

**THE MUNICIPAL AUTHORITY OF
THE BOROUGH OF LEWISTOWN**
(A Component Unit of the Borough of Lewistown)

FINANCIAL STATEMENTS
With Supplementary Information and
Required Supplementary Information

DECEMBER 31, 2017 AND 2016



BAKER TILLY

Candor. Insight. Results.

THE MUNICIPAL AUTHORITY OF THE BOROUGH OF LEWISTOWN

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INDEPENDENT AUDITORS' REPORT

To the Members of the Authority
**The Municipal Authority of
the Borough of Lewistown**
Lewistown, Pennsylvania 17044

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of **The Municipal Authority of the Borough of Lewistown** (the "Authority"), a component unit of the Borough of Lewistown, Pennsylvania, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed on 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of **The Municipal Authority of the Borough of Lewistown** as of December 31, 2017 and 2016, and the respective changes in net 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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on Pages 3 through 7, the Schedule of Changes in the Authority's Net Pension Liability (Asset) and Related Ratios on Page 31, and the Schedule of Authority's Contributions on Page 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Auditing Standards Board ("GASB"), 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 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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The Schedules to Statement of Revenue, Expenses, and Changes in Net Position and the Statement of Revenue, Expenses, and Changes in Net Position - Budget to Actual - Budgetary Basis are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated April 18, 2018, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

State College, Pennsylvania
April 18, 2018



MANAGEMENT'S DISCUSSION AND ANALYSIS

In accordance with Government Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments," the following is presented as the Management's Discussion and Analysis (MD&A) to the financial statements that follow. The financial statements are based on an accrual basis of accounting. The audit was conducted using GASB approved methods.

The Municipal Authority of the Borough of Lewistown (the Authority) serves residents in Mifflin County, Pennsylvania by providing potable drinking water, through a complex maze of almost 300 miles of transmission and distribution mains; controlled in seventeen different pressure zones by pressure reducing valves, pumps, and elevated water storage tanks. The Authority provides fire protection through nearly 600 hydrants. During 2017, the Authority serviced approximately 30,000 residents in the county and maintained over 11,000 billable accounts. During 2017, all of the activities were business-type transactions. The Authority operates as a not-for-profit organization and the revenue created through rates and fees is primarily used to fund day-to-day operations and used to make payments on long-term debt.

	2017	2016
Total Water Revenue Bonds	<u>\$20,670,104</u>	<u>\$22,058,083</u>

At December 31, 2017, only three debt obligations remain outstanding: Water Revenue Bonds: Series 2014, Series A of 2015, and Series 2015 (PennVest 2015 Bond).

The Authority spends a considerable amount of time preparing an annual cash basis operating budget, as well as a capital budget for system and equipment improvements. These budgets are prepared so that rates and fees can be set to meet the expenses of the day-to-day operations, while also keeping the water provided affordable to the customers. On January 1, 2017, a 3.0 percent rate increase was assessed. The user rate for 2017 was \$4.82 per one thousand gallons of metered water. It is important to note that this rate is very reasonable when compared to other utility's fees in the state. With this rate increase, the Authority estimated the annual operating revenue to be \$5,561,163 and operating expenses to be \$2,638,921.

The following is a summary of the Statement of Revenue, Expenses, and Changes in Net Position - Budget to Actual - Budgetary Basis, presented in its entirety later in the financial statements, for the year ended December 31, 2017:

Description	Actual	Budget
Total Operating Revenue	\$ 5,582,156	\$ 5,561,163
Total Operating Expenses	(2,334,092)	(2,638,921)
Operating Income	3,248,064	2,922,242
Non-Operating Revenue (Expense)	(1,703,473)	(1,824,381)
Capital Expenditures	(1,078,383)	(2,941,129)
Net Cash and Investments Provided	\$ 466,208	\$ (1,843,268)

THE MUNICIPAL AUTHORITY OF THE BOROUGH OF LEWISTOWN MANAGEMENT'S DISCUSSION AND ANALYSIS

During 2017, the operation provided \$466,208 of cash and investments. This was \$2,309,476 more than the budget estimate. The detailed analysis below will provide supporting data to show that the operating revenue was slightly higher than budget expectations and expenses were managed below budget. This resulted in an operating income that was greater than projected.

