

DERRY TOWNSHIP MUNICIPAL AUTHORITY

***YEARS ENDED
DECEMBER 31, 2014 AND 2013***

DERRY TOWNSHIP MUNICIPAL AUTHORITY

YEARS ENDED DECEMBER 31, 2014 AND 2013

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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, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, 2014 and 2013, 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 Matters

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 18, 2015

DERRY TOWNSHIP MUNICIPAL AUTHORITY

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

YEAR ENDED DECEMBER 31, 2014

Purpose

This MD&A will provide an introduction to and an overview of the basic financial statements shown in the next section of this report. In addition, it will provide a brief analysis of the key data presented in those statements.

Introduction

The mission of the Derry Township Municipal Authority (Authority) is to provide wastewater collection and treatment services to portions of Derry Township and surrounding municipalities. Since the Authority performs only business-type activities, its basic financial statements consist of the enterprise fund financial statements and notes to those statements. Supplementary information is also provided, including this required MD&A and an optional comparative schedule of operating expenses.

Overview of the basic financial statements

The statements of net position present information on the Authority's assets, deferred outflows of resources and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The statements of revenues and expenses and the statements of changes in net position 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, 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, 2014

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, 2014 and 2013 is shown on Schedule A which is appended to this MD&A.

The Authority's facilities and operations were affected by Hurricane Irene and Tropical Storm Lee in September 2011. Flooding from those storms caused severe damage to the Clearwater Road Treatment Plant and some of the Authority's pumping stations. The statements for 2013 and 2014 reflect costs to restore the Authority's facilities. As of the end of 2014, all of the restoration work had been completed.

Operating revenue

Total operating revenue for 2014 increased from 2013 levels by \$387,700, or 4.7%. A large part of this increase was due to an increase in sewer service charges to the Authority's directly-billed Derry Township customers. The volume of billed wastewater from this customer group decreased by 1.0 %, or 11.3 million gallons. This reflects a national trend due to conservation and other factors. However, the Authority had implemented an increase in its rates of approximately 6.0% effective on April 1, 2014. This resulted in an increase in sewer service charges to its direct customers of \$335,500.

Revenue from sewer service charges made to the Authority's municipal customers increased by \$78,000. Billable wastewater volumes from two of these customers increased over 2013 levels due to new commercial development and other factors. In addition, these customers were also subject to the rate increase described above. Hauled waste processing revenue increased by \$69,800 due to higher volumes of material being brought to the plant for treatment.

Connection-related fees decreased by \$24,700 due to less new home construction during 2014. The Authority had been able to sell nutrient credits during 2013, which resulted in revenue of \$80,700. However, the market for nutrient credit sales in 2014 was virtually nonexistent and netted only \$8,300 in revenue. This was the main factor in the \$63,400 decrease in other revenue.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

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

YEAR ENDED DECEMBER 31, 2014

Operating expense

Operating expense before depreciation increased by 3.6% from 2013, or \$182,900. Administrative expenses increased by \$142,100. Significant contributors to this included the hiring of an additional full-time office worker, increases in flood insurance costs, employee benefit cost increases (especially health insurance) and increased usage of engineering services. Construction costs related to the collection system were limited, resulting in a decrease between the years of \$113,800. Increased costs of labor, plant utilities and sludge hauling were offset by decreases in repair costs, resulting in a net increase of \$66,900 in plant operation and maintenance costs. Miscellaneous project expenses increased by \$84,300. These expenses typically vary from year to year. The projects undertaken in 2013 were deliberately limited in number and cost with the exception of a required repair for \$47,700. A larger number of projects were authorized in 2014. Major work included computer and network upgrades, and a sewer trench and roadway stabilization project. Expenses were also incurred prior to and during the move back into the Authority's administrative offices.

Depreciation and amortization expenses increased by \$194,400, or 6.6%. Many projects to rebuild or replace flood-damaged equipment and facilities were completed during 2013 and their costs were capitalized. They began to be depreciated at various times during 2013. However, they contributed a full year of depreciation expense for 2014.

Non-operating revenue

During 2014, the Authority recorded grant revenue of \$749,600. These funds came from the federal and state governments to help restore Authority facilities damaged by the September 2011 flood. Actual cash receipts during 2014 were \$441,600, and \$308,000 was receivable at year-end. Since the majority of the costs for flood restoration work had been reimbursed in prior years, the amount of grant revenue recorded during 2014 decreased significantly from 2013 levels.

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 2014 by \$132,900. There were 70 equivalent dwelling units connected to the sewer system in 2014 compared with 164 in 2013.

Non-operating expense

As the result of a financing transaction undertaken in connection with the Township of Derry, the Authority incurred bond issuance costs of \$58,600. This financing is explained in detail in the liabilities section of this MD&A and in Note 5 to the financial statements. There was a net reduction in interest expense for 2014 of \$132,300. Retirements of debt principal resulted in an interest expense decrease of \$69,000. There was an increase in capitalized interest compared to 2013 of \$87,800. These reductions to interest expense, however, were offset by an increase of \$24,500 in interest due to additional borrowings.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

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

YEAR ENDED DECEMBER 31, 2014

Contributions

Upon the Authority's approval, extensions to the existing sewer system may be constructed by and at the expense of developers, who in turn dedicate the extensions to the Authority for ownership, operation and maintenance. No new extensions were completed in 2014, whereas extensions costing \$213,000 were contributed in 2013.

Extraordinary items - flood-related expenses

During 2014, \$34,900 was spent for flood-related expenses compared to \$135,300 in 2013. Expenses in 2013 included the rental of temporary office space for Authority staff, costs for alternate means of biosolids disposal and miscellaneous repairs. In 2014, expenses for temporary office space were incurred for only part of the year. The Authority also had expenses during 2014 for document storage and retrieval and purchase of office furniture and equipment.

