

DERRY TOWNSHIP MUNICIPAL AUTHORITY

***YEARS ENDED
DECEMBER 31, 2016 AND 2015***

DERRY TOWNSHIP MUNICIPAL AUTHORITY

YEARS ENDED DECEMBER 31, 2016 AND 2015

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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, 2016 and 2015, 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, 2016 and 2015, 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.

Adoption of New Accounting Principle

As described in Note 1 to the financial statements, the Authority has adopted Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurement and Application*, which requires investments to be measured at fair value based on an established hierarchy of measurable inputs and donated capital assets to be reported at acquisition value. Our opinion is not modified with respect to this matter.

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 6, 2017

DERRY TOWNSHIP MUNICIPAL AUTHORITY

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

YEAR ENDED DECEMBER 31, 2016

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 Derry Township. The Authority also provides wastewater collection and treatment services to portions of the Townships of South Hanover, Conewago, Londonderry, Lower Swatara and Hummelstown Borough.

This Management's Discussion and Analysis (MD&A) is presented to provide the reader with an understanding of the financial activities of the Authority for the fiscal year ended December 31, 2016, 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 which consist of enterprise fund financial statements and notes to those 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 total assets and deferred outflows of resources and liabilities 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, payables, and receivables).

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, 2016

FINANCIAL HIGHLIGHTS – YEAR ENDED DECEMBER 31, 2016

- ❖ The Authority's total assets and deferred outflows of resources exceeded total liabilities by \$50.48 million, including \$41.74 million in net investment in capital assets, \$2.66 million in restricted funds in the custody of the Trustee and \$6.08 million in unrestricted funds. The Authority's net position increased by \$868,000 (2%).
- ❖ Current assets increased by \$280,100 (4%).
- ❖ Current liabilities increased by \$336,400 (12%).
- ❖ Operating revenues from all sources increased by \$369,900 (4%).
- ❖ Operating expenses before depreciation and amortization increased by \$520,400 (9%)

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, 2016 and 2015 is presented on Schedule A, accompanying this MD&A.

OPERATING REVENUE – Total operating revenue for 2016 increased over 2015 levels by \$369,900 (4%). This revenue increase was attributable to two primary factors; a 4% increase in sewer service charges effective on March 1, 2016, as well as another modest increase in the volume of billed wastewater from the direct customer group. The increase in 2016 billable wastewater continues a positive reversal of the recent Authority history. Although the increase is a positive sign, it is necessary to monitor that trend for future changes.

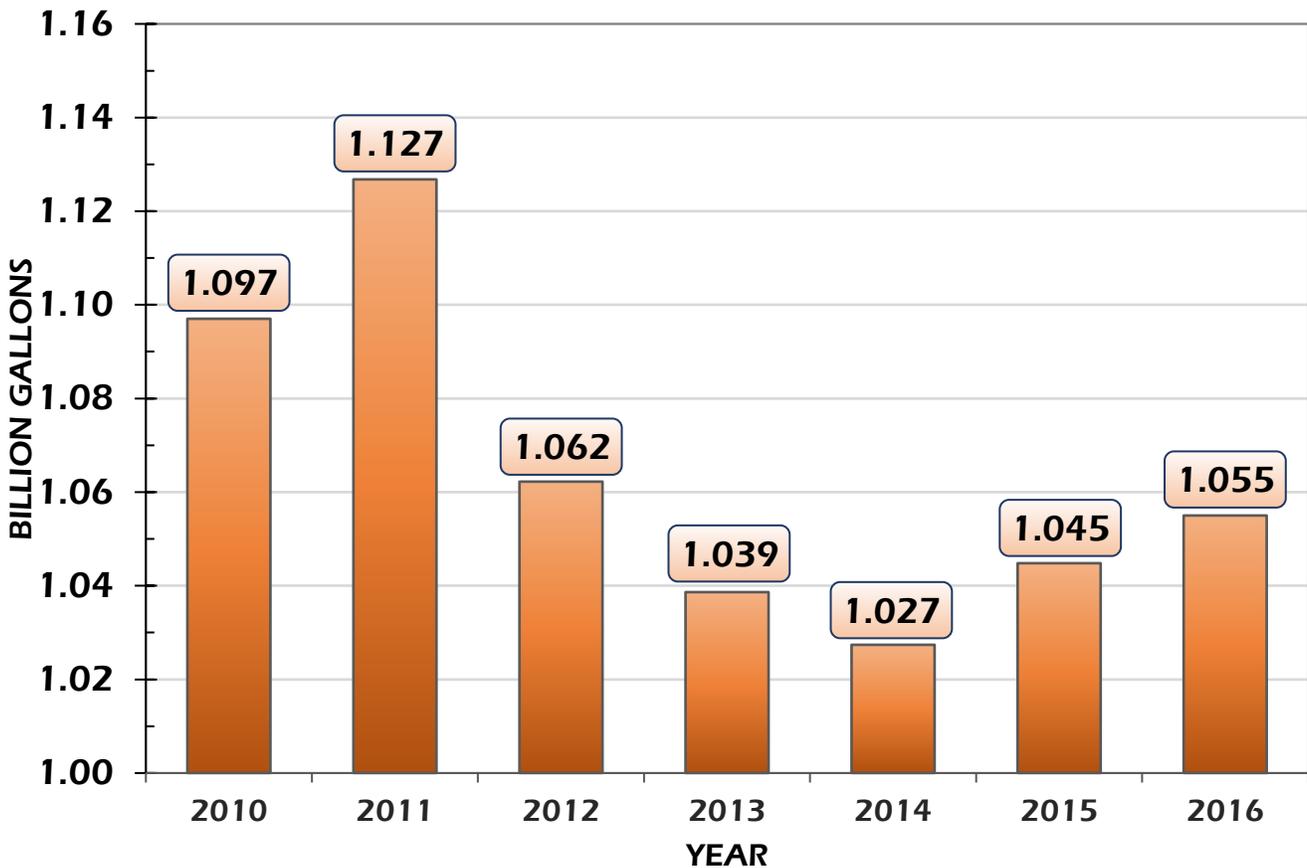
DERRY TOWNSHIP MUNICIPAL AUTHORITY

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

YEAR ENDED DECEMBER 31, 2016

Figure 1 presents the seven-year trend of billable wastewater volume.