Revenue

- During 2017, water billings, in general, were .8 percent above the budget projection.
- Industrial revenue was 6.1 percent above the budget projection.
- Unmetered revenue was 37.7 percent above the budget projection. Contributing factors were increased interest income and miscellaneous revenue were higher than budget projections.

The Authority has seven categories for operating expense classifications. Total operating expenses for the year ended December 31, 2017 were under budget by \$304,829. Some significant variances, which should be pointed out when comparing the expense categories on the Statement of Revenue, Expenses, and Changes in Net Position - Budget to Actual - Budgetary Basis are as follows:

General

- Office expenses were managed 10.6% under budget.
- Truck and equipment maintenance expenses and labor were under budget by \$22,306.
- Engineering expenses were 68.7% under budget. Expenses were assigned to capitalized projects.

Filter Plant

- Total Filter Plant expenses were .9% over budget.
- Filter Plant maintenance activities and the supporting labor were over budget projections by \$14,312.
- Electricity and heating costs were managed \$13,320 under budget.

Purification

- Regulatory monitoring, purification chemical and lab supply expenses were over budget by 16.7%

Distribution

- Overall distribution expenses were 6.8 percent under budget.
- Service line labor and meter maintenance were under budget by \$17,169 and \$16,525 respectively due to decreased activity during the year.

Water Collection System

- Well power was managed \$34,979 under budget.

THE MUNICIPAL AUTHORITY OF THE BOROUGH OF LEWISTOWN MANAGEMENT'S DISCUSSION AND ANALYSIS

Timber Management

- The Timber Management Program actively manages a 350 acre parcel in Treaster Valley for environmental management benefits, as well as providing supplemental revenue. The management plan is updated annually. Cutting activity continued during 2017.

During 2017, the budget was approved for capital expenditures of \$2,941,129. In total, the Authority spent over \$1,013,000 on projects and equipment upgrades. Two major Filter Plant upgrade projects and a water tank replacement project were still in progress as of December 31. Some of the major additions are listed below:

Account	Description	Total
Filtration Plant	Chlorine Analyzer	3,334
	Overhead Door Boat House	1,365
	Deep Vault Steps	5,164
	SCADA System Upgrade	106,410
	Ozone System Upgrade	29,491
Reservoirs, Water Supply & Storage Tanks	Milroy Well VFD	7,975
	West End Tank	687,838
Control Facilities & Equipment	Milroy Well Soft Start	8,505
Distribution Mains	Logan St Extended - Reedsville 125015	5,164
	Freedom Ave Stream Crossing - Burnham 1	7,975
	SR 655 (#6271 & 6263) - Belleville	3,406
	3rd St - Pleasant Acres - Lewistown	9,781
	Boiling Springs Ave - Yeagertown	4,668
	Auto Flushing Station	5,244
	Woodland Rd - Brown Township	18,950
	Service Lines 3/4"	Labor/Material & Supplies 25,713
	Service Lines 1"	Labor/Material & Supplies 2,495
	Service Lines Over 1"	Labor/Material & Supplies 14,115
Meters and Meter Boxes	Meters/ERT's 20,563	
Hydrants	New/Replaced System Hydrants 33,636	
General Office Structure	Overhead Door Shop	1,240
	Replacement Windows Office	6,480
Other General Equipjment	Pallet Jack	4,100
	Truck Decal 2016	250
		\$ 1,013,862

The Authority maintains over \$50 million worth of capital assets. A detailed table of the capital assets is included in the financial statements as Note 3. The following are summarized values at December 31:

Description	2017	2016
Capital Assets	\$ 60,750,037	\$ 59,745,788
Less: Accumulated Depreciation	(23,687,398)	(22,278,502)
Net Book Value	\$ 37,062,639	\$ 37,467,286

During the year ended December 31, 2017, the net book value on the Authority's assets decreased by \$404,647 as current year capital expenditures did not exceed depreciation.