In addition, the application of Government Accounting Standards Board (GASB) rules resulted in the recording of an impairment loss during 2013 of \$2,252,900 on damaged buildings and equipment. The impairment loss recorded in 2014 amounted to \$274,600. The work of restoring the facilities was substantially completed by year-end 2014.

Total net position

As of December 31, 2014 and 2013, the Authority had total net positions of \$49,994,800 and \$50,320,400, respectively, as shown on Schedule B.

Assets

The value of current assets at the end of 2014 decreased by \$138,700 compared to year-end 2013 levels. There was a net decrease of \$162,300 in accounts receivable due to the receipt of flood recovery assistance payments which were outstanding at the end of 2013.

Capital assets showed a net increase over 2013 levels of \$597,500. Construction projects were completed and their values were moved out of the work in progress account into property, plant and equipment or, as appropriate, were recorded there directly.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

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

YEAR ENDED DECEMBER 31, 2014

Assets (continued)

Additions to and retirements from property, plant and equipment are summarized in the chart below. Two major projects were completed or substantially completed during the year which included upgrades to portions of the sanitary sewer system and repairs and improvements to the control/office building at the Clearwater Road Plant. The major portion of the retirements was to remove the impaired cost of the flood-damaged control/office building from the fixed asset accounts.

<u>Property, plant and equipment placed in service</u>	
Collection system improvements	\$ 2,174,600
Plant improvements	4,028,700
New equipment	57,600
Office refurbishments	<u>284,300</u>
Total additions	6,545,200
Less retirements	<u>288,800</u>
Net increase	<u><u>\$ 6,256,400</u></u>

The construction work in progress account contains values for traditional improvement projects and also for flood restoration projects. At the beginning of 2014, two projects were in progress totaling approximately \$2.7 million. During 2014, the control/office building project was completed and capitalized to property, plant and equipment as noted above. The improvements to the sewage collection system were substantially completed and were capitalized, with the exception of \$165,200. During 2014, the Authority staff began an engineering study to determine whether it would be feasible to undertake a project to enhance the capture of additional methane from the sludge digestion process. At the end of 2014, \$44,000 worth of work remained to be completed on this staff project.

Restricted funds and other assets increased by a total of \$1,558,200.

The Authority maintains two reserve funds, one to help pay for flood losses and the other to cover unusual operating expenses. Subsequent to the flood, the Authority drew down all but approximately \$30,000 of its \$500,000 Flood Fund. During 2014, it added approximately \$65,000 to the Flood Fund to begin rebuilding the previous balance.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

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

YEAR ENDED DECEMBER 31, 2014

Assets (continued)

The Bond Redemption and Improvement Fund balance decreased by \$1,274,600 due to disbursements from the fund to pay for capital projects, which left a year-end balance of \$41,100. In addition, the Authority raised \$2,821,200 of "new money" for capital projects as a result of the Township of Derry issuing bonds on behalf of the Authority. The net result is that the funds available to the Authority for capital projects increased by \$1,546,600.

Deferred outflows of resources

This section is presented in compliance with GASB 65 to set forth the balances of deferred losses on bond issues. The decrease of \$154,200 between the two years reflects amortization.

Liabilities

Current liabilities decreased by \$380,300. The portion of debt payments due within one year of December 31, 2014 increased by \$16,800 over December 31, 2013 levels in accordance with debt repayment schedules.

Accounts payable decreased significantly by \$407,700. There was a decrease of \$100,100 in trade accounts payable due to the normal fluctuation of purchases and payments. Amounts on deposit from developers to cover inspection expenses decreased by \$10,800 due to normal fluctuations in developer activity. The remainder of the decrease of \$296,800 resulted from the payout of amounts owing on construction projects that were being paid from the Operating Fund, approximately half of which were related to flood restoration activities.

In 2011, the Authority entered into a subsidy agreement with the Township of Derry to cover the Township's costs for opening a line of credit on the Authority's behalf to help pay flood-related expenses. The maximum amount available under that line of credit was \$6.0 million. Toward the end of 2014, the Authority decided to replace the variable interest rate line of credit with funds from a fixed interest rate bond issue. This was accomplished by the Township of Derry issuing general obligation bonds on the Authority's behalf. In order to secure the Authority's obligation to repay the Township for the new debt, the Township and Authority amended their existing subsidy agreement to incorporate that requirement. Bonds were issued in the total amount of \$5.0 million. Approximately \$2.2 million was used to retire the line of credit. The remainder of the issue (\$2.8 million) was placed in an account to fund upcoming capital projects. The net result of issuing these new bonds, paying off the line of credit and making scheduled principal payments of existing debt was a \$2,568,700 increase in long-term debt.

Total liabilities increased by \$2,188,400 from year-end 2013 levels.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

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

YEAR ENDED DECEMBER 31, 2014

CONCLUDING COMMENTS

Total operating revenue for 2014 increased \$387,700, or 4.7% over 2013. In view of the continuing decreases in billable water usage, the Authority enacted an approximate 6.0% increase in user rates which became effective on April 1, 2014. The rate adjustment will also help fund general increases in expenses, and also those resulting from the flood.

The Authority concluded 2014 with a \$325,600 decrease in net position. This performance was again affected by financial transactions related to the flooding in September 2011, but to a far lesser degree than in 2013. Government assistance of \$749,600 increased non-operating revenue. Flood-related extraordinary expenses and impairment losses amounted to \$309,400. If the flood expenses and associated grant revenue were removed from the financial statements, the Authority would show a decrease in net position of approximately \$765,700 for the year. As part of a multi-year rate adjustment program, the Authority Board enacted an approximate 6.0% increase (for the average residential user), effective January 1, 2015. As of early 2015, there are indications that development activity within Derry Township is beginning to increase. So in addition to the increase in user fees, there may well be an increase in non-operating revenues in the form of capacity fees going forward. Rate adjustments and increases in development activity will reduce or even eliminate decreases in net position in the future.