FIGURE 1 - BILLABLE WASTEWATER VOLUME



Both factors contributed to an increase in sewer service revenue of \$199,400 (3%) from the Authority's direct customers. Similarly, the 2016 revenue from the Authority's three separately billed municipal customers increased by \$28,500 (5%) over 2015. It should be noted that beginning with the 4th quarter of 2016, the Authority accepted ownership of the Londonderry Township sewer system. At that time the Authority also assumed direct billing responsibility and Londonderry Township revenue was shifted from the municipal customer category to the direct customer category. Hauled wastewater processing revenue increased in 2016 by \$52,200 (5%) due to two similar contributing factors; a partial year (ten-month) rate increase, and modestly higher volumes of material delivered to the plant for treatment.

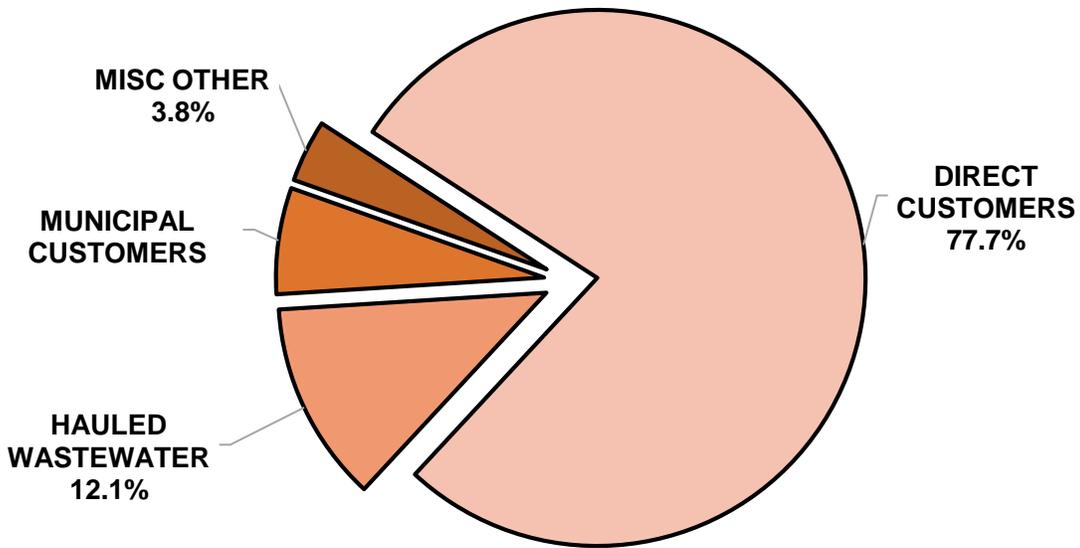
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MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) (CONTINUED)

YEAR ENDED DECEMBER 31, 2016

Figure 2 presents a detailed breakdown of the various components of the Authority's operating revenue for 2016.

FIGURE 2 - OPERATING REVENUE DETAIL



OPERATING EXPENSES – The 2016 operating expenses before depreciation increased by \$520,400 (9%) over the 2015 expenses. The majority of the increase \$341,200 (6%) was attributable to the start-up costs associated with the Stormwater Management Program. Other administrative expenses increased by \$75,800 (3%). Significant contributors to these increases included higher commercial, flood and workers' compensation insurance costs \$(20,000), an unplanned replacement for a failed panel PC (\$4,100) and increased engineering consulting services for the review and approval of land development plans and the related sewer extensions (\$74,600). These increases were partially offset by lower health insurance costs of \$57,300, which were realized in 2016 through a new contract with a health care consortium.

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

YEAR ENDED DECEMBER 31, 2016

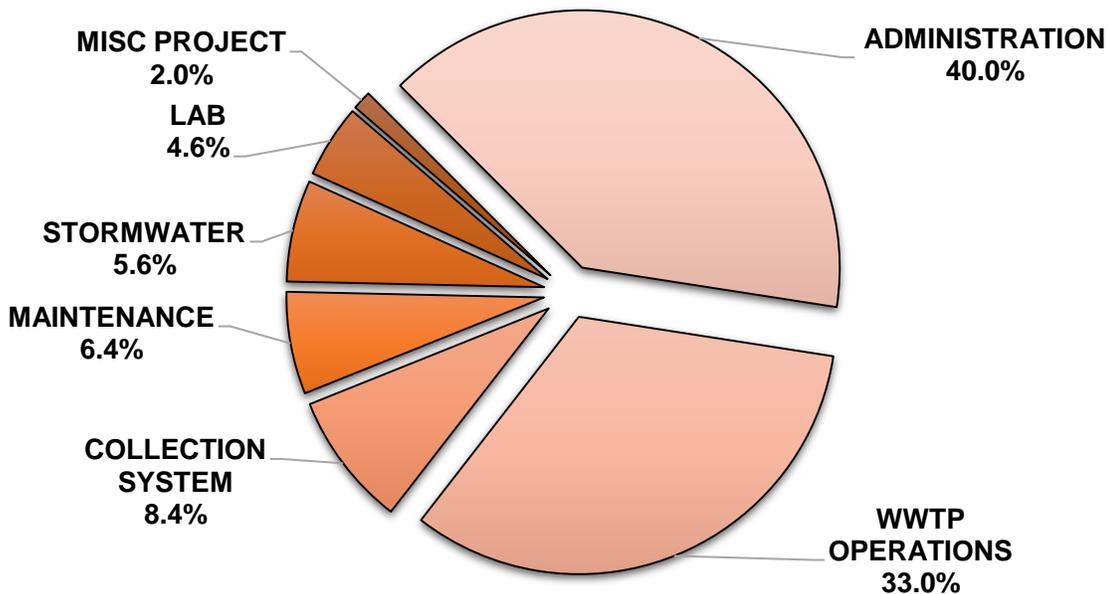
Increased costs for operations and maintenance departments were due in part to the hiring of two additional employees to fill designated vacancies. Other contributing factors included increased utility and chemical costs and contract sludge hauling costs. Additionally, two minor projects involving concrete pad and basin liner repairs totaling \$20,900 were required. Reduced costs (\$62,600) were recognized in maintenance special services including miscellaneous contract repair and vehicle repair.

