>1,691</u>	<u>1,744</u>	<u>8,121</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	79,213	287,216	366,429	346,400
<b>CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR</b>	<u>104,481</u>	<u>1,538,445</u>	<u>1,642,926</u>	<u>1,296,526</u>
<b>CASH AND CASH EQUIVALENTS – END OF YEAR</b>	<u>\$ 183,694</u>	<u>\$ 1,825,661</u>	<u>\$ 2,009,355</u>	<u>\$ 1,642,926</u>

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

**STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015			2014
	Water	Wastewater	Total	
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>				
Operating Income	\$ 481,540	\$ 407,620	\$ 889,160	\$ 785,689
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities</b>				
Depreciation	283,741	858,655	1,142,396	1,135,861
(Increase) Decrease In				
Accounts Receivable	11,878	1,683	13,561	9,540
Increase (Decrease) In				
Accounts Payable	(9,086)	(24,402)	(33,488)	79,301
Accrued Wages	246	12	258	2,907
Accrued Paid Time-Off	257	508	765	(2,466)
	<u>\$ 768,576</u>	<u>\$ 1,244,076</u>	<u>\$ 2,012,652</u>	<u>\$ 2,010,832</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>				
<b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES</b>				
Contributions of Capital Assets	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</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, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
Investments	\$ <u>83,570</u>	\$ <u>67,607</u>
<b>TOTAL ASSETS</b>	<u>\$ 83,570</u>	<u>\$ 67,607</u>
<b>LIABILITIES</b>	\$ <u>    --</u>	\$ <u>    --</u>
<b>NET POSITION</b>		
Restricted for Pension Benefits	<u>83,570</u>	<u>67,607</u>
<b>TOTAL NET POSITION</b>	<u>83,570</u>	<u>67,607</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 83,570</u>	<u>\$ 67,607</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, 2015 AND 2014**

	<b>2015</b>	<b>2014</b>
<b>ADDITIONS</b>		
Employer Contributions	\$ 18,264	\$ 18,271
Investment Income	4,077	2,992
<b>TOTAL ADDITIONS</b>	<b>22,341</b>	<b>21,263</b>
<b>DEDUCTIONS</b>		
Miscellaneous Expense	1,182	--
Administrative Expense	220	220
Distributions	4,976	--
<b>TOTAL DEDUCTIONS</b>	<b>6,378</b>	<b>220</b>
<b>Changes in Net Position</b>	15,963	21,043
<b>Net Position – Beginning of Year</b>	<b>67,607</b>	<b>46,564</b>
<b>Net Position – End of Year</b>	<b>\$ 83,570</b>	<b>\$ 67,607</b>

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, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Manheim Area Water & Sewer 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. 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, 2015**

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, 2015.

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. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Manheim Area Water & Sewer Authority Defined Benefit Cash Balance Pension Plan (the Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. 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.

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

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

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, 2015, 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, 2015, 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 26, 2016, 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, 2015**

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, 2015, \$1,754,328 of the Authority's bank balance of \$2,039,750 was exposed to custodial credit risk.

Reconciliation to Financial Statements

Uninsured Amount	\$ 1,754,328
Plus: Insured Amount	285,421
Less: Outstanding Checks	<u>(30,394)</u>
Total Cash per Financial Statements	<u>\$ 2,009,355</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, 2015, the Authority had the following investments:

<u>Investment</u>	<u>Fair Value</u>
Pension Trust Fund – Pooled Investments – Pennsylvania Municipal Retirement System (PMRS)	<u>\$ 83,570</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	\$ 35,421	1.7%
BB&T	2,004,328	94.4%
Pennsylvania Municipal Retirement System (PMRS)	<u>83,570</u>	<u>3.9%</u>
	<u>\$ 2,123,319</u>	<u>100.0%</u>