Flood restoration costs have totaled approximately \$12.1 million. The Authority has received about \$9.0 million in state and federal assistance, with the difference covered with reserve and borrowed funds. The restoration efforts necessitated by the flood have resulted in an accelerated updating of the Authority's facilities. The Authority has acquired additional flood insurance to assist financially in the event of any future flood damage of this severity.

The anticipated growth in the Authority's service area, together with the strength of the existing customer base, produces a favorable economic climate within which the Authority conducts its operations.

The Authority has undertaken two financing transactions subsequent to the end of 2014. At the Authority's request, the Township of Derry issued general obligation bonds dated March 17, 2015 in the amount of \$8,460,000. This issue refunded the Township's 2010 Issue which had been undertaken on the Authority's behalf. The Authority is obligated to the Township for the debt service on this issue under a Subsidy Agreement. In addition, the Authority issued Guaranteed Sewer Revenue Bonds dated March 30, 2015 in the amount of \$9,020,000. The proceeds from these bonds were used to refund the Authority's 2010 Guaranteed Sewer Revenue Bonds. The present value savings on these two issues were approximately \$823,200 and \$468,100, respectively.

Additional information on this MD&A and the accompanying financial statements may be obtained by contacting the General Manager, 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, 2014

SCHEDULE A
CONDENSED STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>	<u>Increase (decrease)</u>
Operating revenues:			
Sewer service:			
Direct customers	\$ 6,757,100	\$ 6,421,600	\$ 335,500
Municipal customers	558,100	480,100	78,000
Hauled waste processing	1,068,600	998,800	69,800
Biosolids processing	124,000	131,500	(7,500)
Connection, related fees	27,800	52,500	(24,700)
Other	<u>173,400</u>	<u>236,800</u>	<u>(63,400)</u>
Totals	<u>8,709,000</u>	<u>8,321,300</u>	<u>387,700</u>
Operating expenses:			
Administrative (including payroll taxes and benefits)	2,168,500	2,026,400	142,100
Collection system	465,000	578,800	(113,800)
Plant operations and maintenance	2,218,600	2,151,700	66,900
Technical services	315,600	312,200	3,400
Miscellaneous project expense	<u>150,000</u>	<u>65,700</u>	<u>84,300</u>
Subtotal	<u>5,317,700</u>	<u>5,134,800</u>	<u>182,900</u>
Operating income before depreciation	3,391,300	3,186,500	204,800
Depreciation	<u>3,131,800</u>	<u>2,937,400</u>	<u>194,400</u>
Operating income	<u>259,500</u>	<u>249,100</u>	<u>10,400</u>
Nonoperating revenues:			
Government grants	749,600	2,498,800	(1,749,200)
Capacity fees	159,900	292,800	(132,900)
Interest earned	13,300	20,000	(6,700)
Other	<u>26,600</u>	<u>84,500</u>	<u>(57,900)</u>
Totals	<u>949,400</u>	<u>2,896,100</u>	<u>(1,946,700)</u>
Nonoperating expenses:			
Bond issuance costs	58,600	-	58,600
Interest on debt	1,163,700	1,296,000	(132,300)
Amortization of bond discount	<u>2,700</u>	<u>2,700</u>	<u>-</u>
Totals	<u>1,225,000</u>	<u>1,298,700</u>	<u>(73,700)</u>
Income (loss) before contributions and extraordinary items	<u>(16,100)</u>	<u>1,846,500</u>	<u>(1,862,600)</u>
Sewer extensions contributed by developers	<u>-</u>	<u>213,000</u>	<u>(213,000)</u>
Extraordinary items:			
Flood expenses	34,900	135,300	(100,400)
Impairment loss	<u>274,600</u>	<u>2,252,900</u>	<u>(1,978,300)</u>
Total extraordinary items	<u>309,500</u>	<u>2,388,200</u>	<u>(2,078,700)</u>
Decrease in net position	<u>\$ (325,600)</u>	<u>\$ (328,700)</u>	<u>\$ 3,100</u>

DERRY TOWNSHIP MUNICIPAL AUTHORITY

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

YEAR ENDED DECEMBER 31, 2014

SCHEDULE B
CONDENSED STATEMENTS OF NET POSITION
DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>	<u>Increase (decrease)</u>
Assets:			
Current assets:			
Cash and investments	\$ 5,113,200	\$ 5,099,600	\$ 13,600
Accounts receivable	956,100	1,118,400	(162,300)
Other	119,800	109,800	10,000
	<u>6,189,100</u>	<u>6,327,800</u>	<u>(138,700)</u>
Capital assets:			
Property, plant and equipment	123,318,000	117,061,600	6,256,400
Less accumulated depreciation	45,867,800	42,750,100	3,117,700
Construction work in progress	165,200	2,746,200	(2,581,000)
Projects in progress	44,000	4,200	39,800
	<u>77,659,400</u>	<u>77,061,900</u>	<u>597,500</u>
Restricted funds and other assets:			
Long-term receivables	6,500	20,400	(13,900)
Reserve funds	594,900	530,300	64,600
Bond redemption and capital projects	2,862,300	1,315,700	1,546,600
Other funds	1,653,100	1,692,200	(39,100)
	<u>5,116,800</u>	<u>3,558,600</u>	<u>1,558,200</u>
Subtotal	<u>5,116,800</u>	<u>3,558,600</u>	<u>1,558,200</u>
Total assets	88,965,300	86,948,300	2,017,000
Deferred outflows of resources, deferred loss on refunded debt	<u>1,716,600</u>	<u>1,870,800</u>	<u>(154,200)</u>
Total assets and deferred outflows of resources	<u>\$ 90,681,900</u>	<u>\$ 88,819,100</u>	<u>\$ 1,862,800</u>