Unplanned miscellaneous projects included a major overhaul to the plant cogeneration engine (\$79,800) and repairs to a storm-damaged, high voltage transformer (\$53,400). The transformer repair costs were partially covered through an insurance claim payment which was recorded as non-operating revenue. Normal expiring depreciation reduced depreciation expense by \$15,500.

Technical services labor decreased (\$44,700) due to moving the Executive Director salary to administration and the hiring of a new Facilities Director.

Figure 3 graphically presents a breakdown of operating expenses, excluding depreciation and amortization, for 2016.

FIGURE 3 - OPERATING EXPENSE DETAIL



DERRY TOWNSHIP MUNICIPAL AUTHORITY

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

YEAR ENDED DECEMBER 31, 2016

NON-OPERATING REVENUE – The 2016 non-operating revenues, including interest income, grants and capacity fees, increased by \$525,900 over 2015. Capacity fees, which often vary widely from year to year, 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. Development activity resulted in a capacity fee increase of \$49,900 over 2015. Recognition of grant revenue related to the Township's federal and state grant for the Park Avenue extension project increased grant revenue by \$309,800. Increased interest revenue on investments (\$36,700) occurred due to a slightly higher interest rate environment.

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 and vary from year to year. For 2016, contributions for new sewer extensions costing \$575,490 were accepted by the Authority. These dedicated assets, which included the existing Londonderry Township sanitary sewers (\$251,400) were added to property, plant and equipment.

NON-OPERATING EXPENSE – In 2016, the Authority entered into two financing transactions that resulted in bond issuance costs of \$199,200 and a net interest expense reduction of \$255,500 in comparison to 2015. The bond refinancing activities in both 2016 and 2015 reduced the bond premiums and discounts amortization by \$29,600 in 2016. The details of these financings are explained in the liabilities section of this MD&A and in the notes.

TOTAL NET POSITIONS – As of December 31, 2016 and 2015, the Authority had total net positions of \$50,486,200 and \$49,618,300, respectively, as shown on Schedule B.

ASSETS – The 2016 year-end value of total assets decreased by \$1,259,000 (1%) when compared to 2015 year-end. A breakdown of the total assets by category is presented in Schedule B.

The 2016 value of capital assets showed a small decrease of \$272,600 over 2015 levels. 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 and an existing vehicle was retired during 2016.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

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

YEAR ENDED DECEMBER 31, 2016

TABLE 1
PROPERTY, PLANT AND EQUIPMENT
PLACED IN SERVICE IN 2016

Collection system improvements	\$ 873,300
Plant improvements	1,011,100
New equipment	92,200
Office improvements	182,100
Developer contributions	401,100
Stormwater assets	<u>100,000</u>
Total additions	2,659,800
Less retirements	<u>44,500</u>
Net increase	<u><u>\$ 2,615,300</u></u>

There was a net decrease of \$1,266,500 in other assets. During 2016, the 2015 Capital Projects Fund, which utilized "new money" from the Township of Derry issuing bonds on behalf of the Authority decreased by \$1,529,500. This decrease was attributable to payments related to several ongoing capital projects, including a wastewater improvements project, transformer replacement, collections system rehabilitation and a piping project. A remaining balance of \$1,156,500 is available for use in future capital projects.

The establishment of a Wastewater Resource Allocation Fund increased other assets by \$250,000. This fund will be used as a financing component of the long-range, strategic Wastewater Asset Management Program with the purpose of proactively managing and maintaining the wastewater infrastructure assets of the Authority.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

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

YEAR ENDED DECEMBER 31, 2016

The Authority also maintains two other restricted reserve funds; the Flood Fund and the Operating Reserve Fund. In the aftermath of the 2011 flood, the Authority drew down all but approximately \$30,000 of the \$500,000 flood fund. During 2016 and 2015, a total of approximately \$170,000 was added to the Flood Fund. With the current federally required flood insurance now in place, the Flood Fund has been reauthorized and replenished to cover the costs associated with the flood insurance deductibles and a small reserve deemed necessary for the protection against future flood event losses. The Operating Reserve Fund maintains a balance of approximately 10% of the Authority's annual expenses and serves as a provision against unexpected revenue losses or unexpected expenditures.

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 increased by \$336,400. The portion of debt payments due within one year of December 31, 2016 increased by \$250,000 over December 31, 2015 levels in accordance with debt repayment schedules.

Accounts payable increased modestly by \$59,300, and was driven primarily by a \$24,500 increase in trade accounts payable and a \$38,300 increase in construction payables. This is consistent with the normal fluctuations of purchases and payments.

In 2016, capital lease liabilities with Conewago Township and Conewago Municipal Authority decreased by \$321,800 due to normally scheduled principal payments.

During 2016, 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 and scheduled lease payments, provided a reduction in the Authority's long-term liabilities by \$2,578,900.

