

***DERRY TOWNSHIP MUNICIPAL AUTHORITY***

***YEARS ENDED  
DECEMBER 31, 2015 AND 2014***

***DERRY TOWNSHIP MUNICIPAL AUTHORITY***

YEARS ENDED DECEMBER 31, 2015 AND 2014

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## Independent Auditors' Report

Members of the Board  
Derry Township Municipal Authority  
Hershey, Pennsylvania

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Derry Township Municipal Authority (the Authority), a component unit of the Township of Derry, as of and for the years 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.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 from 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 auditors' 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 auditors consider internal control relevant to the Authority'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 of the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Derry Township Municipal Authority, a component unit of the Township of Derry, as of December 31, 2015 and 2014, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matter**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 audits 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.

## **Other Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary information on operating expenses listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information on operating expenses is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Brown Schultz Steidan & Fritz*

Camp Hill, Pennsylvania  
June 9, 2016

## **DERRY TOWNSHIP MUNICIPAL AUTHORITY**

### MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)

YEAR ENDED DECEMBER 31, 2015

**INTRODUCTION** – The Derry Township Municipal Authority (the Authority) is a governmental entity engaged in business type activities related to providing wastewater collection and treatment services to portions of Derry Township and surrounding municipalities. The Authority's basic financial statements consist of enterprise fund financial statements and notes to those statements.

The Authority presents this Management's Discussion and Analysis (MD&A) to provide the reader with an understanding of the financial activities of the Authority for the fiscal year ended December 31, 2015, along with selected comparative information for the previous fiscal year. This narrative and analysis also includes supplementary information intended to furnish additional details in support of the basic financial statements.

**OVERVIEW OF THE FINANCIAL STATEMENTS** – The financial statements are prepared on an accrual basis of accounting in accordance with generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB). The notes to the financial statements also provide a summary of the Authority's significant accounting policies.

The statements of net position present information on the Authority's total assets and deferred outflows of resources and its liabilities. The difference between the two is considered the Authority's net position. A comparison of the current net position to previous net positions may serve as a useful indicator of whether the overall financial position of the Authority is improving or deteriorating.

The statements of revenues and expenses present information showing how the Authority's net position changed during the two most recent fiscal years. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Revenues are recognized when earned, not when they are received. Expenses are recognized when incurred, not when they are paid. Thus, revenues and expenses are reported in the statements for some items that will only result in cash flows in future fiscal periods (e.g. accrued wages).

The statements of cash flows present information on the Authority's flow of cash during the two most recent fiscal years. The flow of cash is broken down into four component activities: operating, noncapital financing activities, capital and related financing and investing. These statements also provide a reconciliation of operating income to cash flows from operating activities.

## **DERRY TOWNSHIP MUNICIPAL AUTHORITY**

### MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) (CONTINUED)

YEAR ENDED DECEMBER 31, 2015

#### FINANCIAL HIGHLIGHTS – YEAR ENDED DECEMBER 31, 2015

- ❖ The Authority's total assets and deferred outflows of resources exceeded total liabilities by \$49.6 million, including \$41.1 million invested in capital assets, \$4.3 million in restricted funds in the custody of the Trustee and \$4.2 million in unrestricted funds. The Authority's net position decreased by \$376,600 (~1%).
- ❖ Current assets increased by \$86,000 (~1%).
- ❖ Current liabilities decreased by \$133,000 (~4%).
- ❖ Operating revenues from all sources increased by \$751,200 (~9%).
- ❖ Operating expenses increased by \$294,000 (~6%).

#### FINANCIAL ANALYSIS

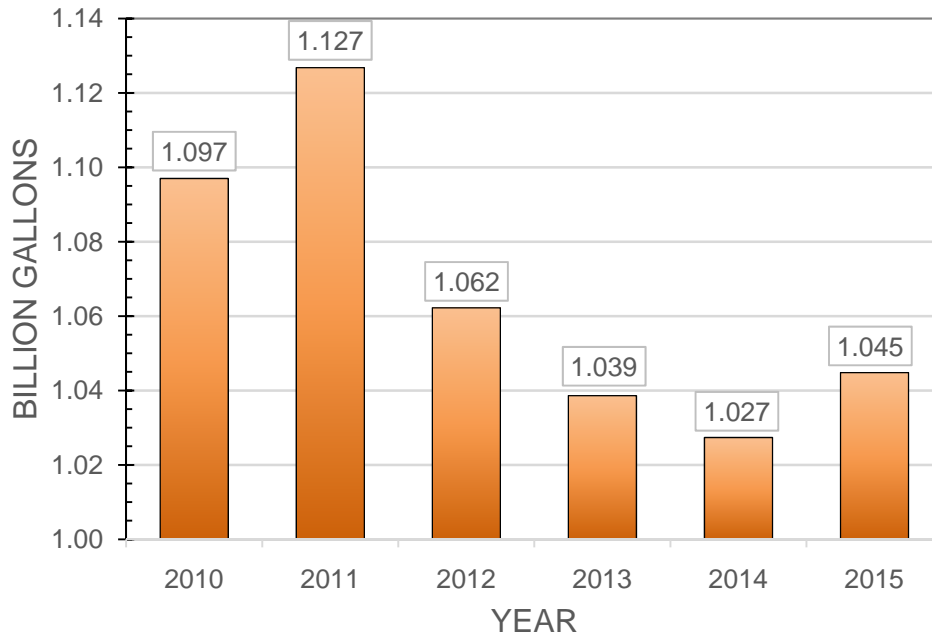
REVENUES, EXPENSES AND CHANGES IN NET POSITION – A condensed summary of the Authority's statements of revenues, expenses and changes in net position for the years ended December 31, 2015 and 2014 is presented on Schedule A, accompanying this MD&A.

OPERATING REVENUE – Total operating revenue for 2015 increased from 2014 levels by \$751,200 (~9%). This revenue increase was attributable to two primary factors: a 6.0% increase in sewer service charges effective on January 1, 2015 to the Authority's directly-billed customers, as well as an unanticipated increase in the volume of billed wastewater from this customer group. These two factors resulted in an increase in sewer service revenue of \$685,100 (~10%) from the Authority's direct customers. This increase in 2015 billable wastewater was a positive reversal of both the recent Authority history and the national trend of decreasing water consumption, primarily due to water conservation, and will be observed for future trend changes. Figure 1 presents a billable wastewater volume six-year trend.