DERRY TOWNSHIP MUNICIPAL AUTHORITY

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

YEAR ENDED DECEMBER 31, 2014

SCHEDULE B (CONTINUED)
CONDENSED STATEMENTS OF NET POSITION (CONTINUED)
DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>	<u>Increase (decrease)</u>
Liabilities:			
Current liabilities:			
Debt related	\$ 2,483,200	\$ 2,466,400	\$ 16,800
Accounts payable	239,200	646,900	(407,700)
Other	<u>257,300</u>	<u>246,700</u>	<u>10,600</u>
Subtotal	2,979,700	3,360,000	(380,300)
Long-term debt	<u>37,707,400</u>	<u>35,138,700</u>	<u>2,568,700</u>
Total liabilities	<u>40,687,100</u>	<u>38,498,700</u>	<u>2,188,400</u>
Net position:			
Net investment in capital assets	42,012,100	41,327,200	684,900
Restricted for debt service	4,474,300	1,692,200	2,782,100
Unrestricted	<u>3,508,400</u>	<u>7,301,000</u>	<u>(3,792,600)</u>
Total net position	<u>49,994,800</u>	<u>50,320,400</u>	<u>(325,600)</u>
Total liabilities and net position	<u>\$ 90,681,900</u>	<u>\$ 88,819,100</u>	<u>\$ 1,862,800</u>

DERRY TOWNSHIP MUNICIPAL AUTHORITY

STATEMENTS OF NET POSITION – DECEMBER 31, 2014 AND 2013

ASSETS

	<u>2014</u>	<u>2013</u>
Current assets:		
Cash	\$ 1,361,407	\$ 1,732,969
Investments	3,751,843	3,366,668
Sewer rents receivable	268,635	169,556
Accounts receivable, other	686,289	948,154
Interest receivable	1,155	727
Inventory	15,982	15,982
Prepaid insurance	103,828	93,780
	<u>6,189,139</u>	<u>6,327,836</u>
Total current assets		

(continued)

LIABILITIES AND NET POSITION

	2014	2013
Current liabilities:		
Current debt service, interest	\$ 49,645	\$ 45,938
Current maturities of:		
Sewer revenue bonds:		
Series of 2009	795,000	855,000
Series of 2010	785,000	680,000
Subsidy agreements with Derry Township:		
Series of 2010	275,000	270,000
Series of 2011	255,000	250,000
Series A of 2011		50,000
Series of 2014	5,000	
Capital lease obligations	318,593	315,424
Accounts payable:		
Trade	207,420	307,585
Other	31,726	42,515
Construction		296,781
Accrued:		
Vacation and sick leave	197,092	194,333
Payroll and payroll deductions	60,221	52,391
	2,979,697	3,359,967
Total current liabilities		

DERRY TOWNSHIP MUNICIPAL AUTHORITY

STATEMENTS OF NET POSITION (CONTINUED) – DECEMBER 31, 2014 AND 2013

ASSETS (CONTINUED)

	<u>2014</u>	<u>2013</u>
Property, plant and equipment	\$ 123,318,007	\$ 117,061,600
Less accumulated depreciation and amortization	<u>45,867,759</u>	<u>42,750,075</u>
	77,450,248	74,311,525
Construction work in progress	165,156	2,746,234
Projects in progress	<u>43,957</u>	<u>4,166</u>
	<u>77,659,361</u>	<u>77,061,925</u>
Other assets:		
Accounts receivable, long-term	6,539	20,340
Cash and investments designated for:		
Flood contingency account	94,582	29,606
Operating reserves	500,281	500,710
Bond redemption and improvement	41,139	1,315,717
Cash and investments restricted for capital projects	2,821,197	
Cash and investments restricted for debt service	<u>1,653,140</u>	<u>1,692,206</u>
Total other assets	<u>5,116,878</u>	<u>3,558,579</u>
Deferred outflows of resources, deferred loss on refunded debt	<u>1,716,564</u>	<u>1,870,757</u>
Total assets and deferred outflows of resources	<u>\$ 90,681,942</u>	<u>\$ 88,819,097</u>

See notes to financial statements.

LIABILITIES AND NET POSITION (CONTINUED)

	2014	2013
Sewer revenue bonds, net of current portion:		
Series of 2005	\$ 5,000	\$ 5,000
Series of 2009	9,088,305	9,899,180
Series of 2010	8,033,626	8,810,924
Subsidy agreements with Derry Township, net of current portion:		
Series of 2010	8,084,553	8,352,335
Series of 2011	2,954,932	3,206,261
Series of 2014	4,994,542	
Capital lease obligations, net of current portion	4,546,441	4,865,034
Total long-term liabilities	37,707,399	35,138,734
Total liabilities	40,687,096	38,498,701
Net position:		
Net investment in capital assets	42,012,089	41,327,224
Restricted for debt service	4,474,337	1,692,206
Unrestricted	3,508,420	7,300,966
Total net position	49,994,846	50,320,396
Total liabilities and net position	\$ 90,681,942	\$ 88,819,097