With the changes in both current and long-term liabilities, the resulting total liabilities decreased by \$2,242,500 from 2015 levels. Further information about long-term liabilities can be found in Note 6 to the financial statements.

CONCLUDING COMMENTS - 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 4.0% increase in user rates, effective on January 1, 2016. The rate adjustment helped to fund general increases in expenses, replenish the reserve accounts depleted during the 2011 flood recovery and begin funding for future capital asset replacements.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

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

YEAR ENDED DECEMBER 31, 2016

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. Significantly, the Authority concluded 2016 with an \$868,000 increase in net position. The multi-year rate adjustments, increases in development activity and increases in billable wastewater appear to have positively improved the Authority's net position.

2017 OUTLOOK – Several events occurred or were pending at the end of 2016 that will impact the Authority's operations for 2017 and beyond. In early 2016, as interest rates continued to remain at record low levels, the Authority authorized the finance team to refinance two existing eligible bond issues and realized savings of more than \$900,000. The refinancing, which did not extend the term of the existing debt, provided the resources to rebalance the Authority's annual debt service payments for the duration of the existing debt. Additional information on this topic may be found in the notes to the financial statements.

In early 2016, the Authority Board approved an amendment to its Articles of Incorporation, adding stormwater management as a core function. In August 2016, the Authority Board approved a Resolution authorizing the implementation of a Stormwater Program Fee to independently support the Township wide Stormwater Management Program. The transition of the Stormwater Management Program from the Township to the Authority took place during 2016 and was finalized with the transfer of the stormwater infrastructure assets in early 2017. The Stormwater Management Program development also included the establishment of a separate business enterprise in order to accurately account for stormwater revenues and expenses.

It is anticipated that in 2017, the Authority's authorized Stormwater Program Fees will generate approximately \$1,500,000. These funds will be used to recover the start-up costs incurred during 2016 as well as to support the ongoing operation of the Stormwater Management Program and to fund a capital improvements program associated with the stormwater infrastructure assets.

During 2016, the Authority continued implementation of elements of the strategic planning program including the establishment of the Wastewater Resource Allocation Fund with a transfer of \$250,000 from Operating Fund cash reserves. Ultimately this fund will support the long-range capital asset management program. An annual minimum transfer target of \$250,000 has been established. All capacity fees collected during the year will be transferred to this fund. If the capacity fees do not meet the target minimum, the difference will be made up with a transfer from cash reserves at the end of each year.

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, 2016

SCHEDULE A

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2016 AND 2015

(in thousands of dollars)

	<u>2016</u>	<u>2015</u>	<u>\$ Change</u>	<u>% Change</u>
Operating revenues	\$ 9,830.1	\$ 9,460.2	\$ 369.9	4 %
Operating expenses	<u>6,132.1</u>	<u>5,611.7</u>	<u>520.4</u>	9
Total operating income before depreciation and amortization	3,698.0	3,848.5	(150.5)	(4)
Depreciation and amortization	<u>3,172.0</u>	<u>3,187.5</u>	<u>(15.5)</u>	-
Total operating income	526.0	661.0	(135.0)	(20)
Non-operating revenues	788.6	262.7	525.9	200
Non-operating expenses	<u>1,072.2</u>	<u>1,345.6</u>	<u>(273.4)</u>	(20)
Income (loss) before contributions and cost-sharing agreements	242.4	(421.9)	664.3	157
Cost-sharing agreements	50.0		50.0	-
Sewer extensions contributed by developers	<u>575.5</u>	<u>45.3</u>	<u>530.2</u>	1170
Increase (decrease) in net position	<u>\$ 867.9</u>	<u>\$ (376.6)</u>	<u>\$ 1,244.5</u>	330

DERRY TOWNSHIP MUNICIPAL AUTHORITY

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

YEAR ENDED DECEMBER 31, 2016

SCHEDULE B
CONDENSED STATEMENTS OF NET POSITION
YEARS ENDED DECEMBER 31, 2016 AND 2015

(in thousands of dollars)

	<u>2016</u>	<u>2015</u>	<u>\$ Change</u>	<u>% Change</u>
Assets and deferred outflows of resources				
Current assets	\$ 6,555.2	\$ 6,275.1	\$ 280.1	4 %
Capital assets	74,343.1	74,615.7	(272.6)	-
Other assets	<u>4,535.1</u>	<u>5,801.6</u>	<u>(1,266.5)</u>	(22)
Total assets	85,433.4	86,692.4	(1,259.0)	(1)
Deferred outflows of resources	<u>1,863.8</u>	<u>1,979.4</u>	<u>(115.6)</u>	(6)
Total assets and deferred outflows of resources	<u>\$ 87,297.2</u>	<u>\$ 88,671.8</u>	<u>\$ (1,374.6)</u>	(2)
Liabilities and net position				
Current liabilities	\$ 3,183.1	\$ 2,846.7	\$ 336.4	12
Long-term liabilities	<u>33,627.9</u>	<u>36,206.8</u>	<u>(2,578.9)</u>	(7)
Total liabilities	<u>36,811.0</u>	<u>39,053.5</u>	<u>(2,242.5)</u>	(6)
Net position:				
Net investment in capital assets	41,743.7	41,129.5	614.2	1
Restricted for debt service and capital projects	2,661.3	4,269.6	(1,608.3)	(38)
Unrestricted	<u>6,081.2</u>	<u>4,219.2</u>	<u>1,862.0</u>	44
Total net position	<u>50,486.2</u>	<u>49,618.3</u>	<u>867.9</u>	2
Total liabilities and net position	<u>\$ 87,297.2</u>	<u>\$ 88,671.8</u>	<u>\$ (1,374.6)</u>	(2)