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

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**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	\$ --	\$ 4,167	\$ --	\$ 4,167
Total Capital Assets Not Being Depreciated	<u>--</u>	<u>4,167</u>	<u>--</u>	<u>4,167</u>
Capital Assets Being Depreciated				
Water Plant	10,409,006	110,217	(6,368)	10,512,855
Wastewater Plant	29,552,802	55,040	(22,154)	29,585,688
Public Works Building	149,146	--	--	149,146
Machinery and Equipment	473,700	48,457	(140,241)	381,916
Vehicles	<u>126,164</u>	<u>--</u>	<u>--</u>	<u>126,164</u>
Total Assets Being Depreciated	<u>40,710,818</u>	<u>213,714</u>	<u>(168,763)</u>	<u>40,755,769</u>
Less Accumulated Depreciation				
Water Plant	3,791,603	276,641	(6,368)	4,061,876
Wastewater Plant	10,396,212	815,429	(4,985)	11,206,656
Public Works Building	14,915	4,971	--	19,886
Machinery and Equipment	327,816	30,034	(140,241)	217,609
Vehicles	<u>95,933</u>	<u>15,320</u>	<u>--</u>	<u>111,253</u>
Total Accumulated Depreciation	<u>14,626,479</u>	<u>1,142,395</u>	<u>(151,594)</u>	<u>15,617,280</u>
Total Capital Assets, Being Depreciated Net	<u>26,084,339</u>	<u>(928,681)</u>	<u>(17,169)</u>	<u>25,138,489</u>
Total Capital Assets, Net	<u>\$ 26,084,339</u>	<u>\$ (924,514)</u>	<u>\$ (17,169)</u>	<u>\$ 25,142,656</u>

**NOTE 4 – LONG-TERM DEBT**

The ending balance consisted of the following:

PennVest Loans:	
Water Line	\$ 46,112
Water Plant	716,791
Susquehanna Commercial Finance, Inc. – Water Meters	174,480
Susquehanna Commercial Finance, Inc. – Truck Lease	1,281
Guaranteed Water and Sewer Revenue Note – Series of 2014 (MidPenn Bank)	4,673,000
Guaranteed Water and Sewer Revenue Note – Series of 2008 (PNC Bank)	5,747,000
Guaranteed Water and Sewer Revenue Note – Series A of 2014 (Fulton Bank)	<u>3,946,000</u>
	<u>\$ 15,304,664</u>

During the year ended December 31, 2015, long-term debt changed as follows:

Beginning of Year	\$ 16,448,973
Principal Retirement	<u>(1,144,309)</u>
End of Year	<u>\$ 15,304,664</u>

**MANHEIM AREA WATER & SEWER AUTHORITY  
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**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**NOTE 4 – LONG-TERM DEBT (Continued)**

The future annual payments required to amortize all debt outstanding as of December 31, 2015 are as follows:

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 1,154,278	\$ 447,613	\$ 1,601,891
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	962,846	457,921	1,420,767
2021-2025	5,408,942	1,699,224	7,108,166
2026-2029	<u>4,674,000</u>	<u>511,356</u>	<u>5,185,356</u>
	<u>\$ 15,304,664</u>	<u>\$ 4,280,156</u>	<u>\$ 19,584,820</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 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.

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

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

NOTE 4 – LONG-TERM DEBT (Continued)

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 2025.

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.

Benefit Provisions

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.

Plan Membership

Membership of the plan consisted of the following based upon the most recent actuarial valuation date:

Active plan members	11
Retirees and beneficiaries currently receiving benefits	0
Terminated plan members entitled to but not yet receiving benefits	<u>0</u>
	<u>11</u>

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

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

NOTE 5 – PENSION PLAN (Continued)

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>Percentage Contributed</u>
2012	9,740	100%
2013	16,664	100%
2014	18,383	100%
2015	18,423	100%

Net Pension Liability

At December 31, 2015, the Authority reported a liability of \$875 for its net pension liability. The beginning of year total pension liability is based upon the January 1, 2014 actuarial valuation, with liabilities measured at December 31, 2013. The end of year total pension liability is based upon the January 1, 2015 actuarial valuation with liabilities measured at December 31, 2014. PMRS is required to allocate/distribute all funds to the respective participating employers for financial reporting purposes, to determine the respective employer plan fiduciary net position. PMRS has determined that net investment income or loss and administrative expenses will be allocated to the employer/municipality accounts pro-rata based on their beginning fiduciary net position balance adjusted for cash flows throughout the year. The market value investment income reflects the investment income/loss during the year net of PMRS investment income and the income/loss due to the difference between expected and actual asset values, including the impact from allocation of assets in support of underlying retiree liabilities.