**DERRY TOWNSHIP MUNICIPAL AUTHORITY**

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) (CONTINUED)

YEAR ENDED DECEMBER 31, 2015



**FIGURE 1 - BILLABLE WASTEWATER VOLUME**

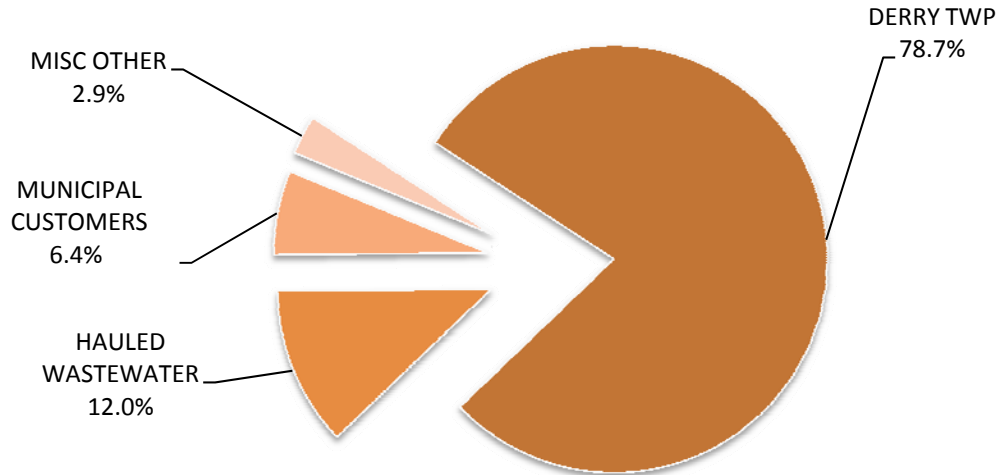
The 2015 revenue from the Authority's three municipal customers increased by \$43,900 (~8%) over 2014. Billable wastewater volumes from two of these customers also increased over 2014 due to new commercial development and other factors. Hauled wastewater processing revenue increased in 2015 by \$68,400 (~6%) due to higher volumes of material being brought to the plant for treatment.

**DERRY TOWNSHIP MUNICIPAL AUTHORITY**

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) (CONTINUED)

YEAR ENDED DECEMBER 31, 2015

Figure 2 presents a detailed breakdown of the various components of the Authority's operating revenue.



**FIGURE 2 - OPERATING REVENUE DETAIL**

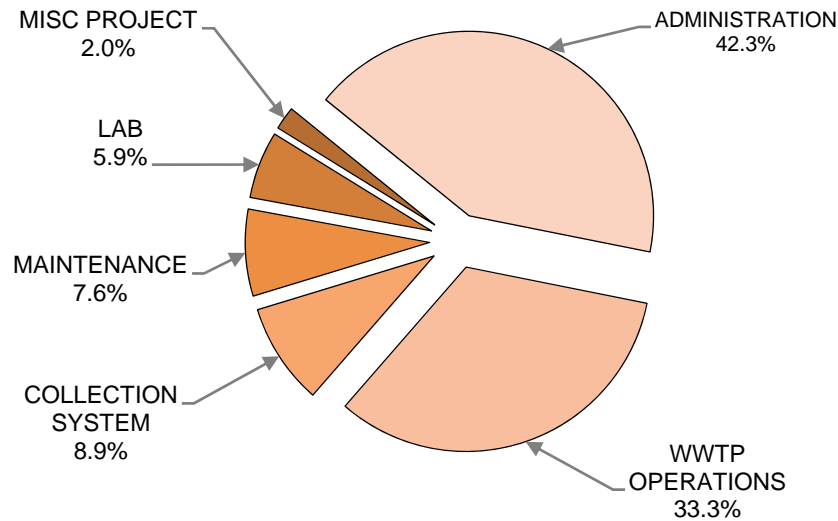
OPERATING EXPENSES – Operating expenses before depreciation increased by \$294,000 (~6%) from 2014. Administrative expenses increased by \$205,800 (~9%). Significant contributors to these increases included higher commercial, flood, and workers' compensation insurance costs \$(90,800) and health insurance and other employee benefit costs \$(90,100). Unplanned miscellaneous projects were limited in 2015, resulting in a decrease between the years of \$36,200. Increased costs of labor, plant utilities, service contracts, repair parts and contract repairs were modestly offset by decreases in fuel oil, chemical and contract sludge hauling costs, resulting in a net increase of \$75,000 in plant operation and maintenance costs. Figure 3 graphically presents a breakdown of operating expenses.



**DERRY TOWNSHIP MUNICIPAL AUTHORITY**

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) (CONTINUED)

YEAR ENDED DECEMBER 31, 2015



**FIGURE 3 - OPERATING EXPENSE DETAIL**

Following the 2011 flood, the rehabilitation or replacement of all flood-damaged equipment and facilities was completed, and those costs were fully capitalized by the end of 2014. The full impact of their annual depreciation was realized in 2015, resulting in an increase of depreciation expense of \$55,700 (2%).

NON-OPERATING REVENUE – During 2015, the Authority recorded the final FEMA (federal and state government) flood reimbursement grant revenue of \$68,900.

Capacity fees can vary widely from year to year. These are one-time payments made by individuals, developers and municipalities for the right to use available capacity at the Authority's treatment plants and major interceptors. Such payments decreased in 2015 by \$22,800 due to 15 fewer equivalent dwelling units connecting to the sewer in 2015 compared to 2014.

NON-OPERATING EXPENSE – In 2015, the Authority entered into two financing transactions that resulted in bond issuance costs of \$261,800 and a net interest expense reduction of \$30,000 in comparison to 2014. The details of these financings are explained in the liabilities section of this MD&A and in Note 5 to the financial statements. Impairment losses related to flood-damaged buildings and equipment were finalized in 2014 and no losses were recognized in 2015.

## **DERRY TOWNSHIP MUNICIPAL AUTHORITY**

### MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) (CONTINUED)

YEAR ENDED DECEMBER 31, 2015

**CONTRIBUTIONS** – Extensions to the existing sanitary sewer system that are constructed by and at the expense of developers, may be dedicated to the Authority for ownership, operation and maintenance. These contributions vary from year to year, and while there were no new extensions in 2014, sewer extensions costing \$45,300 were completed, dedicated to and accepted by the Authority during 2015. These dedicated assets were then added to property, plant and equipment.

**EXTRAORDINARY ITEMS** – Following the 2011 flood event, the Authority undertook a major recovery and restoration project. The work was completed and all related expenditures occurred by the end of 2014. The Authority staff submitted a total of 55 damage claims totaling \$11.2 million for review and approval by federal and state officials. Approximately \$9.1 million was determined by state and federal officials to be eligible for reimbursement. The remaining expenditure balance was paid from reserve funds. As of December 31, 2015, all disaster reimbursement assistance had been received and the project is now considered to be complete. Additional information on this topic may be found in Note 9 to the financial statements.

**TOTAL NET POSITIONS** – As of December 31, 2015 and 2014, the Authority had total net positions of \$49,618,300 and \$49,994,800, respectively, as shown on Schedule B.

**ASSETS** – The 2015 year-end value of total assets decreased by \$2,272,900 (~3%) when compared to 2014 year-end. A breakdown of the total assets by category is presented in Schedule B.

There was a net increase of \$684,800 in other assets, primarily due to the replenishment of the Flood Contingency, the Operating Reserve and the Bond Redemption and Improvement Funds (no capital). The source of these funds included federal/state flood reimbursement, refinancing savings and a refund of project overpayment.

The 2015 value of capital assets showed a net decrease over 2014 levels by \$3,043,700, primarily due to depreciation expense. Construction projects were completed and their values moved out of the work in progress account into property, plant and equipment or, as appropriate, were recorded there directly.

Additions to and retirements from property, plant and equipment are summarized in the chart below. A number of small staff projects were completed or substantially completed during 2015. Two existing vehicles equipped with specialty equipment were retired and replaced by the purchase of two new similarly equipped vehicles.