DERRY TOWNSHIP MUNICIPAL AUTHORITY

STATEMENTS OF REVENUES AND EXPENSES

YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Operating revenues:		
Service charges:		
Sewer service	\$ 6,757,146	\$ 6,421,649
Hershey sludge processing	123,972	131,459
Hauled waste processing	1,068,598	998,803
Surcharges	90,881	73,155
Penalties	24,814	30,389
South Hanover	411,640	373,218
Londonderry	15,697	17,838
Lower Swatara	130,738	89,064
Nutrient sales	8,307	80,700
Other charges and fees:		
Connection, lateral and special purpose fees	23,700	46,100
Inspection fees	4,100	6,400
Developer reimbursement	25,575	21,683
Miscellaneous	23,837	30,808
	<u>8,709,005</u>	<u>8,321,266</u>
Operating expenses:		
Administrative, payroll taxes and employee benefits	2,168,512	2,026,259
Collection system	465,010	578,821
Plant operations	1,931,677	1,793,032
Maintenance	286,886	358,695
Technical services	315,560	312,197
Miscellaneous project expense	150,002	65,660
	<u>5,317,647</u>	<u>5,134,664</u>
Operating income before depreciation and amortization	3,391,358	3,186,602
Depreciation and amortization	<u>3,131,830</u>	<u>2,937,447</u>
Operating income (carried forward)	<u>259,528</u>	<u>249,155</u>

(continued)

DERRY TOWNSHIP MUNICIPAL AUTHORITY

STATEMENTS OF REVENUES AND EXPENSES (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Operating income (brought forward)	<u>\$ 259,528</u>	<u>\$ 249,155</u>
Nonoperating income:		
Government grants	749,580	2,498,760
Capacity fees	159,917	292,771
Interest income	13,350	20,008
Gain on sale of fixed assets	14	
Miscellaneous	<u>26,608</u>	<u>84,509</u>
	<u>949,469</u>	<u>2,896,048</u>
Nonoperating expense:		
Interest on:		
Capital lease	50,362	53,499
Bonds and notes payable	1,113,366	1,242,519
Bond issuance costs	58,624	
Amortization of bond premium/discount	<u>2,715</u>	<u>2,715</u>
	<u>1,225,067</u>	<u>1,298,733</u>
Income (loss) before contributions and extraordinary items	<u>(16,070)</u>	<u>1,846,470</u>
Sewer extensions contributed by developers		<u>213,035</u>
Extraordinary items:		
Flood related expenses	34,849	135,313
Impairment losses	<u>274,631</u>	<u>2,252,932</u>
	<u>309,480</u>	<u>2,388,245</u>
Decrease in net position	<u>\$ (325,550)</u>	<u>\$ (328,740)</u>

See notes to financial statements.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

STATEMENTS OF CHANGES IN NET POSITION

YEARS ENDED DECEMBER 31, 2014 AND 2013

	Net position			Net investment in capital assets
	Total	Unrestricted	Restricted	
Balance, January 1, 2013	\$ 50,649,136	\$ 10,061,692	\$ 1,726,364	\$ 38,861,080
Increase (decrease) in net position	<u>(328,740)</u>	<u>(2,760,726)</u>	<u>(34,158)</u>	<u>2,466,144</u>
Balance, December 31, 2013	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	<u>\$ 49,994,846</u>	<u>\$ 3,508,420</u>	<u>\$ 4,474,337</u>	<u>\$ 42,012,089</u>

See notes to financial statements.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Cash received from customers and users	\$ 8,760,691	\$ 8,294,318
Cash payments to:		
Suppliers	(2,462,392)	(2,753,202)
Employees	<u>(2,965,278)</u>	<u>(2,890,540)</u>
Net cash provided by operating activities	<u>3,333,021</u>	<u>2,650,576</u>
Cash flows from noncapital financing activities:		
State sources	263,670	1,236,900
Federal sources	<u>637,028</u>	<u>2,150,183</u>
Net cash provided by noncapital financing activities	<u>900,698</u>	<u>3,387,083</u>
Cash flows from capital and related financing activities:		
Capacity fees	159,917	292,771
Purchase of property, plant and equipment	(4,133,376)	(5,105,633)
Flood related expenses	(34,849)	(135,313)
Debt principal paid	(4,155,953)	(1,995,000)
Capital lease paid	(315,424)	(312,287)
Bond proceeds, net of issuance costs and discount	6,991,870	
Interest paid on bonds, including amounts capitalized	<u>(1,173,906)</u>	<u>(1,298,777)</u>
Net cash used in capital and related financing activities	<u>(2,661,721)</u>	<u>(8,554,239)</u>

(continued)

DERRY TOWNSHIP MUNICIPAL AUTHORITY

STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Cash flows from investing activities:		
Interest received	\$ 12,922	\$ 19,886
Change in investments	(486,732)	(3,149,889)
Proceeds from sale or disposal of fixed assets	14	
	<u> </u>	<u> </u>
Net cash used in investing activities	<u>(473,796)</u>	<u>(3,130,003)</u>
Net increase (decrease) in cash and cash equivalents	1,098,202	(5,646,583)
Cash and cash equivalents (Note 2):		
Beginning of year	<u>3,148,415</u>	<u>8,794,998</u>
End of year	<u><u>\$ 4,246,617</u></u>	<u><u>\$ 3,148,415</u></u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 259,528	\$ 249,155
Adjustments:		
Depreciation and amortization of property, plant and equipment	3,131,830	2,937,447
Miscellaneous income	26,608	84,509
(Increase) decrease in:		
Receivables	25,468	(95,699)
Inventory		414
Prepaid insurance	(10,048)	(23,264)
Increase (decrease) in:		
Accounts payable, trade and other	(110,954)	(508,542)
Accrued expenses	10,589	6,556
	<u> </u>	<u> </u>
Net cash provided by operating activities	<u><u>\$ 3,333,021</u></u>	<u><u>\$ 2,650,576</u></u>

(continued)

DERRY TOWNSHIP MUNICIPAL AUTHORITY

STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Non-cash activities:		
Sewer extensions contributed by developers		\$ 213,035
Accounts payable for property, plant and equipment at year-end		296,781

See notes to financial statements.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

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, 2014 AND 2013

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 2014 and 2013, approximately \$167,000 and \$80,000, 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, 2014 AND 2013

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, 2014, the reported amount of the Authority's deposits was \$1,361,407 and the bank balance was \$1,360,207. Of the bank balance, \$250,000 was covered by federal depository insurance and \$1,110,207 was covered by collateral held in accordance with Act 72 not in the Authority's name. As of December 31, 2013, the reported amount of the Authority's deposits was \$1,732,969 and the bank balance was \$1,716,520. Of the bank balance, \$297,089 was insured by federal depository insurance and \$1,419,431 was covered by collateral held in the Authority's name.