THE MUNICIPAL AUTHORITY OF THE BOROUGH OF LEWISTOWN MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a summary of the Statements of Net Position at December 31:

Description	2017	2016
Capital Assets - Net of Depreciation	\$ 37,062,639	\$ 37,467,286
Cash and Investments	8,969,998	8,503,790
Net Pension Asset	-	281,791
Other Assets	<u>1,372,653</u>	<u>1,309,620</u>
Total Assets	<u>\$ 47,405,290</u>	<u>\$ 47,562,487</u>
Deferred Outflows of Resources	<u>\$ 1,123,991</u>	<u>\$ 1,012,217</u>
Current Liabilities	\$ 1,938,757	\$ 1,852,332
Long-Term Liabilities	19,227,125	20,620,675
Net Pension Liability	<u>27,705</u>	<u>-</u>
Total Liabilities	<u>\$ 21,193,587</u>	<u>\$ 22,473,007</u>
Deferred Inflows of Resources	<u>\$ 64,548</u>	<u>\$ 73,931</u>
Net Investment in Capital Assets	\$ 17,133,415	\$ 16,257,880
Restricted	6,271,404	4,875,711
Unrestricted	<u>3,866,327</u>	<u>4,894,175</u>
Total Net Position	<u>\$ 27,271,146</u>	<u>\$ 26,027,766</u>

When looking at the Statements of Net Position at December 31, 2017, compared to December 31, 2016, other notable items are as follows:

- Total Current Assets increased \$529,241.
- Long-Term Debt decreased by \$1,365,845.
- There was a \$309,496 increase in Net Pension Liability, which caused the Net Pension Asset as of December 31, 2016 to become a Net Pension Liability as of December 31, 2017. This was due to a change in the discount rate used in the actuarial valuation.

The Authority entered 2017 with a net position of \$26,027,766. At the close of operations on December 31, 2017, the Authority's net position was \$27,271,146 as a result of net income in the amount of \$1,243,380.

THE MUNICIPAL AUTHORITY OF THE BOROUGH OF LEWISTOWN MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a summary of the Statements of Revenue, Expenses, and Changes in Net Position for the years ended December 31:

Description	2017	2016
Total Operating Revenue	\$ 5,641,420	\$ 5,542,519
Total Operating Expenses	<u>(2,499,376)</u>	<u>(2,475,390)</u>
Operating Income Before Depreciation	3,142,044	3,067,129
Depreciation	<u>(1,494,716)</u>	<u>(1,344,616)</u>
Operating Income	1,647,328	1,722,513
Total Non-Operating Expenses	(448,373)	(505,611)
Capital Contributions	<u>44,425</u>	<u>362,520</u>
Net Income	<u>\$ 1,243,380</u>	<u>\$ 1,579,422</u>

The Authority prepared and approved an Operating Budget with operating expenses of \$4,555,284 for 2018. The operating expenses include funding the Authority's defined benefit pension plan of \$105,120. This budget was created factoring a user rate increase of 2.0 percent. The fee charged for each unit of metered water consumed (1,000 gallons) will be \$4.92, an actual per unit increase of \$0.10. It has been calculated that an average quarterly bill will increase by \$2.23 as a result of this rate increase. In addition, \$3,549,008 has been approved for capital additions and improvements.

The Authority has plans to install approximately 5,500 lineal feet of water main during the year ending December 31, 2018. A major infrastructure project along Old Route 322 in Milroy, Armagh Township will replace nearly 3,000 lineal feet of 20" water transmission main. Another 1,000 lineal feet main extension project from Middle Road to Loop road is planned to provide water service to approximately 5 residential properties, as well as to commercial property owned by The Mifflin County Industrial Development Corporation (MCIDC). This waterline will be available for extension to other commercial and residential sites in the future. There are also several residential and commercial waterline replacement projects that are scheduled for construction during 2018. One project will replace approximately 1,500 lineal feet of aged cast iron infrastructure to improve water pressure to residents in Cooper's Gap, Brown Township. The completion of a capital improvement project at Laurel Creek Filtration Plant is planned for the year 2018. A hardware and software upgrade to the SCADA system and the installation of a new ozone generator system will be completed to improve water treatment capabilities.

There are significant plans in the community for new housing developments and employment opportunities through the addition of commercial and industrial facilities within the county. Growth should be experienced during 2018 and beyond.

If you would like to hear more about Mifflin County and the opportunities here or would like more details about the Authority and its operations, feel free to contact our office at (717) 248-0165, view our Website www.lewistownwater.com, or write to: The Municipal Authority of the Borough of Lewistown, 70 Chestnut Street, Lewistown, Pennsylvania 17044.