**DERRY TOWNSHIP MUNICIPAL AUTHORITY**

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) (CONTINUED)

YEAR ENDED DECEMBER 31, 2015

TABLE 1  
PROPERTY PLANT AND EQUIPMENT PLACED IN SERVICE

Collection system improvements	\$ 37,000
Plant improvements	38,600
New equipment	124,800
Office improvements	29,600
Developer contributions	<u>45,300</u>
Total additions	275,300
Less retirements	<u>109,500</u>
Net increase	<u>\$ 165,800</u>

A number of significant capital projects began in 2015. These include the digester sludge cell lysis process, collection system rehabilitation project, improvements to the Clearwater Road and Southwest wastewater treatment plants and stormwater program start-up fees (discussed in the 2016 Outlook). These projects have a total financial commitment of approximately \$1.18 million.

The construction work in progress account contains costs for ongoing facility improvement projects. During 2015, a number of minor projects were in progress, totaling approximately \$135,500. In addition, approximately \$165,200 of costs related to improvements to the sewage collection system, which were part of a joint sanitary sewer and stormwater project, were ultimately determined to be the responsibility of the Township of Derry, and the balance in the construction work in progress account was reduced accordingly. Projects costing approximately \$75,600 were completed and capitalized, resulting in an end of year balance of \$68,000 in the construction work in progress account.

Restricted funds and other assets decreased by a total of \$684,800. The Authority maintains two reserve funds: one to help pay for flood losses and the other to cover unusual operating expenses. Following the 2011 flood, the Authority drew down all but approximately \$30,000 of its \$500,000 flood fund. During 2015 and 2014, a total of approximately \$85,800 was added to the flood fund to continue rebuilding the previous balance.

The Bond Redemption and Improvement fund balance increased by \$470,000 due to reimbursement of costs for the joint project with the Township of Derry as well as flood-related grant proceeds. In addition, the Authority created the 2015 Capital Projects Fund using "new money" for capital projects as a result of the Township of Derry issuing bonds on behalf of the Authority. During 2015, current project expenditures from that fund resulted in a decrease of \$135,300, leaving an available balance for capital projects of \$2,685,900.

## ***DERRY TOWNSHIP MUNICIPAL AUTHORITY***

### MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) (CONTINUED)

YEAR ENDED DECEMBER 31, 2015

DEFERRED OUTFLOWS OF RESOURCES – This section is presented in compliance with GASB 65 to set forth the balances of deferred losses on bond issues.

LIABILITIES – Current liabilities decreased by \$133,000. The portion of debt payments due within one year of December 31, 2015 decreased by \$101,800 over December 31, 2014 levels in accordance with debt repayment schedules.

Accounts payable decreased modestly by \$37,400, and was driven primarily by a \$34,800 decrease in trade accounts payable due to the normal fluctuation of purchases and payments.

In 2015, capital lease liabilities with Conewago Township and Conewago Municipal Authority decreased by \$318,600 due to normally scheduled principal payments.

During 2015, the Authority took advantage of low long-term interest rates to refinance two bond issues. The savings on these two issues, plus the normally scheduled principal retirement, provided a reduction in the Authority's long-term liabilities by approximately \$1,291,000.

With the reductions in both current and long-term liabilities, the resulting total liabilities decreased by \$1,633,600 from 2014 levels. Further information about long-term liabilities can be found in Note 5 to financial statements.

#### CONCLUDING COMMENTS

Total operating revenue for 2015 increased \$751,200 (~9%) over 2014. In view of the modest growth and the uncertainty in billable water usage, the Authority enacted, as part of a multi-year rate adjustment program, an approximate 6.0% increase in user rates, effective on January 1, 2015. The rate adjustment will also help fund general increases in expenses, replenish the reserve accounts depleted during the 2011 flood recovery and begin funding for future capital asset replacements.

The anticipated growth in the Authority's service area, together with the strength of the existing customer base, produces a stable economic climate within which the Authority conducts its operations. As the regional and national general economy continues to improve and development continues to increase, the Authority may experience an increase in non-operating revenues in the form of capacity fees moving forward. Although the Authority concluded 2015 with a \$376,600 decrease in net position, the planned rate adjustments, increases in development activity and potential increases in billable wastewater will likely reduce or even eliminate future decreases in the Authority's net position.

**DERRY TOWNSHIP MUNICIPAL AUTHORITY**

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) (CONTINUED)

YEAR ENDED DECEMBER 31, 2015

2016 OUTLOOK – Several events occurred or were pending at the end of 2015 that will impact the Authority's operations for 2016 and beyond. In late 2015, as interest rates continued to remain at record low levels, the Authority authorized their finance team to refinance two existing eligible bond issues, with potential savings of more than \$1,000,000. Additional information on this topic may be found in the notes to the financial statements.

In August 2015, the Authority Board approved an amendment to its Articles of Incorporation, adding stormwater management as a core function. The transition of the stormwater management program from the Township to the Authority will take place during 2016. Program development will include the establishment of a separate business enterprise and the development of program fees that will independently support the program.

At the end of 2015, the Authority began a strategic planning program that will continue throughout 2016. In addition to establishing an Authority mission statement, the planning will incorporate organizational goals, business objectives, succession planning and ultimately a capital asset management program.

Additional information on this MD&A and the accompanying financial statements may be obtained by contacting the Executive Director, Derry Township Municipal Authority, 670 Clearwater Road, Hershey, PA 17033.

**DERRY TOWNSHIP MUNICIPAL AUTHORITY**

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) (CONTINUED)

YEAR ENDED DECEMBER 31, 2015

SCHEDULE A

CONDENSED STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN NET POSITION  
(in thousands of dollars)

YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>	<u>\$ Change</u>
Operating revenues	\$ 9,460.2	\$ 8,709.0	\$ 751.2
Operating expenses	<u>5,611.7</u>	<u>5,317.7</u>	<u>294.0</u>
Total operating income before depreciation/amortization	3,848.5	3,391.3	457.2
Depreciation	<u>3,187.5</u>	<u>3,131.8</u>	<u>55.7</u>
Total operating income	661.0	259.5	401.5
Non-operating revenues	262.7	949.4	(686.7)
Non-operating expenses	<u>1,345.6</u>	<u>1,225.0</u>	<u>120.6</u>
Loss before contributions/extraordinary items	(421.9)	(16.1)	(405.8)
Sewer extension contributed by developers	<u>45.3</u>		<u>45.3</u>
Change in net position before extraordinary items	(376.6)	(16.1)	(360.5)
Extraordinary items, flood		<u>309.5</u>	<u>(309.5)</u>
Decrease in net position	<u>\$ (376.6)</u>	<u>\$ (325.6)</u>	<u>\$ (51.0)</u>

**DERRY TOWNSHIP MUNICIPAL AUTHORITY**

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) (CONTINUED)

YEAR ENDED DECEMBER 31, 2015

SCHEDULE B

CONDENSED STATEMENTS OF NET POSITION  
(in thousands of dollars)

YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>	<u>\$ Change</u>
Assets:			
Current assets	\$ 6,275.1	\$ 6,189.1	\$ 86.0
Capital assets	74,615.7	77,659.4	(3,043.7)
Other assets	<u>5,801.6</u>	<u>5,116.8</u>	<u>684.8</u>
Total assets	86,692.4	88,965.3	(2,272.9)
Deferred outflows of resources	<u>1,979.4</u>	<u>1,716.6</u>	<u>262.8</u>
Total assets and deferred outflows of resources	<u><u>\$ 88,671.8</u></u>	<u><u>\$ 90,681.9</u></u>	<u><u>\$ (2,010.1)</u></u>
Liabilities and net assets:			
Current liabilities	\$ 2,846.7	\$ 2,979.7	\$ (133.0)
Long-term liabilities	<u>36,206.8</u>	<u>37,707.4</u>	<u>(1,500.6)</u>
Total liabilities	<u>39,053.5</u>	<u>40,687.1</u>	<u>(1,633.6)</u>
Net position:			
Net investment in capital assets	41,129.5	42,012.1	(882.6)
Restricted for debt service and capital projects	4,269.6	4,474.3	(204.7)
Unrestricted	<u>4,219.2</u>	<u>3,508.4</u>	<u>710.8</u>
Total net position	<u>49,618.3</u>	<u>49,994.8</u>	<u>(376.5)</u>
Total liabilities and net position	<u><u>\$ 88,671.8</u></u>	<u><u>\$ 90,681.9</u></u>	<u><u>\$ (2,010.1)</u></u>

**DERRY TOWNSHIP MUNICIPAL AUTHORITY**

STATEMENTS OF NET POSITION – DECEMBER 31, 2015 AND 2014

ASSETS

	<u>2015</u>	<u>2014</u>
Current assets:		
Cash	\$ 2,200,631	\$ 1,361,407
Investments	3,627,704	3,751,843
Sewer rents receivable	204,951	268,635
Accounts receivable, other	72,031	686,289
Interest receivable	2,466	1,155
Inventory	15,883	15,982
Prepaid insurance	151,464	103,828
	<u>6,275,130</u>	<u>6,189,139</u>
Total current assets		

(continued)



## LIABILITIES AND NET POSITION

	2015	2014
Current liabilities:		
Accrued interest on debt	\$ 39,053	\$ 49,645
Current maturities of:		
Sewer revenue bonds:		
Series of 2009	820,000	795,000
Series of 2010		785,000
Series of 2015	725,000	
Subsidy agreements with Derry Township:		
Series of 2010		275,000
Series of 2011	255,000	255,000
Series of 2014	95,000	5,000
Series of 2015	115,000	
Capital lease obligations	321,794	318,593
Accounts payable:		
Trade	172,563	207,420
Other	22,157	31,726
Construction	7,052	
Accrued:		
Vacation and sick leave	204,929	197,092
Payroll and payroll deductions	69,173	60,221
	2,846,721	2,979,697
Total current liabilities		

**DERRY TOWNSHIP MUNICIPAL AUTHORITY**

STATEMENTS OF NET POSITION (CONTINUED) – DECEMBER 31, 2015 AND 2014

ASSETS (CONTINUED)

	<u>2015</u>	<u>2014</u>
Property, plant and equipment	\$ 123,483,812	\$ 123,318,007
Less accumulated depreciation and amortization	<u>48,983,096</u>	<u>45,867,759</u>
	74,500,716	77,450,248
Construction work in progress	68,034	165,156
Projects in progress	<u>46,957</u>	<u>43,957</u>
	<u>74,615,707</u>	<u>77,659,361</u>
Other assets:		
Accounts receivable, long-term	4,532	6,539
Cash and investments designated for:		
Flood contingency account	115,561	94,582
Operating reserves	900,864	500,281
Bond redemption and improvement	511,078	41,139
Cash and investments restricted for:		
Capital projects	2,685,910	2,821,197
Debt service	<u>1,583,632</u>	<u>1,653,140</u>
Total other assets	<u>5,801,577</u>	<u>5,116,878</u>
Deferred outflows of resources, deferred loss on refunded debt	<u>1,979,352</u>	<u>1,716,564</u>
Total assets and deferred outflows of resources	<u>\$ 88,671,766</u>	<u>\$ 90,681,942</u>

See notes to financial statements.

LIABILITIES AND NET POSITION (CONTINUED)

	2015	2014
Sewer revenue bonds, net of current portion:		
Series of 2005	\$ 5,000	\$ 5,000
Series of 2009	8,252,429	9,088,305
Series of 2010		8,033,626
Series of 2015	7,909,202	
Subsidy agreements with Derry Township, net of current portion:		
Series of 2010		8,084,553
Series of 2011	2,703,602	2,954,932
Series of 2014	4,899,577	4,994,542
Series of 2015	8,212,326	
Capital lease obligations, net of current portion	4,224,648	4,546,441
Total long-term liabilities	36,206,784	37,707,399
Total liabilities	39,053,505	40,687,096
Net position:		
Net investment in capital assets	41,129,530	42,012,089
Restricted for debt service and capital projects	4,269,542	4,474,337
Unrestricted	4,219,189	3,508,420
Total net position	49,618,261	49,994,846
Total liabilities and net position	\$ 88,671,766	\$ 90,681,942

**DERRY TOWNSHIP MUNICIPAL AUTHORITY**

STATEMENTS OF REVENUES AND EXPENSES

YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Operating revenues:		
Service charges:		
Sewer service	\$ 7,442,201	\$ 6,757,146
Hershey sludge processing	75,530	123,972
Hauled waste processing	1,137,014	1,068,598
Surcharges	81,572	90,881
Penalties	42,123	24,814
South Hanover	430,569	411,640
Londonderry	15,186	15,697
Lower Swatara	156,207	130,738
Nutrient sales	6,020	8,307
Other charges and fees:		
Connection, lateral and special purpose fees		23,700
Inspection fees	3,800	4,100
Developer reimbursement	21,770	25,575
Miscellaneous	48,260	23,837
	<u>9,460,252</u>	<u>8,709,005</u>
Operating expenses:		
Administrative, payroll taxes and employee benefits	2,374,330	2,168,512
Collection system	499,125	465,010
Plant operations	1,866,331	1,931,677
Maintenance	427,286	286,886
Technical services	330,849	315,560
Miscellaneous project expense	113,798	150,002
	<u>5,611,719</u>	<u>5,317,647</u>
Operating income before depreciation and amortization	3,848,533	3,391,358
Depreciation and amortization	<u>3,187,482</u>	<u>3,131,830</u>
Operating income (carried forward)	<u>661,051</u>	<u>259,528</u>

(continued)

**DERRY TOWNSHIP MUNICIPAL AUTHORITY**

STATEMENTS OF REVENUES AND EXPENSES (CONTINUED)

YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Operating income (brought forward)	<u>\$ 661,051</u>	<u>\$ 259,528</u>
Nonoperating income:		
Government grants	68,929	749,580
Capacity fees	137,159	159,917
Interest income	19,231	13,350
Gain on sale of fixed assets	7,670	14
Miscellaneous	<u>29,725</u>	<u>26,608</u>
	<u>262,714</u>	<u>949,469</u>
Nonoperating expense:		
Interest on:		
Capital lease	47,193	50,362
Bonds and notes payable	1,063,381	1,113,366
Miscellaneous	490	
Bond issuance costs	261,839	58,624
Amortization of bond (premium) discount	<u>(27,258)</u>	<u>2,715</u>
	<u>1,345,645</u>	<u>1,225,067</u>
Loss before contributions and extraordinary items	<u>(421,880)</u>	<u>(16,070)</u>
Sewer extensions contributed by developers	<u>45,295</u>	
Extraordinary items:		
Flood related expenses		(34,849)
Impairment losses		<u>(274,631)</u>
		<u>(309,480)</u>
Decrease in net position	<u>\$ (376,585)</u>	<u>\$ (325,550)</u>

See notes to financial statements.