Investments

As of December 31, 2014 and 2013, the Authority had the following deposits and investments:

Investments	Maturities	Ratings	2014	2013
Cash and money market investments			\$ 2,885,210	\$ 1,415,446
U.S. treasury notes	Less than one year		5,273,513	5,489,369
	1 to 5 years		702,558	
Total investments			8,861,281	6,904,815
Accrued interest on government securities			901	92
Total deposits			1,361,407	1,732,969
Total deposits and investments			<u>\$ 10,223,589</u>	<u>\$ 8,637,876</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, 2014 AND 2013

2. Cash and investments (continued):

Custodial credit risk, deposits and investments (continued):

Reconciliation to the statements of net position

	2014	2013
Current assets:		
Cash	\$ 1,361,407	\$ 1,732,969
Investments	3,751,843	3,366,668
Other assets, cash and investments	5,110,339	3,538,239
	\$ 10,223,589	\$ 8,637,876

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.

DERRY TOWNSHIP MUNICIPAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2014 AND 2013

3. Accounts receivable:

Accounts receivable consisted of the following:

	<u>2014</u>	<u>2013</u>
Connection fees	\$ 43,338	\$ 48,245
Miscellaneous	28,679	24,916
Federal grant, flood related	357,539	449,005
State grant:		
Flood related	256,733	297,070
Sewer project		60,171
Insurance proceeds		<u>68,747</u>
	<u>\$ 686,289</u>	<u>\$ 948,154</u>

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

4. Property, plant and equipment:

Property, plant and equipment consisted of the following:

	January 1, 2013	Additions	Deletions	Reclassifications	December 31, 2013	Additions	Deletions	Reclassifications	December 31, 2014
Land and right-of-ways	\$ 2,105,543			\$ 264,481	\$ 2,370,024				\$ 2,370,024
Collection lines	38,071,175	\$ 213,035		220,294	38,504,504			\$ 2,174,649	40,679,153
Sewage treatment plant	65,107,650	13,146	\$ (1,517,776)	3,945,915	67,548,935	\$ 8,995	\$ (274,631)	4,071,537	71,354,836
Plant equipment	1,118,924			2,395,537	3,514,461	5,703			3,520,164
Vehicles	1,242,047				1,242,047				1,242,047
Office equipment	518,264			19,297	537,561	270,753	(13,980)	13,545	807,879
Miscellaneous equipment	76,612				76,612		(164)		76,448
Capitalized interest and financing costs prior to plant operation	3,267,456				3,267,456				3,267,456
Construction in progress	5,001,449	4,587,340	(737,333)	(6,105,222)	2,746,234	3,603,724		(6,184,802)	165,156
Projects in progress	54,555	689,913		(740,302)	4,166	114,720		(74,929)	43,957
	116,563,675	5,503,434	(2,255,109)	-	119,812,000	4,003,895	(288,775)	-	123,527,120
Less accumulated depreciation	39,814,800	2,937,447	(2,172)		42,750,075	3,131,829	(14,145)		45,867,759
	<u>\$ 76,748,875</u>	<u>\$ 2,565,987</u>	<u>\$ (2,252,937)</u>	<u>\$ -</u>	<u>\$ 77,061,925</u>	<u>\$ 872,066</u>	<u>\$ (274,630)</u>	<u>\$ -</u>	<u>\$ 77,659,361</u>

DERRY TOWNSHIP MUNICIPAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2014 AND 2013

5. Long-term debt:

The following is a summary of the changes in the Authority's long-term liabilities for the years ended December 31, 2014 and 2013:

	Balance as of January 1, 2013	Additions	Retirements	Balance as of December 31, 2013	Additions	Retirements	Balance as of December 31, 2014
Sewer revenue bonds:							
Series of 2005	\$ 5,000			\$ 5,000			\$ 5,000
Series of 2009	11,890,000		\$ (1,325,000)	10,565,000		\$ (855,000)	9,710,000
Series of 2010	9,730,000		(155,000)	9,575,000		(680,000)	8,895,000
Subsidy agreements:							
Series of 2010	8,995,000		(265,000)	8,730,000		(270,000)	8,460,000
Series of 2011	3,750,000		(250,000)	3,500,000		(250,000)	3,250,000
Series A of 2011	50,000			50,000	\$ 2,050,953	(2,100,953)	-
Series of 2014					5,000,000		5,000,000
Capital lease obligations	<u>5,492,745</u>		<u>(312,287)</u>	<u>5,180,458</u>		<u>(315,424)</u>	<u>4,865,034</u>
	<u>\$ 39,912,745</u>		<u>\$ (2,307,287)</u>	<u>\$ 37,605,458</u>	<u>\$ 7,050,953</u>	<u>\$ (4,471,377)</u>	<u>40,185,034</u>
Less:							
Current maturities							(2,433,593)
Unamortized original issue discount							(217,347)
Unamortized original issue discount/premium							<u>173,305</u>
Long-term debt, net of current maturities							<u>\$ 37,707,399</u>

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 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. Following are details of these obligations.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

5. Long-term debt (continued):

Guaranteed sewer revenue bonds:

On May 15, 2005, the Authority issued Guaranteed Sewer Revenue Bonds, Series of 2005 in the aggregate amount of \$10,000,000. The proceeds were used to refund the Township of Derry's General Obligation Bonds, Series of 2002 and to pay for capital improvements to the Authority's facilities. This issue was substantially refunded during 2010 by the Township's May 28, 2010 Bonds as described below.