DERRY TOWNSHIP MUNICIPAL AUTHORITY

STATEMENTS OF NET POSITION – DECEMBER 31, 2016 AND 2015

ASSETS

	<u>2016</u>	<u>2015</u>
Current assets:		
Cash	\$ 2,251,077	\$ 2,200,631
Investments	3,716,785	3,627,704
Sewer rents receivable	228,107	204,951
Accounts receivable, other	202,552	72,031
Interest receivable	1,510	2,466
Inventory	8,640	15,883
Prepaid insurance	146,575	151,464
	<hr/>	<hr/>
Total current assets	<u>6,555,246</u>	<u>6,275,130</u>
Property, plant and equipment	126,099,100	123,483,812
Less accumulated depreciation and amortization	<u>52,110,606</u>	<u>48,983,096</u>
	73,988,494	74,500,716
Construction work in progress	351,410	68,034
Projects in progress	<u>3,150</u>	<u>46,957</u>
	<u>74,343,054</u>	<u>74,615,707</u>
Other assets:		
Accounts receivable, long-term	3,525	4,532
Cash and investments designated for improvements and contingency	1,870,278	1,527,503
Cash and investments restricted for capital projects and debt service	<u>2,661,295</u>	<u>4,269,542</u>
Total other assets	<u>4,535,098</u>	<u>5,801,577</u>
Total assets	85,433,398	86,692,414
Deferred outflows of resources, deferred loss on refunded debt	<u>1,863,823</u>	<u>1,979,352</u>
Total assets and deferred outflows of resources	<u>\$ 87,297,221</u>	<u>\$ 88,671,766</u>

See notes to financial statements.

LIABILITIES AND NET POSITION

	2016	2015
Current liabilities:		
Accrued interest on debt	\$ 31,812	\$ 39,053
Current maturities of:		
Sewer revenue bonds	1,655,000	1,545,000
Subsidy agreements with Derry Township:	605,000	465,000
Capital lease obligations	325,026	321,794
Accounts payable	261,072	201,772
Accrued:		
Vacation and sick leave	218,406	204,929
Payroll and payroll deductions	86,808	69,173
Total current liabilities	3,183,124	2,846,721
Long term liabilities, net of current portion:		
Sewer revenue bonds	14,446,474	16,166,631
Subsidy agreements with Derry Township	15,281,759	15,815,505
Capital lease obligations	3,899,621	4,224,648
Total long-term liabilities	33,627,854	36,206,784
Total liabilities	36,810,978	39,053,505
Net position:		
Net investment in capital assets	41,743,685	41,129,530
Restricted for debt service and capital projects	2,661,295	4,269,542
Unrestricted	6,081,263	4,219,189
Total net position	50,486,243	49,618,261
Total liabilities and net position	\$ 87,297,221	\$ 88,671,766

DERRY TOWNSHIP MUNICIPAL AUTHORITY

STATEMENTS OF REVENUES AND EXPENSES

YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Operating revenues:		
Sewer service charges:		
Direct customers	\$ 7,641,577	\$ 7,442,201
Municipal customers	630,442	601,962
Hauled waste processing	1,189,209	1,137,014
Surcharges	80,867	81,572
Biosolids processing	83,658	75,530
Connection and related fees	57,316	25,570
Miscellaneous	147,058	96,403
	<u>9,830,127</u>	<u>9,460,252</u>
Operating expenses:		
Administrative, payroll taxes and employee benefits	2,787,156	2,374,330
Collection system	520,229	499,125
Plant operations	2,027,075	1,866,331
Maintenance	393,951	427,286
Technical services	281,019	330,849
Miscellaneous project expense	122,701	113,798
	<u>6,132,131</u>	<u>5,611,719</u>
Operating income before depreciation and amortization	3,697,996	3,848,533
Depreciation and amortization	<u>3,171,976</u>	<u>3,187,482</u>
Operating income (carried forward)	<u>526,020</u>	<u>661,051</u>

(continued)

DERRY TOWNSHIP MUNICIPAL AUTHORITY

STATEMENTS OF REVENUES AND EXPENSES (CONTINUED)

YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Operating income (brought forward)	<u>\$ 526,020</u>	<u>\$ 661,051</u>
Nonoperating income:		
Government grants	378,740	68,929
Capacity fees	187,041	137,159
Interest income	55,894	19,231
Gain on sale of fixed assets	13,670	7,670
Miscellaneous	<u>153,284</u>	<u>29,725</u>
	<u>788,629</u>	<u>262,714</u>
Nonoperating expense:		
Interest on:		
Capital lease	43,992	47,193
Bonds and notes payable	885,812	1,063,381
Miscellaneous		490
Bond issuance costs	199,197	261,839
Amortization of bond premiums	<u>(56,844)</u>	<u>(27,258)</u>
	<u>1,072,157</u>	<u>1,345,645</u>
Income (loss) before contributions	242,492	(421,880)
Stormwater cost sharing agreement	50,000	
Sewer extensions contributed by developers	<u>575,490</u>	<u>45,295</u>
Increase (decrease) in net position	<u><u>\$ 867,982</u></u>	<u><u>\$ (376,585)</u></u>

See notes to financial statements.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

STATEMENTS OF CHANGES IN NET POSITION

YEARS ENDED DECEMBER 31, 2016 AND 2015

	Net position			Net investment in capital assets
	Total	Unrestricted	Restricted	
Balance, January 1, 2015	\$ 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	49,618,261	4,219,189	4,269,542	41,129,530
Increase (decrease) in net position	<u>867,982</u>	<u>1,862,074</u>	<u>(1,608,247)</u>	<u>614,155</u>
Balance, December 31, 2016	<u>\$ 50,486,243</u>	<u>\$ 6,081,263</u>	<u>\$ 2,661,295</u>	<u>\$ 41,743,685</u>