**DERRY TOWNSHIP MUNICIPAL AUTHORITY**

STATEMENTS OF CHANGES IN NET POSITION

YEARS ENDED DECEMBER 31, 2015 AND 2014

	Net position			Net investment in capital assets
	Total	Unrestricted	Restricted	
Balance, January 1, 2014	\$ 50,320,396	\$ 7,300,966	\$ 1,692,206	\$ 41,327,224
Increase (decrease) in net position	<u>(325,550)</u>	<u>(3,792,546)</u>	<u>2,782,131</u>	<u>684,865</u>
Balance, December 31, 2014	49,994,846	3,508,420	4,474,337	42,012,089
Increase (decrease) in net position	<u>(376,585)</u>	<u>710,769</u>	<u>(204,795)</u>	<u>(882,559)</u>
Balance, December 31, 2015	<u>\$ 49,618,261</u>	<u>\$ 4,219,189</u>	<u>\$ 4,269,542</u>	<u>\$ 41,129,530</u>

See notes to financial statements.

**DERRY TOWNSHIP MUNICIPAL AUTHORITY**

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Cash received from customers and users	\$ 9,555,656	\$ 8,760,691
Cash payments to:		
Suppliers	(2,565,712)	(2,462,392)
Employees	<u>(3,114,132)</u>	<u>(2,965,278)</u>
Net cash provided by operating activities	<u>3,875,812</u>	<u>3,333,021</u>
Cash flows from noncapital financing activities:		
State sources	266,804	263,670
Federal sources	<u>416,396</u>	<u>637,028</u>
Net cash provided by noncapital financing activities	<u>683,200</u>	<u>900,698</u>
Cash flows from capital and related financing activities:		
Capacity fees	137,159	159,917
Purchase of property, plant and equipment	(99,710)	(4,133,376)
Flood related expenses		(34,849)
Debt principal paid	(19,345,000)	(4,155,953)
Capital lease paid	(318,593)	(315,424)
Bond proceeds, net of issuance costs and discount	17,653,507	6,991,870
Interest paid on debt, including amounts capitalized	<u>(1,210,863)</u>	<u>(1,173,906)</u>
Net cash used in capital and related financing activities	<u>(3,183,500)</u>	<u>(2,661,721)</u>

(continued)

**DERRY TOWNSHIP MUNICIPAL AUTHORITY**

STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Cash flows from investing activities:		
Interest received	\$ 17,920	\$ 12,922
Change in investments	(714,568)	(486,732)
Proceeds from sale or disposal of fixed assets	<u>7,670</u>	<u>14</u>
Net cash used in investing activities	<u>(688,978)</u>	<u>(473,796)</u>
Net increase in cash and cash equivalents	686,534	1,098,202
Cash and cash equivalents (Note 2):		
Beginning of year	<u>4,246,617</u>	<u>3,148,415</u>
End of year	<u>\$ 4,933,151</u>	<u>\$ 4,246,617</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 661,051	\$ 259,528
Adjustments:		
Depreciation and amortization of property, plant and equipment	3,187,482	3,131,830
Miscellaneous income	29,725	26,608
(Increase) decrease in:		
Receivables	65,676	25,468
Inventory	99	
Prepaid insurance	(47,636)	(10,048)
Increase (decrease) in:		
Accounts payable, trade and other	(37,374)	(110,954)
Accrued expenses	<u>16,789</u>	<u>10,589</u>
Net cash provided by operating activities	<u>\$ 3,875,812</u>	<u>\$ 3,333,021</u>

(continued)



**DERRY TOWNSHIP MUNICIPAL AUTHORITY**

STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Non-cash activities:		
Sewer extensions contributed by developers	\$ 45,295	
Accounts payable for property, plant and equipment at year-end	7,052	

See notes to financial statements.

# **DERRY TOWNSHIP MUNICIPAL AUTHORITY**

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

### **1. Operations and significant accounting policies:**

The Authority was incorporated April 20, 1971, under the Municipality Authorities Act of 1945 as amended, to acquire, hold, construct, improve, maintain, operate, own and lease, either in the capacity of lessor or lessee, sewers, sewer systems, interceptor lines, sewage treatment works and works for the treatment and disposal of industrial waste. The Authority is considered a component unit of the Township of Derry due to the Township of Derry's ability to impose its will on the Authority.

#### *Reporting entity:*

Generally accepted accounting principles require that the reporting entity include (1) the Authority, (2) organizations for which the Authority is financially accountable and (3) other organizations for which the nature and significance of their relationship with the Authority are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria provided in Governmental Accounting Standards Board Statement No. 61 have been considered, and there are no agencies or entities which should be presented with the Authority.

#### *Measurement focus and basis of accounting:*

The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows of resources and all liabilities associated with the operations are included on the statements of net position.

The Authority has adopted the accrual basis of accounting to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing services to the general public on a continuing basis be financed or recovered substantially through user charges. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

The Derry Township Municipal Authority complies with accounting principles generally accepted in the United States of America (GAAP). The Authority applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

#### *Cash equivalents:*

For purposes of reporting cash flows, the Authority considers money market investments and all debt instruments with a maturity of 90 days or less when purchased to be cash equivalents.

**DERRY TOWNSHIP MUNICIPAL AUTHORITY**  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEARS ENDED DECEMBER 31, 2015 AND 2014

**1. Operations and significant accounting policies (continued):**

*Investments:*

Investments are stated at fair value.

*Property, plant and equipment:*

Property, plant and equipment are carried at cost, except for sewer extensions contributed to the Authority which are recorded based on cost estimates provided by developers at the date of contribution. Depreciation and amortization have been provided using the straight-line method over the expected economic useful life of the assets.

*Interest:*

The Authority capitalizes interest as a component of the cost of property, plant and equipment constructed for its own use. In 2015 and 2014, approximately \$1,000 and \$167,000, respectively, of interest was capitalized into construction in progress.

*Compensated absences:*

The Authority records its obligation to compensate employees for vacation and sick leave as the liability is incurred. Employees are permitted to accumulate a maximum of six weeks of vacation, for which they are reimbursed upon termination. Employees are also reimbursed for any unused sick time upon termination.

*Deferred outflows of resources:*

In addition to assets, the statements 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 future periods, and thus, will not be recognized as an outflow of resources (expense) until then. The Authority has only one item that qualifies for reporting in this category. It is the deferred loss on refunding debt. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

**DERRY TOWNSHIP MUNICIPAL AUTHORITY**  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEARS ENDED DECEMBER 31, 2015 AND 2014

**2. Cash and investments:**

*Custodial credit risk, deposits and investments:*

For deposits, custodial credit risk is the risk that, in the event of bank failure, the Authority's deposits may not be returned to it. For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investment or collateral security that is in the possession of an outside party. The Authority's current investment policy follows the requirements set forth in Section 5611 of the Municipality Authorities Act of 1945.

