

**BOROUGH OF MYERSTOWN
SEWER REVENUE ACCOUNT**

FINANCIAL STATEMENTS

DECEMBER 31, 2010

**BOROUGH OF MYERSTOWN SEWER REVENUE ACCOUNT
FINANCIAL STATEMENTS
December 31, 2010**

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Certified Public Accountants

David L. Stanilla, *CPA*

Thomas I. Siegel, *CPA*

Maxine R. Maser, *CPA, CGFM*

David H. Siegel, *CPA*

Daniel S. Siegel, *CPA*

INDEPENDENT AUDITOR'S REPORT

Borough Council
BOROUGH OF MYERSTOWN
Myerstown, Pennsylvania

We have audited the accompanying financial statements of the Sewer Revenue Account of the Borough of Myerstown as of and for the year ended December 31, 2010, as listed in the table of contents. These financial statements are the responsibility of the Borough of Myerstown's management. Our responsibility is to express an opinion 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, these financial statements present only the Sewer Revenue Account and are not intended to present fairly the financial position of the Borough of Myerstown, and the results of its operations and cash flows of its proprietary fund type in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sewer Revenue Account of the Borough of Myerstown as of December 31, 2010, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Stanilla, Siegel and Maser PC

April 1, 2011

BOROUGH OF MYERSTOWN SEWER REVENUE ACCOUNT
STATEMENT OF NET ASSETS
December 31, 2010

<i>ASSETS</i>	
<i>CURRENT ASSETS</i>	
Cash & Cash Equivalents	\$ 2,752,881
Investments	787,963
Accounts Receivable	207,509
Prepaid Expenses	<u>20,668</u>
Total Current Assets	<u>\$ 3,769,021</u>
<i>RESTRICTED ASSETS</i>	
Cash & Cash Equivalents	\$ 20,980
Investments	<u>659,792</u>
Total Restricted Assets	<u>\$ 680,772</u>
<i>CAPITAL ASSETS, net</i>	<u>\$ 21,330,762</u>
<i>OTHER ASSETS</i>	
Unamortized bond issue costs, net	\$ 366,369
Unamortized bond discount, net	<u>53,296</u>
Total Other Assets	<u>\$ 419,665</u>
Total Assets	<u><u>\$ 26,200,220</u></u>

See Accompanying Notes to Financial Statements

BOROUGH OF MYERSTOWN SEWER REVENUE ACCOUNT
STATEMENT OF NET ASSETS
December 31, 2010

<i>LIABILITIES AND NET ASSETS</i>	
<i>CURRENT LIABILITIES</i>	
Current Portion of Long-Term Debt	\$ 165,000
Accrued Wages	10,880
Accrued Vacation	<u>18,760</u>
Total Current Liabilities	<u>\$ 194,640</u>
<i>LONG-TERM DEBT</i>	
Sewer Revenue Bonds Outstanding	\$ 8,980,000
Current Portion of Long-Term Debt	<u>(165,000)</u>
Total Long-Term Debt, net of Current Portion	<u>\$ 8,815,000</u>
Total Liabilities	<u>\$ 9,009,640</u>
<i>NET ASSETS</i>	
Invested in Capital Assets, net of Related Debt	\$ 12,770,427
Restricted, Debt Service Reserve, Trust	680,772
Unrestricted, Designated	
Operating Reserve Fund	1,193,803
Reed Bed Maintenance Fund	65,528
Industrial Penalty Program Fund	24,882
Equipment Reserve Fund	41,437
Sewer Project Fund	17,931
Sewer Construction Fund	15,113
Flood Insurance Fund	43,784
Debt Service Reserve Fund	685,201
Unrestricted, Other	<u>1,651,702</u>
Total Net Assets	<u>\$ 17,190,580</u>
Total Liabilities and Net Assets	<u><u>\$ 26,200,220</u></u>

See Accompanying Notes to Financial Statements

BOROUGH OF MYERSTOWN SEWER REVENUE ACCOUNT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Year Ended December 31, 2010