This report has been prepared in accordance with GASB Statement No. 34, but it should also be used to provide useful information to anyone interested in an overview of the operations of the Authority, as well as to demonstrate accountability for the business the Authority conducts.

THE MUNICIPAL AUTHORITY OF THE BOROUGH OF LEWISTOWN

STATEMENT OF NET POSITION

	December 31,	
	2017	2016
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 2,447,510	\$ 3,628,079
Certificates of Deposit	251,084	0
Accounts Receivable - Billed	507,660	466,931
Accounts Receivable - Unbilled	645,498	616,463
Prepaid Insurance	24,778	26,078
Materials and Supplies	194,717	200,148
Investments Held With Trustee	6,271,404	4,875,711
TOTAL CURRENT ASSETS	10,342,651	9,813,410
NONCURRENT ASSETS		
Net Pension Asset	0	281,791
CAPITAL ASSETS		
Capital Assets - Not Subject to Depreciation	1,236,223	1,321,227
Capital Assets - Net of Depreciation	35,826,416	36,146,059
TOTAL CAPITAL ASSETS	37,062,639	37,467,286
TOTAL ASSETS	47,405,290	47,562,487
DEFERRED OUTFLOWS OF RESOURCES		
Pension	356,030	110,224
Unamortized Bond Losses	767,961	901,993
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,123,991	1,012,217
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 48,529,281	\$ 48,574,704
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
CURRENT LIABILITIES		
Accounts Payable	149,927	42,167
Accrued Vacation and Payroll	58,533	54,839
Consumer Deposits	27,846	29,623
Accrued Interest	212,291	225,376
Deferred Revenue	20,103	9,603
Current Portion of Capital Lease Obligations	27,078	26,238
Current Portion of Water Revenue Bonds	1,442,979	1,464,486
TOTAL CURRENT LIABILITIES	1,938,757	1,852,332
LONG-TERM LIABILITIES		
Capital Lease Obligations	0	27,078
Water Revenue Bonds	19,227,125	20,593,597
Net Pension Liability	27,705	0
TOTAL LONG-TERM LIABILITIES	19,254,830	20,620,675
TOTAL LIABILITIES	21,193,587	22,473,007
DEFERRED INFLOWS OF RESOURCES - PENSION	64,548	73,931
NET POSITION		
Net Investment in Capital Assets	17,133,415	16,257,880
Restricted for Capital Projects	2,671,874	1,397,460
Restricted for Debt Service	3,599,530	3,478,251
Unrestricted	3,866,327	4,894,175
TOTAL NET POSITION	27,271,146	26,027,766
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 48,529,281	\$ 48,574,704

See notes to financial statements

THE MUNICIPAL AUTHORITY OF THE BOROUGH OF LEWISTOWN
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION

	Years Ended December 31,	
	2017	2016
OPERATING REVENUE		
Metered Revenue		
Domestic	\$ 3,519,722	\$ 3,407,100
Commercial	989,944	949,288
Industrial	370,343	340,296
Public	254,465	255,111
Fire Protection	123,806	118,179
Capital Component Collections	139,920	139,080
Total Metered Revenue	5,398,200	5,209,054
Unmetered Revenue	243,220	333,465
TOTAL OPERATING REVENUE	5,641,420	5,542,519
OPERATING EXPENSES		
General	1,539,443	1,528,358
Filter Plant	372,194	334,114
Purification	145,875	125,950
Distribution	387,758	435,663
Control Stations	42,632	32,353
Water Collection	11,474	17,502
Timber Management	0	1,450
TOTAL OPERATING EXPENSES	2,499,376	2,475,390
OPERATING INCOME BEFORE DEPRECIATION	3,142,044	3,067,129
DEPRECIATION	1,494,716	1,344,616
OPERATING INCOME	1,647,328	1,722,513
NON-OPERATING REVENUE (EXPENSES)		
Interest Income	19,938	8,875
Investment Income	130,630	106,486
Interest Expense	(588,715)	(620,972)
Loss on Disposal of Assets	(10,226)	0
TOTAL NON-OPERATING EXPENSES	(448,373)	(505,611)
CAPITAL CONTRIBUTIONS	44,425	362,520
NET INCOME	1,243,380	1,579,422
NET POSITION - BEGINNING	26,027,766	24,448,344
NET POSITION - ENDING	\$ 27,271,146	\$ 26,027,766