As of December 31, 2015, the reported amount of the Authority's deposits was \$2,200,081 and the bank balance was \$2,333,596. Of the bank balance, \$250,000 was covered by federal depository insurance and \$2,083,596 was covered by collateral held in accordance with Act 72 not in the Authority's name.

Investments

As of December 31, 2015 and 2014, the Authority had the following deposits and investments:

<u>Investments</u>	<u>Maturities</u>	<u>Ratings</u>	<u>2015</u>	<u>2014</u>
Cash and money market investments			\$ 2,732,520	\$ 2,885,210
Certificates of deposit	Less than one year		750,000	
U.S. treasury notes	Less than one year		5,542,433	5,273,513
	1 to 5 years		398,236	702,558
Total investments			9,423,189	8,861,281
Accrued interest on government securities			1,560	901
Total deposits, including petty cash			<u>2,200,631</u>	<u>1,361,407</u>
Total deposits and investments			<u>\$ 11,625,380</u>	<u>\$ 10,223,589</u>

For cash flow purposes, cash and cash equivalents are comprised of cash, money market investments and total deposits.

**DERRY TOWNSHIP MUNICIPAL AUTHORITY**  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEARS ENDED DECEMBER 31, 2015 AND 2014

**2. Cash and investments (continued):**

*Custodial credit risk, deposits and investments (continued):*

Reconciliation to the statements of net position

	2015	2014
Current assets:		
Cash	\$ 2,200,631	\$ 1,361,407
Investments	3,627,704	3,751,843
Other assets, cash and investments	5,797,045	5,110,339
	\$ 11,625,380	\$ 10,223,589

*Interest rate risk:*

The Authority has a formal investment policy that permits investments as authorized by law and requires that maturities of investments are consistent with cash flow requirements. The policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates since it is anticipated that investments will be held to maturity.

*Custodial credit risk:*

The Authority does not currently have a formal policy for custodial credit risk.

**3. Accounts receivable:**

Accounts receivable consisted of the following:

	2015	2014
Connection fees	\$ 40,967	\$ 43,338
Miscellaneous	31,064	28,679
Flood related grants:		
Federal		357,539
State		256,733
	\$ 72,031	\$ 686,289

**DERRY TOWNSHIP MUNICIPAL AUTHORITY**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2015 AND 2014

**4. Property, plant and equipment:**

Property, plant and equipment consisted of the following:

	January 1, 2015	Additions	Deletions	Reclassifications	December 31, 2015
Land and right-of-ways	\$ 2,370,024				\$ 2,370,024
Collection lines	40,679,153	\$ 45,295	\$ (37,367)	\$ 37,025	40,724,106
Sewage treatment plant	71,354,836			16,900	71,371,736
Plant equipment	3,520,164			28,576	3,548,740
Vehicles	1,242,047		(72,147)	124,778	1,294,678
Office equipment	807,879			22,745	830,624
Miscellaneous equipment	76,448				76,448
Capitalized interest and financing costs prior to plant operation	3,267,456				3,267,456
Construction in progress	165,156	143,634	(165,156)	(75,600)	68,034
Projects in progress	43,957	157,424		(154,424)	46,957
	<u>123,527,120</u>	<u>346,353</u>	<u>(274,670)</u>	<u>-</u>	<u>123,598,803</u>
Less accumulated depreciation	<u>45,867,759</u>	<u>3,187,482</u>	<u>(72,145)</u>		<u>48,983,096</u>
	<u>\$ 77,659,361</u>	<u>\$ (2,841,129)</u>	<u>\$ (202,525)</u>	<u>\$ -</u>	<u>\$ 74,615,707</u>

**DERRY TOWNSHIP MUNICIPAL AUTHORITY**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2015 AND 2014

**5. Long-term debt:**

The Authority's long-term debt consists of three types of obligations. The Authority has issued its own debt instruments in the form of Sewer Revenue Bonds, which are typically guaranteed by the Township of Derry. In addition, in certain circumstances the Authority has requested the Township of Derry to issue General Obligation Bonds to fund Authority projects and the Township of Derry has done so. This approach has provided certain financial benefits to the Authority. The Authority and Township of Derry have entered into subsidy agreements and amendments thereto which make the Authority fully responsible to the Township of Derry to repay the debt associated with the Authority's projects. Finally, the Authority has entered into capital lease obligations with neighboring Conewago Township and Conewago Municipal Authority.

The subsidy agreements with the Township of Derry contain various covenants of the Authority. Included in the subsidy agreements, as well as in the Guaranteed Sewer Revenue Bonds, are covenants to impose and collect sewer rentals, rates and other charges in each year sufficient, together with other available funds, to pay the administrative expenses and operation and maintenance expenses of the Authority's sewer system. Additionally, in accordance with the terms of the subsidy agreements, the Authority is bound to pay its share of the debt service on the related debt.

The Guaranteed Sewer Revenue Bonds are secured solely by the receipts and revenues of the sewer system.

Long-term bonds and leases outstanding at December 31, 2015 are as follows:

	Original borrowing	Date of issue/maturity	Interest rates to maturity	Annual principal payments to maturity	Outstanding December 31, 2015
Guaranteed Sewer Revenue Bonds:					
Series of 2005	\$ 10,000,000	2005/2028	4.50%	\$5,000	\$ 5,000
Series of 2009	16,375,000	2009/2025	3.00% to 4.375%	\$820,000 to \$1,085,000	8,915,000
Series of 2015	9,020,000	2015/2024	1.00% to 3.00%	\$725,000 to \$1,290,000	8,500,000
Township of Derry, General Obligation Bonds - subsidy agreements:					
Series of 2011	3,975,000	2011/2025	2.10% to 4.00%	\$5,000 to \$1,655,000	2,995,000
Series of 2014	5,000,000	2014/2027	0.50% to 3.00%	\$95,000 to \$2,295,000	4,995,000
Series of 2015	8,610,000	2015/2028	1.00% to 3.25%	\$115,000 to \$990,000	8,195,000
Capital Lease Obligations:					
Phase I	2,740,609	2007/2025	1.00%	\$106,026 to \$157,772	1,470,343
Phase II	4,591,356	2010/2032	1.00%	\$34,317 to \$204,694	3,076,099
	<u>\$ 60,311,965</u>				<u>\$ 38,151,442</u>

**DERRY TOWNSHIP MUNICIPAL AUTHORITY**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2015 AND 2014

**5. Long-term debt (continued):**

*Current refundings:*

On March 29, 2015, Guaranteed Sewer Revenue Bonds, Series of 2015 were issued in the amount of \$9,020,000. Proceeds from the bonds were used to pay the costs of issuing the bonds and refund the Guaranteed Sewer Revenue Bonds, Series of 2010. The annual principal payments range from \$725,000 to \$1,290,000, with final payment due December 15, 2024 (with interest rates ranging from 0.27% to 3.00%). The present value savings of this issue was approximately \$468,100.

An amendment to the May 28, 2010 subsidy agreement with the Township of Derry was signed on March 15, 2015, and General Obligation Bonds, Series of 2015 were issued on March 17, 2015 in the amount of \$8,610,000. Proceeds from the bonds were used to pay the costs of issuing the bonds and refund the General Obligation Bonds, Series of 2010. The annual principal payments range from \$115,000 to \$990,000, with final payment due December 15, 2028 (with interest rates ranging from .40% to 3.25%). The present value savings of this issue was approximately \$823,200.