OPERATING REVENUES

Sewer Rental Income	\$ 1,287,901
Tapping Fees	6,176
Fines and Penalties	7,900
Industrial Surcharges	4
Industrial Cost Recovery	2,203
Contracted Labor and Equipment	28,969
Pension Reimbursement	25,000
Reimbursement Income, net Prior Year Repayment	218,576
Miscellaneous Income	9,266
	\$ 1,585,995
Total Operating Revenues	\$ 1,585,995

OPERATING EXPENSES

Shared Wastewater Treatment System Expenses	
Salaries & Benefits	\$ 221,422
Materials & Supplies	10,995
Utilities	151,472
Chemicals	41,743
Lab Expenditures	25,672
Sludge Disposal	55,908
Trash Removal	674
Communications	1,048
Maintenance & Repairs	42,086
Vehicle Expense	4,369
Equipment Replacement	10,540
	\$ 565,929
Total Shared Wastewater Treatment System Expenses	\$ 565,929

Shared Administrative Expenses	
Borough Administrative Expenses	\$ 18,500
Materials & Supplies	5,528
Postage	608
Advertising & Printing	352
Dues, Conferences, and Training	3,277
Engineering Operating Services	5,800
Accounting and Legal Fees	9,772
Communications	4,205
Protective Equipment	3,132
Employee Benefits and Taxes	162,650
Insurance	31,849
Uniform Rental	3,010
	\$ 248,683
Total Shared Administrative Expenses	\$ 248,683

(Continued)

BOROUGH OF MYERSTOWN SEWER REVENUE ACCOUNT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Year Ended December 31, 2010

OPERATING EXPENSES (CONTINUED)

Expenses Allocated to Millcreek - Richland Only	
Maintenance & Repairs	\$ 333
Total Expenses Allocated to Millcreek - Richland Only	<u>\$ 333</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	\$ 81,313
Administrative Services, Not Shared	70,381
Contracted Services, Billing, and Collection	4,980
Professional Fees	9,611
Insurance	3,785
Depreciation	637,838
Miscellaneous Expense	<u>2,266</u>
Total Expenses Allocated to Myerstown Only	<u>\$ 810,174</u>
Total Operating Expenses	\$ 1,625,119
Operating Loss	\$ (39,124)
NON-OPERATING REVENUES (EXPENSES)	
Investment Income	\$ 79,799
EDU Purchases	30,875
Reimbursements for Plant Upgrade, net Payouts for	
Project Completion:	
Jackson Township	4,065
Millcreek - Richland Joint Authority	3,602
Interest Expense	(485,864)
Amortization Expense	<u>(13,717)</u>
Total Non-Operating Revenue (Expenses)	<u>\$ (381,240)</u>
CHANGE IN NET ASSETS	\$ (420,364)
NET ASSETS - BEGINNING OF YEAR	<u>17,610,944</u>
NET ASSETS - END OF YEAR	<u><u>\$ 17,190,580</u></u>

BOROUGH OF MYERSTOWN SEWER REVENUE ACCOUNT
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2010

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from Customers	\$ 1,331,532
Miscellaneous Cash Received	34,266
Reimbursements	218,576
Operating Expenses Paid	(827,800)
Cash Paid to Employees	(308,957)
	<u> </u>

Net Cash Provided by Operating Activities \$ 447,617

CASH FLOWS FROM INVESTING ACTIVITIES

Interest Income Received	\$ 38,004
(Purchases) Redemptions of Investments, net	1,069,600
	<u> </u>

Net Cash Provided By Investing Activities \$ 1,107,604

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

Purchase of Capital Assets	\$ (26,157)
Cash Received from EDU Purchases	30,875
Distribution to Partners, net	(549,460)
Principal Payments	(155,000)
Interest Paid	(483,109)
	<u> </u>

Net Cash Used By Capital Activities \$ (1,182,851)