See notes to financial statements.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Cash received from customers and users	\$ 9,677,457	\$ 9,525,931
Cash payments to:		
Suppliers	(3,776,701)	(2,565,712)
Employees	<u>(2,291,175)</u>	<u>(3,114,132)</u>
Net cash provided by operating activities	<u>3,609,581</u>	<u>3,846,087</u>
Cash flows from noncapital financing activities:		
State sources	256,049	266,804
Federal sources	<u>122,691</u>	<u>416,396</u>
Net cash provided by noncapital financing activities	<u>378,740</u>	<u>683,200</u>
Cash flows from capital and related financing activities:		
Non-operating income	153,284	29,725
Capacity fees	187,041	137,159
Purchase of property, plant and equipment	(2,233,984)	(99,710)
Debt principal paid	(14,165,000)	(19,345,000)
Capital lease paid	(321,794)	(318,593)
Bond proceeds, net of issuance costs, premiums and discounts	12,137,335	17,653,507
Interest paid on debt, including amounts capitalized	<u>(940,108)</u>	<u>(1,210,863)</u>
Net cash used in capital and related financing activities	<u>(5,183,226)</u>	<u>(3,153,775)</u>
Cash flows from investing activities:		
Interest received	56,850	17,920
Change in investments	(9,975)	(714,568)
Proceeds from sale or disposal of fixed assets	<u>13,670</u>	<u>7,670</u>
Net cash provided by (used in) investing activities	<u>60,545</u>	<u>(688,978)</u>

(continued)

DERRY TOWNSHIP MUNICIPAL AUTHORITY

STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Net increase (decrease) in cash and cash equivalents	\$ (1,134,360)	\$ 686,534
Cash and cash equivalents (Note 2):		
Beginning of year	<u>4,933,151</u>	<u>4,246,617</u>
End of year	<u>\$ 3,798,791</u>	<u>\$ 4,933,151</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 526,020	\$ 661,051
Adjustments:		
Depreciation and amortization of property, plant and equipment	3,171,976	3,187,482
(Increase) decrease in:		
Receivables	(152,670)	65,676
Inventory	7,243	99
Prepaid insurance	4,889	(47,636)
Increase (decrease) in:		
Accounts payable, trade and other	21,011	(37,374)
Accrued expenses	<u>31,112</u>	<u>16,789</u>
Net cash provided by operating activities	<u>\$ 3,609,581</u>	<u>\$ 3,846,087</u>
Non-cash activities:		
Sewer extensions contributed by developers	\$ 575,490	\$ 45,295
Accounts payable for property, plant and equipment at year-end	45,341	7,052
Contributions to Stormwater	50,000	

See notes to financial statements.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

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.

Adoption of new accounting principle:

During 2016, the Authority adopted GASB Statement No. 72, *Fair Value Measurement and Application*, which requires investments to be measured at fair value based on an established hierarchy of measurable inputs and donated capital assets to be reported at acquisition value. The change in accounting principle has been applied to the 2015 financial statements. 2015 net assets remain unchanged as a result of this change in accounting principle.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2016 AND 2015

1. Operations and significant accounting policies (continued):

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.

Investments and fair value measurement:

The Authority reports investments at fair value based on a hierarchy of valuation inputs used to measure the fair value of an asset. Level 1 inputs are quoted prices in active markets for identical assets Level 2 inputs are significant other observable inputs and Level 3 inputs are significant unobservable inputs.

Property, plant and equipment:

Property, plant and equipment are carried at cost, except for sewer extensions contributed to the Authority, which are reported at acquisition value based on acquisition costs 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 2016 and 2015, approximately \$15,000 and \$1,000, 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.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2016 AND 2015

1. Operations and significant accounting policies (continued):

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.

Reclassifications:

Certain amounts in the 2015 financial statements have been reclassified to conform with the current year presentation. Net assets remain unchanged as a result of these reclassifications.

Subsequent events:

The Authority has evaluated subsequent events through June 6, 2017, which is the date the financial statements were available to be issued.

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.

The Authority holds a majority of its cash deposits at one financial institution. As of December 31, 2016, the balance reported by the financial institution was \$2,366,920. Of the balance, \$250,000 was covered by federal depository insurance and \$2,116,920 was covered by collateral held in accordance with Act 72 not in the Authority's name.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2016 AND 2015

2. Cash and investments (continued):

Custodial credit risk, deposits and investments (continued):

Investments

As of December 31, 2016 and 2015, the Authority had the following deposits and investments:

<u>Investments</u>	<u>Maturities</u>	<u>Ratings</u>	<u>2016</u>	<u>2015</u>
Cash and money market investments			\$ 1,547,714	\$ 2,732,520
Certificates of deposit	Less than one year			750,000
U.S. treasury notes	Less than one year		5,481,146	5,542,433
	1 to 5 years		<u>1,216,868</u>	<u>398,236</u>
Total investments			8,245,728	9,423,189
Accrued interest on government securities			2,630	1,560
Total deposits, including petty cash			<u>2,251,077</u>	<u>2,200,631</u>
Total deposits and investments			<u>\$ 10,499,435</u>	<u>\$ 11,625,380</u>

U.S. treasury Notes are considered to be Level 1 investments as described in note 1.