Changes in long-term liabilities for the year ended December 31, 2015 are as follows:

	Balance as of January 1, 2015	Additions	Retirements	Balance as of December 31, 2015	Amounts due within one year
Sewer revenue bonds:					
Series of 2005	\$ 5,000			\$ 5,000	
Series of 2009	9,710,000		\$ (795,000)	8,915,000	\$ 820,000
Series of 2010	8,895,000		(8,895,000)	-	
Series of 2015		\$ 9,020,000	(520,000)	8,500,000	725,000
Subsidy agreements:					
Series of 2010	8,460,000		(8,460,000)	-	
Series of 2011	3,250,000		(255,000)	2,995,000	255,000
Series of 2014	5,000,000		(5,000)	4,995,000	95,000
Series of 2015		8,610,000	(415,000)	8,195,000	115,000
Total bonds payable	35,320,000	17,630,000	(19,345,000)	33,605,000	2,010,000
Capital lease obligations	4,865,034		(318,592)	4,546,442	321,794
	<u>\$ 40,185,034</u>	<u>\$ 17,630,000</u>	<u>\$ (19,663,592)</u>	38,151,442	<u>\$ 2,331,794</u>
Current maturities				(2,331,794)	
Unamortized original issue (discount) premium, net				<u>387,136</u>	
Long-term debt, net of current maturities				<u>\$ 36,206,784</u>	



**DERRY TOWNSHIP MUNICIPAL AUTHORITY**  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEARS ENDED DECEMBER 31, 2015 AND 2014

**5. Long-term debt (continued):**

*Capital lease obligations:*

The Authority has entered into two capital leases with Conewago Township and Conewago Municipal Authority, respectively. Under two separate sewer service and lease agreements, Conewago Township and Conewago Municipal Authority lease their sewer systems to the Derry Township Municipal Authority for operation and maintenance. The capital lease obligation to Conewago Township had a balance of \$1,470,343 at December 31, 2015. The cost of the related capital asset is \$4,229,548, with accumulated depreciation of \$577,751. The capital lease obligation to Conewago Municipal Authority had a balance of \$3,076,099 at December 31, 2015. The cost of the related capital asset is \$4,099,169, with accumulated depreciation of \$307,438.

*Debt service requirements to maturity:*

The annual requirements of the Authority's long-term debt shown below include the effect of the refunding of the Guaranteed Sewer Revenue Bonds, Series of 2009 and General Obligation Bonds, Series of 2011 (as described in Note 11):

<u>Year ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 2,576,794	\$ 737,721	\$ 3,314,515
2017	2,585,026	804,227	3,389,253
2018	2,718,292	758,548	3,476,840
2019	2,811,589	702,525	3,514,114
2020	2,874,921	629,119	3,504,040
2021-2025	17,017,475	2,140,884	19,158,359
2026-2030	7,373,334	346,680	7,720,014
2031-2032	239,011	1,495	240,506
	<u>\$ 38,196,442</u>	<u>\$ 6,121,199</u>	<u>\$ 44,317,641</u>

**DERRY TOWNSHIP MUNICIPAL AUTHORITY**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2015 AND 2014

**6. Defined contribution pension plan:**

Under the authority of the Municipality Authorities Act of 1945 and by resolution of the Board, the Authority has established a defined contribution plan which provides pension benefits for all of its employees who meet specified service requirements. Benefits depend solely on amounts contributed to the plan plus investment earnings. Board action requires that the Authority contribute an amount equal to 6.0% of the employee's total compensation each month. The Authority's contributions for each employee (and earnings allocated to the employee's account) are fully vested after seven years of continuous service. Authority contributions for, and earnings forfeited by, employees who leave employment before being fully vested are used to reduce the Authority's current period contribution requirement. Voluntary participant contributions are permitted by the plan. The Authority made the required contributions in the gross amounts of \$125,147 and \$121,012 for the years ended December 31, 2015 and 2014, respectively.

**7. Lease with the Township of Derry Industrial and Commercial Development Authority:**

On January 1, 2006, the Derry Township Municipal Authority entered into an agreement with the Township of Derry Industrial and Commercial Development Authority (the ICDA) to lease to the ICDA approximately 12 acres of land along Hershey Park Drive, Hershey, Pennsylvania. The cost of the land was \$1,104,304. The ICDA has constructed three buildings to provide office and operational space for the Township of Derry's administrative staff, police force and Tax Collection Association. The lease is for a period of 40 years and provides for varying levels of rental payments over the term of the lease, currently \$2,000 per month. Rental income pertaining to the lease was \$24,000 and \$12,000, respectively, for the years ended December 31, 2015 and 2014.

**DERRY TOWNSHIP MUNICIPAL AUTHORITY**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2015 AND 2014

**7. Lease with the Township of Derry Industrial and Commercial Development Authority (continued):**

The following is a schedule by years of minimum future rentals relating to the land leased to the ICDA:

<u>Year ended</u>	<u>Amount</u>
2016	\$ 24,000
2017	24,000
2018	24,000
2019	24,000
2020	24,000
2021-2025	120,000
2026-2030	120,000
2031-2035	120,000
2036-2040	120,000
2041-2045	120,000

**8. Deferred compensation plan:**

In September 1992, the Authority entered into an agreement with The International City Management Association (ICMA) Retirement Corporation to provide a deferred compensation plan in accordance with Internal Revenue Code, Section 457 on a voluntary basis to full-time employees. The plan permits employees to defer a portion of their salary until future years. The deferred compensation is only available to participants at employment termination, retirement, death or unforeseeable emergencies. The plan does not permit loans. The Authority makes a matching contribution to the plan in the amount of 50% of the first 4% of salary deferred by the employee. In accordance with federal law, a trust fund was established for the deposit of Section 457 assets. The trust fund is for the exclusive benefit of plan participants and beneficiaries. Because the assets are not owned by the Authority, but are held in a trust, the deferred compensation assets and related liabilities are not recorded in the Authority's financial statements. The Authority's responsibilities are to submit participant payroll deductions and enrollment change forms to the plan administrator (ICMA Retirement Corporation) and review the quarterly statements for accuracy. Investments are managed by the plan's trustee, with various investment options available. The choice of the investment options is made by the employee. There were 29 and 30 employees, respectively, who participated in the plan for each of the years ended December 31, 2015 and 2014.

**DERRY TOWNSHIP MUNICIPAL AUTHORITY**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2015 AND 2014

**9. Extraordinary event, flood loss:**

In early September 2011, the Hershey area experienced severe flooding due to torrential rainfall from Hurricane Irene and Tropical Storm Lee. Floodwater began to engulf and damage several Authority facilities on September 7, including the Clearwater Road Treatment Facility and the Mansion Road and Highmeadow Pumping Stations. Flooding was so great that it resulted in a Presidential Disaster Declaration for Dauphin County, Pennsylvania, where these facilities are located. The declaration was made on September 12, 2011. This action made federal disaster assistance available to the Authority under the Public Assistance Program of the Stafford Act. Assistance is administered by the Federal Emergency Management Agency (FEMA) and the Pennsylvania Emergency Management Agency (PEMA).