**NET INCREASE IN CASH AND
CASH EQUIVALENTS**

\$ 372,370

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

2,401,491

**CASH AND CASH EQUIVALENTS -
END OF YEAR**

\$ 2,773,861

BOROUGH OF MYERSTOWN SEWER REVENUE ACCOUNT
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2010

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

Operating Loss	<u>\$ (39,124)</u>
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**ADJUSTMENTS TO RECONCILE
OPERATING LOSS TO NET CASH
PROVIDED BY OPERATING ACTIVITIES**

Depreciation	\$ 637,838
(Increase) Decrease in:	
Accounts Receivable	(1,621)
Prepaid Insurance	(3,189)
Increase (Decrease) in:	
Accounts Payable	(142,361)
Accrued Wages	(77)
Accrued Vacation	<u>(3,849)</u>
Total Adjustments	<u>\$ 486,741</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 447,617</u></u>
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BOROUGH OF MYERSTOWN SEWER REVENUE ACCOUNT
FINANCIAL STATEMENTS
December 31, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Borough of Myerstown, Sewer Revenue Account (Fund) is a fund of the Borough of Myerstown (Borough) and is used to account for the operations of the Borough's Wastewater Treatment Facility.

Method of Accounting

The Fund uses the economic resources measurement focus and 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.

The Fund applies (a) all GASB pronouncements and (b) FASB statements and interpretations, APB opinions and Research Bulletins issued on or before November 30, 1989, except those in conflict with a GASB pronouncement.

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. Investments consist of government securities. Additional cash and investment disclosures are presented in Note 4.

Receivables

All receivables were deemed 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.

**BOROUGH OF MYERSTOWN SEWER REVENUE ACCOUNT
FINANCIAL STATEMENTS
December 31, 2010**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets

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

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

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

Compensated Absences

It is the Borough's policy to allow employees to accumulate earned but unused vacation up to forty hours per year with no limit on the total number of accumulated hours. Uniformed employees can also accumulate up to 210 days of sick leave and upon termination are paid thirty-three percent of their hourly rates for those sick days. Compensated absences are reported as accrued in the financial statements.

Risk Management

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

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 April 1, 2011, 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.

**BOROUGH OF MYERSTOWN SEWER REVENUE ACCOUNT
FINANCIAL STATEMENTS
December 31, 2010**

NOTE 3 - CASH AND CASH EQUIVALENTS

Custodial Risk

The Borough is authorized by statute to invest in government securities and insured accounts or their equivalents. The Borough deposits cash in local financial institutions. At the year-end, the Fund's carrying amount of deposits was \$298,246 and the bank balance was \$298,246. The total bank balances up to \$250,000 are covered by federal depository insurance. Depositories pledge assets to secure deposits in excess of \$250,000 in accordance to Act 72.

Cash equivalents of the Fund consist of funds deposited in the Pennsylvania Local Government Investment Trust (PLGIT). These funds are invested in federal securities and rated AAAM by Standard & Poor's. Balances at December 31, 2010 were \$2,454,635. The cash equivalents are not categorized by level of credit risk as they are pooled funds and securities are not used as evidence of investment. Market values of the above instruments are at cost.

Cash equivalents of the Fund also consist of money market funds in a local financial institution trust department. These funds are invested in federal securities and rated AAAM by Standard & Poor's. Balances at December 31, 2010 were \$20,980. These funds are restricted.

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

NOTE 4 - INVESTMENTS

The Borough code provides for the deposit of governmental funds into certain authorized investment types including U.S. Treasury bills, U.S. Treasury notes, other short term U.S. and Pennsylvania government obligations or their agencies or instrumentalities and insured or collateralized time deposits and certificates of deposits.

The investments of the Fund at December 31, 2010 are uninsured and unregistered with the securities held by the counterparty, or by its trust department or agent but not in the Borough's name. The investments of the Fund consist of the following:

	Cost	Market Value
PLGIT - ARM	\$ 787,963	\$787,963
Government Debt – FNMA, Restricted	631,730	659,792

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.