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

Reconciliation to the statements of net position

	<u>2016</u>	<u>2015</u>
Current assets:		
Cash	\$ 2,251,077	\$ 2,200,631
Investments	3,716,785	3,627,704
Other assets, cash and investments	<u>4,531,573</u>	<u>5,797,045</u>
	<u>\$ 10,499,435</u>	<u>\$ 11,625,380</u>

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2016 AND 2015

2. Cash and investments (continued):

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:

	<u>2016</u>	<u>2015</u>
Connection fees	\$ 37,678	\$ 40,967
Miscellaneous	<u>164,874</u>	<u>31,064</u>
	<u>\$ 202,552</u>	<u>\$ 72,031</u>

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2016 AND 2015

4. Property, plant and equipment:

Property, plant and equipment consisted of the following for 2016 and 2015:

	January 1, 2015	Additions	Deletions	Reclassifications	December 31, 2015	Additions	Deletions	Reclassifications	December 31, 2016
Land and right-of-ways	\$ 2,370,024				\$ 2,370,024				\$ 2,370,024
Collection lines	40,679,153	\$ 45,295	\$ (37,367)	\$ 37,025	40,724,106	\$ 950,693		\$ 323,687	41,998,486
Sewage treatment plant	71,354,836			16,900	71,371,736			768,049	72,139,785
Plant equipment	3,520,164			28,576	3,548,740			282,930	3,831,670
Vehicles	1,242,047		(72,147)	124,778	1,294,678		\$ (44,466)	67,164	1,317,376
Office equipment	807,879			22,745	830,624			167,231	997,855
Miscellaneous equipment	76,448				76,448				76,448
Capitalized interest and financing costs prior to plant operation	3,267,456				3,267,456				3,267,456
Stormwater system						100,000			100,000
Construction in progress	165,156	143,634	(165,156)	(75,600)	68,034	1,711,170		(1,427,794)	351,410
Projects in progress	43,957	157,424		(154,424)	46,957	184,416	(46,956)	(181,267)	3,150
	123,527,120	346,353	(274,670)	-	123,598,803	2,946,279	(91,422)	-	126,453,660
Less accumulated depreciation	45,867,759	3,187,482	(72,145)		48,983,096	3,171,976	(44,466)		52,110,606
	<u>\$ 77,659,361</u>	<u>\$ (2,841,129)</u>	<u>\$ (202,525)</u>	<u>\$ -</u>	<u>\$ 74,615,707</u>	<u>\$ (225,697)</u>	<u>\$ (46,956)</u>	<u>\$ -</u>	<u>\$ 74,343,054</u>

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2016 AND 2015

5. Londonderry Township Sewer Line Purchase:

On October 19, 2009, the Authority entered into an agreement with Londonderry Township to purchase their sanitary sewer system comprised of approximately 1,000 linear feet of 8" gravity sewer lines. The final purchase was made on May 16, 2016 with a closing date of October 1, 2016. The Authority recorded two assets for the Londonderry sewer lines and a dedicated developer sewer line. The capital contributions for these assets were \$174,400 and \$77,000, respectively.

6. 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 or Notes to fund Authority projects and the Township has done so. This approach has provided certain financial benefits to the Authority. The Authority and Township have entered into subsidy agreements and amendments thereto which make the Authority fully responsible to the Township 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.

DERRY TOWNSHIP MUNICIPAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2016 AND 2015

6. Long-term debt (continued):

Long-term bonds and leases outstanding at December 31, 2016 are as follows:

	Original borrowing	Date of issue/maturity	Interest rates to maturity	Annual principal payments to maturity	Outstanding December 31, 2016
Guaranteed Sewer Revenue Bonds:					
Series of 2005	\$ 10,000,000	2005/2028	4.50%	\$5,000	\$ 5,000
Series of 2015	9,020,000	2015/2024	2.00% to 3.00%	\$730,000 to \$1,290,000	7,775,000
Series of 2016	8,850,000	2016/2025	2.00% to 4.00%	\$525,000 to \$1,120,000	7,850,000
Township of Derry, General Obligation Bonds - subsidy agreements:					
Series of 2014	5,000,000	2014/2027	1.00% to 3.00%	\$15,000 to \$2,295,000	4,900,000
Series of 2015	8,610,000	2015/2028	1.00% to 3.25%	\$120,000 to \$990,000	8,080,000
Series of 2016	3,105,000	2016/2025	2.07% to 3.75%	\$10,000 to \$1,660,000	2,785,000
Capital Lease Obligations:					
Phase I	2,740,609	2007/2025	1.00%	\$119,230 to \$157,590	1,324,742
Phase II	4,591,356	2010/2032	1.00%	\$51,453 to \$204,524	2,899,906
	<u>\$ 51,916,965</u>				<u>\$ 35,619,648</u>

Current refundings:

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 \$525,000 to \$1,120,000 with final payment due December 15, 2025 (with interest rates ranging from 2.00% to 4.00%). The present value savings of this issue was approximately \$794,070.

An amendment to the May 28, 2010 subsidy agreement with the Township of Derry was signed on May 18, 2016, and a General Obligation Note Series of 2016 was issued on May 18, 2016 in the amount of \$3,105,000. Proceeds from the note 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 \$182,790.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2016 AND 2015

6. Long-term debt (continued):

Current refundings (continued):

Changes in long-term liabilities for the year ended December 31, 2016 and 2015 are as follows:

	Balance as of January 1, 2015	Additions	Retirements	Balance as of December 31, 2015	Additions	Retirements	Balance as of December 31, 2016
Sewer revenue bonds:							
Series of 2005	\$ 5,000			\$ 5,000			\$ 5,000
Series of 2009	9,710,000		\$ (795,000)	8,915,000		\$ (8,915,000)	-
Series of 2010	8,895,000		(8,895,000)	-			-
Series of 2015	-	\$ 9,020,000	(520,000)	8,500,000		(725,000)	7,775,000
Series of 2016					\$ 8,850,000	(1,000,000)	7,850,000
Subsidy agreements:							
Series of 2010	8,460,000		(8,460,000)	-			-
Series of 2011	3,250,000		(255,000)	2,995,000		(2,995,000)	-
Series of 2014	5,000,000		(5,000)	4,995,000		(95,000)	4,900,000
Series of 2015	-	8,610,000	(415,000)	8,195,000		(115,000)	8,080,000
Series of 2016					3,105,000	(320,000)	2,785,000
Total bonds payable	35,320,000	17,630,000	(19,345,000)	33,605,000	11,955,000	(14,165,000)	31,395,000
Capital lease obligations	4,865,034		(318,592)	4,546,442		(321,794)	4,224,648
	<u>\$ 40,185,034</u>	<u>\$ 17,630,000</u>	<u>\$ (19,663,592)</u>	38,151,442	<u>\$ 11,955,000</u>	<u>\$ (14,486,794)</u>	35,619,648
Current maturities				(2,331,794)			(2,585,026)
Unamortized original issue (discount) premium, net				387,136			593,232
Long-term debt, net of current maturities				<u>\$ 36,206,784</u>			<u>\$ 33,627,854</u>