On May 7, 2009, the Authority issued Guaranteed Sewer Revenue Bonds, Series of 2009 in the aggregate amount of \$16,375,000. The bonds were used to refund the outstanding principal balances of certain prior bond issues of the Authority and to discharge the Authority's obligations under certain prior subsidy agreements with the Township of Derry. The Series of 2009 Guaranteed Sewer Revenue Bonds had a balance of \$9,710,000 as of December 31, 2014. The annual principal payments that are required for the Series of 2009 bonds range from \$510,000 to \$1,085,000 (with interest rates ranging from 2.50% to 4.375%). The semiannual payments end December 15, 2025. A deferred outflow of resources in the amount of \$869,632 was recorded on the refunding and is being amortized on the straight-line basis over 16.5 years, the life of the issue, with a balance at December 31, 2014 of \$575,362.

On March 15, 2010, the Authority issued Guaranteed Sewer Revenue Bonds, Series of 2010 in the amount of \$9,955,000. Proceeds of the bonds were used to pay the costs of issuing the bonds and refund the Series of 2003. The Series of 2010 Guaranteed Sewer Revenue Bonds had a balance of \$8,895,000 as of December 31, 2014. Annual principal payments range from \$785,000 to \$1,020,000 (with interest rates ranging from 2.50% to 3.65%). The semiannual payments end December 15, 2024. As a result of the refunding, a cash flow difference and an economic gain of approximately \$305,000 were achieved. A deferred outflow of resources amount of \$794,106 was recorded on the refunding and is being amortized on the straight-line basis over 14 years, the life of the issue, with a balance at December 31, 2014 of \$533,891. This issue was substantially refunded on March 30, 2015, as further described in Note 12.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

5. Long-term debt (continued):

Subsidy agreements and amendments:

On May 28, 2010, a subsidy agreement between the Authority and the Township of Derry was signed. This agreement made the Authority responsible for \$9,630,000 of the General Obligation Bonds, Series of 2010 issued by the Township. This issue refunded the Guaranteed Sewer Revenue Bonds, Series of 2005. The Series of 2010 had a principal balance of \$8,460,000 as of December 31, 2014. Annual principal payments range from \$275,000 to \$970,000 (with interest rates ranging from 2.75% to 4.10%). As a result of the refunding, a cash flow difference and an economic gain of approximately \$289,700 were achieved. A deferred outflow of resources amount of \$537,291 was recorded on the refunding and is being amortized on the straight-line basis over 18 years, the life of the issue, with a balance at December 31, 2014 of \$404,178. This issue was substantially refunded on March 17, 2015, as described in Note 12.

On March 23, 2011, an amendment to the May 28, 2010 subsidy agreement with the Township of Derry was signed and General Obligation Bonds Series of 2011 were issued in the amount of \$3,975,000. Proceeds from the bonds were used to pay the costs of issuing the bonds and refund the Series of 2006. The Series of 2011 had a principal balance of \$3,250,000 as of December 31, 2014. As a result of the refunding, a cash flow difference and an economic gain of approximately \$47,000 were achieved. A deferred amount of \$272,911 was recorded on the refunding and is being amortized on the straight-line basis over 14 years, the life of the issue, with a balance at December 31, 2014 of \$203,133. The semiannual principal payments range from \$5,000 to \$275,000 with a final balloon payment of \$1,655,000 due December 15, 2025 (with interest rates ranging from 1.45% to 4.00%).

On October 27, 2011, an amendment to the May 28, 2010 subsidy agreement with the Township of Derry was signed and General Obligation Note Series A of 2011 was issued in the maximum aggregate principal amount of \$6,000,000. Proceeds of the note are to be used for restoration, repair, reconstruction and alteration of the Authority's wastewater facilities, financing of capital interest and payment of costs of issuance. As of December 31, 2013, \$50,000 has been drawn down on the note, with an additional \$2,050,952 drawn during 2014. Interest is paid in June and December yearly with yearly principal payments due beginning December 2014. Based on the allowable full amount of the note, principal payments range from \$330,000 to \$545,000 with final payment due December 2026. On December 15, 2014, this issue was paid in full with the issue of General Obligation Bonds, Series of 2014 as described below.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

5. Long-term debt (continued):

Subsidy agreements and amendments (continued):

On December 15, 2014, an amendment to the May 28, 2010 subsidy agreement with the Township of Derry was signed and General Obligation Bonds Series of 2014 were issued in the amount of \$5,000,000. Proceeds from the bonds were used to pay the costs of issuing the bonds and refund the Series of 2011A General Obligation Note and provide additional funds for future capital projects. The Series of 2014 had a principal balance of \$5,000,000 as of December 31, 2014. The annual principal payments range from \$5,000 to \$2,295,000 with final payment due December 15, 2027 (with interest rates ranging from .25% to 3.00%).