Actuarial Assumptions

The actuarial assumptions are based on the PMRS Experience Study for the period covering January 1, 2005 through December 31, 2008 issued by the actuary in July 2010 as well as subsequent Board approved assumption changes, such as the decrease in regular interest to 5.5% for the January 1, 2013 actuarial valuation.

Inflation	3.5 percent
Salary increases	age related scale with merit and inflation component
Investment rate of return	5.5 percent, compounded annually, net of expenses
Post-Retirement Cost of Living Increases	3.0 percent per year, subject to plan limitations

Pre-retirement mortality rates were based on the RP-2000 with 1 year set-back for males and 5 year set-back for females. The post-retirement mortality rates were based on the sex distinct RP-2000 Combined Healthy Mortality.

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

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

NOTE 5 – PENSION PLAN (Continued)

Actuarial Assumptions (Continued)

The PMRS System's long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class, for the portfolio as a whole and at different levels of probability or confidence. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equities (large capitalized firms)	25%	8.7%
Domestic Equities (small capitalized firms)	15%	8.4%
International Equities (international developed markets)	15%	4.6%
International Equities (emerging markets)	10%	8.1%
Real Estate	20%	6.7%
Fixed Income	<u>15%</u>	-1.0%
Total Portfolio	100%	

The System's policy in regards to the investment income allocation on invested assets is established and may be amended by the PMRS Board. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of PMRS.

Discount Rate

The discount rate used to measure the total pension liability was 5.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will continue the historical and legally required practice of contributing to the plan based on an Statutorily Required Contribution. As a cash balance plan, specific sensitivity calculations based on the plan's demographics or plan provisions have not been performed for active participants given that benefits are based on the accumulated account balances at actual retirement.

Change in Net Pension Liability

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
Balances at 12/31/2013	\$ 46,415	\$ 46,104	\$ 311
Changes for the Year:			
Service Cost	18,203	--	18,203
Interest	2,902	--	2,902
Differences between Expected and Actual Experience	1	--	1
Contributions – Employer	--	18,271	(18,271)
PMRS Investment Income	--	2,992	(2,992)
Market Value Investment Income	--	(386)	386
PMRS Administrative Expense	--	(220)	220
Additional Administrative Expense	--	<u>(115)</u>	<u>115</u>
Net Changes	<u>21,106</u>	<u>20,542</u>	<u>564</u>
Balances at 12/31/2014	<u>\$ 67,521</u>	<u>\$ 66,646</u>	<u>\$ 875</u>

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

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

NOTE 5 – PENSION PLAN (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability, calculated using the discount rate of 5.50 percent, as well as what the pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (4.50%) or 1-percentage-point higher (6.50%) than the current rate:

	<u>1% Decrease 4.50%</u>	<u>Current Discount Rate 5.50%</u>	<u>1% Increase 6.50%</u>
Total Pension Liability	\$ 81,025	\$ 67,521	\$ 54,017
Plan Fiduciary Net Position	<u>66,646</u>	<u>66,646</u>	<u>66,646</u>
Net Pension Liability	<u>\$ 14,379</u>	<u>\$ 875</u>	<u>\$ (12,629)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	82.3%	98.7%	123.4%

Pension Plan Fiduciary Net Position

Detailed information about PMRS's fiduciary net position is available in PMRS Comprehensive Annual Financial Report which can be found on the PMRS's website at [www.pmr.state.pa.us](http://www.pmr.state.pa.us).