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2016 AND 2015

6. 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 its 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 \$1,324,742 at December 31, 2016. The cost of the related capital asset is \$4,229,548, with accumulated depreciation of \$630,676. The capital lease obligation to Conewago Municipal Authority had a balance of \$2,899,906 at December 31, 2016. The cost of the related capital asset is \$4,099,169, with accumulated depreciation of \$358,677.

Debt service requirements to maturity:

The annual requirements for the Authority's long-term debt are shown below

<u>Year ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 2,585,026	\$ 804,272	\$ 3,389,298
2018	2,718,018	758,595	3,476,613
2019	2,811,313	702,574	3,513,887
2020	2,874,642	629,174	3,503,816
2021	3,278,004	560,157	3,838,161
2022-2026	17,230,923	1,787,176	19,018,099
2027-2031	4,097,480	144,335	4,241,815
2032	24,242	84	24,326
	<u>\$ 35,619,648</u>	<u>\$ 5,386,367</u>	<u>\$ 41,006,015</u>

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2016 AND 2015

7. 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 \$121,862 and \$125,147 for the years ended December 31, 2016 and 2015, respectively.

8. 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 Hersheypark 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 for each of the years ended December 31, 2016 and 2015.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2016 AND 2015

8. 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>
2017	\$ 24,000
2018	24,000
2019	24,000
2020	24,000
2021	24,000
2022-2026	120,000
2027-2031	120,000
2032-2036	120,000
2037-2041	120,000
2042-2045	96,000

9. 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. In 2016, an employee loan provision was added to the plan. 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 33 and 29 employees, respectively, who participated in the plan for each of the years ended December 31, 2016 and 2015.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2016 AND 2015

10. Commitments:

The Authority has active construction projects as of December 31, 2016. At year-end, the financial commitments with contractors related to these projects are as follows:

<u>Project</u>	<u>Remaining commitment as of December 31, 2016</u>
Digester Sludge Cell Lysis Project	\$ 38,300
Cocoa Avenue Resurfacing and Manhole Replacement	22,800
Headworks Heating Lines Replacement	<u>22,300</u>
Totals	<u>\$ 83,400</u>

11. Stormwater management program:

In August 2015, the Authority Board approved an amendment to its Articles of Incorporation, adding stormwater management as a core function. During 2016, the Authority developed and implemented a comprehensive Stormwater Management Program (SMP) that included an SMP fee to provide a dedicated revenue stream to support the program's goals. The final transfer of the stormwater infrastructure assets from the Township to the Authority will take place in early 2017.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2016 AND 2015

11. Stormwater management program (continued):

Startup expenditures in 2016 related to these transitional activities include:

Salaries and wages	\$ 83,525
Computer hardware and software	11,726
Dues and subscriptions	519
Training and conferences	872
Miscellaneous administration	7,484
Billing and postage costs	2,339
Health and employee benefits	10,469
Deferred compensation	706
Unemployment compensation	257
Employer-paid FICA	2,973
Engineering services	187,370
Legal services	32,990
Infrastructure mapping update	<u>50,000</u>
	<u>\$ 391,230</u>

DERRY TOWNSHIP MUNICIPAL AUTHORITY

OPERATING EXPENSES

YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Administrative, payroll taxes and employee benefits:		
Salaries	\$ 732,342	\$ 626,609
Materials and supplies	23,479	16,762
General expense	517,665	482,990
Payroll taxes and employee benefits	1,002,036	1,023,065
Maintenance and repairs	15,819	10,413
Professional services	495,815	214,491
	<u>2,787,156</u>	<u>2,374,330</u>
Collection system:		
Salaries	347,069	315,592
Materials and supplies	11,930	2,265
General expense	14,968	16,020
Maintenance and repairs	63,754	81,481
Utilities	82,508	83,767
	<u>520,229</u>	<u>499,125</u>
Plant operations:		
Salaries	1,032,206	908,670
Materials and supplies	30,009	37,720
General expense	18,699	20,464
Utilities	486,446	476,752
Chemicals	224,684	221,256
Special services	235,031	201,469
	<u>2,027,075</u>	<u>1,866,331</u>

(continued)

DERRY TOWNSHIP MUNICIPAL AUTHORITY

OPERATING EXPENSES (CONTINUED)

YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Maintenance:		
Materials and supplies	\$ 6,141	\$ 9,203
General expense	7,755	3,413
Equipment repairs	350,634	368,437
Vehicle repairs	19,564	34,537
Automation control services	9,857	11,696
	<u>393,951</u>	<u>427,286</u>
Technical services:		
Salaries	210,670	256,984
Materials and supplies	18,957	15,518
General expense	5,529	5,961
Special services	45,863	52,386
	<u>281,019</u>	<u>330,849</u>
Miscellaneous project expense	<u>122,701</u>	<u>113,798</u>
Total operating expenses	<u><u>\$ 6,132,131</u></u>	<u><u>\$ 5,611,719</u></u>