The Authority maintained flood insurance under certain specific policies. This afforded coverage on a replacement cost basis for losses to its computer equipment in the amount of approximately \$148,400, and was received on January 9, 2012. Other coverage was available on an actual cash value basis for the Authority's biosolids application vehicle in the amount of \$51,500, which was received December 27, 2011. The Authority did not carry flood insurance through the National Flood Insurance Program (NFIP) because such coverage does not pay for damage to buildings and equipment located below ground, where the likelihood of damage is the greatest. Instead, the Authority set aside reserve funds which could be used for flood damage and other contingencies. Unfortunately, the magnitude of the flood was such that there was also substantial damage to buildings and equipment above as well as below ground.

At a special meeting on September 13, 2011, the Authority Board declared an "Emergency" pursuant to provisions of the Pennsylvania Municipality Authorities Act in order to expedite purchases necessitated by the disaster. At the October 27, 2011 Public Meeting, the Board approved an agreement with the Township of Derry which made available to it a \$6.0 million note with a local bank. In addition, action was taken to approve a Disaster Relief Application and Agreement and appoint a staff member as the Disaster Relief Agent in order to seek federal and state assistance under the Stafford Act.

Work to restore the Authority's facilities was completed and all expenditures were made by the end of 2014. The Authority has spent a total of \$11.2 million on restoration work exclusive of the above described items covered by insurance. The Authority staff completed and filed with FEMA officials a total of 55 damage claims known as "Project Worksheets" (PW). These PWs have all been reviewed by federal and state officials, and approximately \$9.1 million has been determined to be eligible for reimbursement. The Authority has paid for the remaining \$2.1 million out of reserve funds. Of the \$9.1 million of disaster assistance, \$6.8 million comes from the federal government and \$2.3 million from the state. As of December 31, 2015, all disaster assistance has been received and the project is now deemed to be complete.

**DERRY TOWNSHIP MUNICIPAL AUTHORITY**  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEARS ENDED DECEMBER 31, 2015 AND 2014

**9. Extraordinary event, flood loss (continued):**

The activity related to the FEMA/PEMA grant is as follows:

	<u>Federal</u>	<u>State</u>
Expenditures:		
Year ended December 31, 2011	\$ 2,101,731	\$ 700,577
Year ended December 31, 2012	2,688,589	896,196
Year ended December 31, 2013	1,427,643	475,881
Year ended December 31, 2014	532,515	177,505
Year ended December 31, 2015	<u>-</u>	<u>-</u>
Total flood related expenditures	<u>6,750,478</u>	<u>2,250,159</u>
Less:		
Amounts received for period ended December 31, 2012	3,660,307	1,220,102
Amounts received for period ended December 31, 2013	2,116,894	558,221
Amounts received for period ended December 31, 2014	637,028	244,294
Amounts received for period ended December 31, 2015	<u>416,395</u>	<u>266,805</u>
Total received	<u>6,830,624</u>	<u>2,289,422</u>
Plus:		
Adjustment for changes in obligated amounts, 2013	8,243	2,739
Adjustment for changes in obligated amounts, 2014	13,047	26,452
Adjustment for changes in obligated amounts, 2015	<u>58,856</u>	<u>10,072</u>
	<u>80,146</u>	<u>39,263</u>
Amounts recorded as receivable as of December 31, 2015	<u>\$ -</u>	<u>\$ -</u>

**DERRY TOWNSHIP MUNICIPAL AUTHORITY**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2015 AND 2014

**10. Commitments:**

The Authority has active construction projects as of December 31, 2015. At year-end, the financial commitments with contractors related to these projects are as follows:

Project	Contract amount outstanding as of December 31, 2015
Digester Sludge Cell Lysis Project	\$ 312,900
Stormwater Program - Engineering and Financial Services	85,800
Collection Systems Rehabilitation Project	204,100
Various Waste Water Treatment Plant and Southwest Plant Improvements	<u>577,800</u>
Totals	<u>\$ 1,180,600</u>

In addition, a joint project with the Pennsylvania Department of Transportation to relocate sewer utilities in the Township of Derry has an estimated cost share of \$56,700. This was fully outstanding at the end of the year.

Finally, the Authority had financial commitments of \$66,200 at year-end for the purchase of two vehicles.

**11. Subsequent events:**

On March 29, 2016, Guaranteed Sewer Revenue Bonds, Series of 2016 were issued in the amount of \$8,850,000. Proceeds from the bonds were used to pay the costs of issuing the bonds and refund the Guaranteed Sewer Revenue Bonds, Series of 2009. The annual principal payments range from \$510,000 to \$1,120,000, with final payment due December 15, 2025 (with interest rates ranging from 0.50% to 4.00%). The present value savings of this issue was approximately \$794,100.

***DERRY TOWNSHIP MUNICIPAL AUTHORITY***

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2015 AND 2014

**11. Subsequent events (continued):**

An amendment to the May 28, 2010 subsidy agreement with the Township of Derry was signed on May 18, 2016, and General Obligation Note, Series of 2016 was issued on May 18, 2016 in the amount of \$3,105,000. Proceeds from the bonds were used to pay the costs of issuing the note and refund the General Obligation Bonds, Series of 2011. The annual principal payments range from \$10,000 to \$1,660,000, with final payment due December 15, 2025 (with interest rates ranging from 2.07% to 3.75%). The present value savings of this issue was approximately \$182,800.

The Authority has evaluated subsequent events through June 9, 2016, which is the date the financial statements were available to be issued.

**DERRY TOWNSHIP MUNICIPAL AUTHORITY**

OPERATING EXPENSES

YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Administrative, payroll taxes and employee benefits:		
Salaries	\$ 626,609	\$ 617,992
Materials and supplies	16,762	24,327
General expense	482,990	380,088
Payroll taxes and employee benefits	1,023,065	932,919
Maintenance and repairs	10,413	10,018
Professional services	214,491	203,168
	<u>2,374,330</u>	<u>2,168,512</u>
Collection system:		
Salaries	315,592	271,950
Materials and supplies	2,265	21,334
General expense	16,020	10,605
Maintenance and repairs	81,481	76,745
Utilities	83,767	84,376
	<u>499,125</u>	<u>465,010</u>
Plant operations:		
Salaries	908,670	909,221
Materials and supplies	37,720	31,273
General expense	20,464	28,229
Utilities	476,752	501,818
Chemicals	221,256	225,337
Special services	201,469	235,799
	<u>1,866,331</u>	<u>1,931,677</u>

(continued)



**DERRY TOWNSHIP MUNICIPAL AUTHORITY**

OPERATING EXPENSES (CONTINUED)

YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Maintenance:		
Materials and supplies	\$ 9,203	\$ 6,766
General expense	3,413	8,105
Equipment repairs	368,437	231,902
Vehicle repairs	34,537	19,851
Automation control services	11,696	20,262
	<u>427,286</u>	<u>286,886</u>
Technical services:		
Salaries	256,984	243,786
Materials and supplies	15,518	17,523
General expense	5,961	5,797
Special services	52,386	48,454
	<u>330,849</u>	<u>315,560</u>
Miscellaneous project expense	<u>113,798</u>	<u>150,002</u>
Total operating expenses	<u>\$ 5,611,719</u>	<u>\$ 5,317,647</u>