Capital lease obligations:

The Derry Township Municipal Authority has entered into capital leases with Conewago Township and the Conewago Municipal Authority. Conewago Township installed sanitary sewers in a portion of Conewago Township by virtue of a project known as "Phase I". Conewago Municipal Authority subsequently installed sanitary sewers in additional areas of the Conewago Township through a "Phase II" project. Both projects were funded with Penn Vest grants and loans. The Authority has entered into two Sewer Service and Lease Agreements, one with Conewago Township for Phase I and one with Conewago Municipal Authority and Conewago Township for Phase II. Under these agreements, Conewago Township and its Authority lease their respective sewer systems to the Derry Township Municipal Authority for operation and maintenance. The Authority's lease payments to Conewago Township and to Conewago Municipal Authority are equal to the amounts these organizations owe to Penn Vest on their respective loans. The capital lease obligation to Conewago Township for Phase I had a balance of \$1,614,495 at December 31, 2014. The cost of the related capital asset is \$4,229,548, with accumulated depreciation of \$524,826. The capital lease obligation to Conewago Municipal Authority for Phase II had a balance of \$3,250,539 at December 31, 2014. The cost of the related capital asset is \$4,099,169, with accumulated depreciation of \$256,198.

DERRY TOWNSHIP MUNICIPAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2014 AND 2013

5. Long-term debt (continued):

The annual requirements of the Authority's long-term debt shown below include the effect of the refunding of the General Obligation Bonds of 2010 and the Guaranteed Sewer Revenue Bonds of 2010, (as described in Note 12):

<u>Year ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 2,308,593	\$ 914,948	\$ 3,223,541
2016	2,331,794	981,251	3,313,045
2017	2,455,026	939,188	3,394,214
2018	2,948,292	886,943	3,835,235
2019	3,026,589	820,220	3,846,809
2020-2024	16,308,638	2,900,850	19,209,488
2025-2029	10,639,476	661,134	11,300,610
2030-2032	441,676	4,985	446,661
	<u>\$ 40,460,084</u>	<u>\$ 8,109,519</u>	<u>\$ 48,569,603</u>

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.

6. Defeasement of long-term debt:

The outstanding balance of the defeased 1973 revenue bonds matured on November 1, 2013. There was no outstanding balance as of December 31, 2013.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

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 \$121,012 and \$117,398 for the years ended December 31, 2014 and 2013, 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 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 relating to the lease was \$12,000 for both 2014 and 2013.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

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>
2015	\$ 24,000
2016	24,000
2017	24,000
2018	24,000
2019	24,000
2020-2024	120,000
2025-2029	120,000
2030-2034	120,000
2035-2039	120,000
2040-2044	120,000
2045	24,000

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. 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 30 and 29 employees, respectively, who participated in the plan for each of the years ended December 31, 2014 and 2013.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

10. 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 (see the debt note for further information). 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 is now complete. The Authority has spent a total of \$11.2 million on restoration work exclusive of the items covered by insurance described above. 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 \$9.0 million has been determined to be eligible for reimbursement. The Authority has paid for the remaining \$2.2 million out of reserve funds. Of the \$9.0 million of disaster assistance, \$6.7 million comes from the federal government and \$2.3 million from the state. As of December 31, 2014, \$614,300 of disaster assistance is expected to be received.

DERRY TOWNSHIP MUNICIPAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2014 AND 2013

10. Extraordinary event, flood loss (continued):

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

	Federal	State
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
Total flood related expenditures	6,750,478	2,250,159
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
Total received	6,414,229	2,022,617
Plus:		
Adjustment for changes in obligated amounts, 2013	8,243	2,739
Adjustment for changes in obligated amounts, 2014	13,047	26,452
	21,290	29,191
Amounts recorded as receivable as of December 31, 2014	\$ 357,539	\$ 256,733

11. Commitments:

At December 31, 2014, the Authority had financial commitments of \$92,800 for the purchase of two vehicles.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

12. Subsequent events:

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 \$120,000 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.

On March 30, 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 \$520,000 to \$1,290,000 with final payment due December 15, 2024 (with interest rates ranging from .27% to 3.00%). The present value savings of this issue was approximately \$468,100.

The Authority has evaluated subsequent events through June 18, 2015, which is the date the financial statements were available to be issued.

DERRY TOWNSHIP MUNICIPAL AUTHORITY

OPERATING EXPENSES

YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Administrative, payroll taxes and employee benefits:		
Salaries	\$ 617,992	\$ 587,292
Materials and supplies	24,327	17,548
General expense	380,088	364,722
Payroll taxes and employee benefits	932,919	879,443
Maintenance and repairs	10,018	7,709
Professional services	<u>203,168</u>	<u>169,545</u>
	<u>2,168,512</u>	<u>2,026,259</u>
Collection system:		
Salaries	271,950	302,187
Materials and supplies	21,334	13,524
General expense	10,605	5,957
Maintenance and repairs	76,745	175,626
Utilities	<u>84,376</u>	<u>81,527</u>
	<u>465,010</u>	<u>578,821</u>
Plant operations:		
Salaries	909,221	890,616
Materials and supplies	31,273	34,876
General expense	28,229	29,465
Utilities	501,818	456,968
Chemicals	225,337	218,844
Special services	<u>235,799</u>	<u>162,263</u>
	<u>1,931,677</u>	<u>1,793,032</u>

(continued)

DERRY TOWNSHIP MUNICIPAL AUTHORITY

OPERATING EXPENSES (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Maintenance:		
Materials and supplies	\$ 6,766	\$ 9,556
General expense	8,105	4,772
Equipment repairs	231,902	311,789
Vehicle repairs	19,851	20,079
Automation control services	<u>20,262</u>	<u>12,499</u>
	<u>286,886</u>	<u>358,695</u>
Technical services:		
Salaries	243,786	237,558
Materials and supplies	17,523	19,314
General expense	5,797	3,512
Special services	<u>48,454</u>	<u>51,813</u>
	<u>315,560</u>	<u>312,197</u>
Miscellaneous project expense	<u>150,002</u>	<u>65,660</u>
Total operating expenses	<u>\$ 5,317,647</u>	<u>\$ 5,134,664</u>