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2015, the Authority recognized pension expense of \$18,264. The Authority did not report the net pension liability or deferred outflows of resources in the financial statements. At December 31, 2015, the Authority would have reported the following deferred outflows of resources related to pensions from the following sources in the financial statements:

	<u>Deferred Outflows of Resources</u>
Net difference between projected and actual investment earnings	\$ 309
Contributions subsequent to the measurement date	\$ 18,264

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 2015 were \$6,890.

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

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**NOTE 7 – OPERATING LEASES**

In November 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, which will expire October 31, 2017. In January 2016, the lease was extended for an additional 5-year term effective October 25, 2017 through October 25, 2022. Monthly rent will start at \$875 plus utilities and be adjusted annually by applying the Philadelphia Consumer Price Index. Future minimum payments are as follows:

<u>Year Ended December 31,</u>	
2015	\$ 10,200
2016	10,200
2017	10,250
2018	10,550
2019	10,800
Thereafter	<u>30,600</u>
	<u>\$ 82,600</u>

In 2013, the Authority entered into two lease agreements with LEAF Capital Funding, LLC to lease two 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>	
2016	\$ 2,757
2017	2,757
2018	<u>1,920</u>
	<u>\$ 7,434</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, 2015, 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, 2015, 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, 2015, the Authority did not receive any of the Pool's excess. The Authority was limited to liability for 2015 claims to \$35,000 individually.

As of December 31, 2015, there are no additional assessments relating to the health plan.

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

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

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, 2015, \$242,257 of the contract was paid to date. The balance to be paid on the contract was \$78,593 as of December 31, 2015.



**REQUIRED SUPPLEMENTARY INFORMATION**

**OF**

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

**DECEMBER 31, 2015**

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

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY  
PENNSYLVANIA MUNICIPAL RETIREMENT SYSTEM (PMRS)  
DECEMBER 31, 2015**

	<b>Measurement Year Ending <u>12/31/2014</u></b>
<u>Total Pension Liability</u>	
Service Cost (Beginning of Year)	\$ 18,203
Interest (includes Interest on Service Cost)	2,902
Differences between Expected and Actual Experience	<u>1</u>
Net Change in Total Pension Liability	21,106
Total Pension Liability – Beginning	<u>46,415</u>
Total Pension Liability – Ending	<u><u>\$ 67,521</u></u>
<u>Plan Fiduciary Net Pension</u>	
Contributions – Employer	\$ 18,271
PMRS Investment Income	2,992
Market Value Investment Income	(386)
PMRS Administrative Expense	(220)
Additional Administrative Expense	<u>(115)</u>
Net Change in Plan Fiduciary Net Position	\$ (20,542)
Plan Fiduciary Net Position – Beginning	<u>46,104</u>
Plan Fiduciary Net Position – Ending	<u><u>\$ 66,646</u></u>
Net Pension Liability – Ending	<u><u>\$ 875</u></u>
Plan fiduciary net position as a percentage of the total pension liability	98.70%
Covered-employee payroll	\$ 455,078
Authority’s net pension liability (asset) as a percentage of covered-employee payroll	.19%
Notes to Schedule:	
Plan Changes: None	
Assumption Changes: None	

See accompanying independent auditor’s report.

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

**SCHEDULE OF EMPLOYER CONTRIBUTIONS  
PENNSYLVANIA MUNICIPAL RETIREMENT SYSTEM (PMRS)  
DECEMBER 31, 2015**

	<u>2014</u>
Statutorily Required Contribution	\$ 18,423
Contributions in Relation to the Statutorily Required Contribution	<u>18,271</u>
Contribution Deficiency/(Excess)	<u>\$ 152</u>
Covered-Employee Payroll	\$ 455,078
Contributions as a Percentage of Covered-Employee Payroll	4.01%

Notes to Schedule:

Due to the plan design, there are no Actuarially Determined Contributions for cash balance pension plans. The Statutorily Required Contribution is a contribution amount based upon payroll and the contribution rate as outlined under the terms of the cash balance plan. As provided by PMRS, the employer portion of the Statutorily Required Contribution was the amount recognized by the pension plan during the year.

Other Information: Plan Changes - None

See accompanying independent auditor's report.