**BOROUGH OF MYERSTOWN SEWER REVENUE ACCOUNT
FINANCIAL STATEMENTS
December 31, 2010**

NOTE 5 – CAPITAL ASSETS

The following is a summary of the changes in capital assets for the fund for the year ended December 31, 2010:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Depreciable Assets				
System and Improvements	\$ 7,801,439	\$ -0-	\$ -0-	\$ 7,801,439
Building	20,950,599	19,417	-0-	20,970,016
Equipment	138,427	6,740	-0-	145,167
Vehicles	<u>18,473</u>	<u>-0-</u>	<u>-0-</u>	<u>18,473</u>
Total Depreciable Assets	<u>\$ 28,908,938</u>	<u>\$ 26,157</u>	<u>\$ -0-</u>	<u>\$ 28,935,095</u>
Less Accumulated Depreciation for:				
System and Improvements	\$ 6,701,859	\$ 200,037	\$ -0-	\$ 6,901,896
Building	209,506	419,206	-0-	628,712
Equipment	47,741	14,900	-0-	62,641
Vehicles	<u>7,389</u>	<u>3,695</u>	<u>-0-</u>	<u>11,084</u>
Total Accumulated Depreciation	<u>\$ 6,966,495</u>	<u>\$ 637,838</u>	<u>\$ -0-</u>	<u>\$ 7,604,333</u>
Total Capital Assets, net	<u>\$ 21,942,443</u>	<u>\$ (611,681)</u>	<u>\$ -0-</u>	<u>\$ 21,330,762</u>

NOTE 6 – OTHER ASSETS

Legal, printing, insurance, financing and other costs associated with the issuance of guaranteed revenue bonds, Series of 2007, are capitalized as Bond Issue Costs and are being amortized ratably over thirty years, the term of the bonds. Original Issue Discounts associated with the issuance of guaranteed revenue bonds, Series of 2007, are capitalized as Bond Discounts and are being amortized using the effective interest rate method over thirty years, the term of the bonds. The costs and related accumulated amortization as of December 31, 2010, are as follows:

	<u>Bond Issuance</u>	<u>Bond Discount</u>
Costs	\$ 411,522	\$ 61,506
Accumulated amortization	<u>(45,153)</u>	<u>(8,210)</u>
Net costs	<u>\$ 366,369</u>	<u>\$ 53,296</u>

**BOROUGH OF MYERSTOWN SEWER REVENUE ACCOUNT
FINANCIAL STATEMENTS
December 31, 2010**

NOTE 7 – LONG-TERM DEBT

The Borough issued guaranteed revenue bonds, Series A of 2007, on September 20, 2007, in the amount of \$9,285,000, through Millcreek-Richland Joint Authority. The bonds were issued to provide financing for the purposes of paying costs and expenses associated with the construction of certain projects, funding a debt service reserve, and to pay costs and expenses associated with issuing the Series of 2007 bonds. The bonds pay interest semi-annually at an annual interest rate ranging between 4.30% to 5.50%. Principal payments are due annually to August 1, 2037.

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

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2011	\$ 165,000	\$ 476,366	\$ 641,366
2012	170,000	469,189	639,189
2013	180,000	461,709	641,709
2014	185,000	453,699	638,699
2015	195,000	445,374	640,374
2016-2020	1,125,000	2,076,226	3,201,226
2021-2025	1,450,000	1,751,800	3,201,800
2026-2030	1,875,000	1,318,694	3,193,694
2031-2035	2,455,000	743,875	3,198,875
2036-2037	<u>1,180,000</u>	<u>98,175</u>	<u>1,278,175</u>
	<u>\$ 8,980,000</u>	<u>\$ 8,295,107</u>	<u>\$ 17,275,107</u>

The Long-Term Debt activity for 2010 is as follows:

	<u>Balance 12/31/09</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/10</u>
Series of 2007	\$ 9,135,000	\$ -0-	\$ 155,000	\$ 8,980,000

NOTE 8 – CONCENTRATION OF CREDIT RISK

At December 31, 2010, there were two customers that represent 27% of the accounts receivable balance. These two customers represent 20% of user charges for the year.