See notes to financial statements

THE MUNICIPAL AUTHORITY OF THE BOROUGH OF LEWISTOWN

STATEMENT OF CASH FLOWS

	Years Ended	
	December 31,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Receipts from Customers	\$ 5,582,156	\$ 5,480,575
Cash Payments to Vendors	(1,115,046)	(1,371,812)
Cash Payments to Employees for Services	(1,217,269)	(1,141,487)
Cash Payments to Customers	(1,777)	(1,302)
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,248,064	2,965,974
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and Construction of Capital Assets	(1,052,739)	(807,982)
Capital Grants and Contributions Received	0	229,674
Proceeds from Sale of Capital Assets	2,300	0
Principal Paid on Capital Lease Obligations	(26,238)	(25,424)
Interest Paid on Capital Lease Obligations	(1,706)	(2,520)
Principal Paid on Long-Term Debt and Water Revenue Bonds	(1,444,637)	(326,030)
Interest Paid on Debt Service	(458,500)	(366,400)
Proceeds from PennVest 2015 Bond	49,096	782,383
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(2,932,424)	(516,299)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Certificates of Deposit	(251,084)	0
Net Proceeds from the Sale (Purchase) of Investment Securities	(1,395,693)	(1,559,847)
Interest Income	19,938	8,875
Investment Income	130,630	106,486
NET CASH USED IN INVESTING ACTIVITIES	(1,496,209)	(1,444,486)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,180,569)	1,005,189
CASH AND CASH EQUIVALENTS - BEGINNING	3,628,079	2,622,890
CASH AND CASH EQUIVALENTS - ENDING	\$ 2,447,510	\$ 3,628,079
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 1,647,328	\$ 1,722,513
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation	1,494,716	1,344,616
Changes in Net Pension Liability (Asset) (Net of Related Deferred Inflows / Outflows of Resources)	54,307	6,034
(Increase) Decrease in		
Accounts Receivable	(69,764)	(45,583)
Prepaid Insurance	1,300	3,506
Increase (Decrease) in		
Accounts Payable	107,760	(76,575)
Accrued Vacation and Payroll	3,694	29,126
Consumer Deposits	(1,777)	(1,302)
Deferred Revenue	10,500	(16,361)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 3,248,064	\$ 2,965,974
SUPPLEMENTAL DISCLOSURES		
Non-Cash Investing and Financing Activities		
Accepted Dedication of Capital Assets	\$ 44,425	\$ 223,284
Deferred Interest Expense on Bond Obligations	\$ 141,594	\$ 150,878

See notes to financial statements

THE MUNICIPAL AUTHORITY OF THE BOROUGH OF LEWISTOWN

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Operations

The Municipal Authority of the Borough of Lewistown (the "Authority") is a municipal authority incorporated during March 1944, organized and existing under the Pennsylvania Municipality Authorities Act, as amended. The Authority was created to construct and operate a complete water system, including all related and necessary facilities for providing public water service to customers throughout Mifflin County, Pennsylvania.

The members of the Authority's governing board are appointed by the Borough of Lewistown (the "Borough"). As a result, the Authority is considered a component unit of the Borough. There are no other organizations for which the Authority's governing board exercises oversight responsibility. Therefore, the financial statements presented herein include only the activities of the Authority.

In accordance with the terms of the trust indentures securing the Authority's debt, an annual operating budget is adopted for accounting control and internal reporting purposes. There is no legal requirement for the adoption of an annual appropriated budget.

Fund Accounting

The Authority uses a proprietary fund to report its activities. A proprietary fund is used to account for operations, which are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

As a propriety fund, the Authority records both operating revenue and expenses and non-operating revenue and expenses. Operating revenue and expenses result from the ongoing principal operations of the Authority. Operating revenue consists primarily of consumption charges or other charges and fees for services, whereas operating expenses represent the cost of operations, which includes depreciation. Non-operating revenue and expenses do not result from operations and relate to financing and investing types of activities, as well as non-exchange transactions. This includes interest income, interest expense, and the gain or loss resulting from the disposal of assets, if any.

Basis of Accounting

The financial statements of the Authority are reported using the economic resources measurement focus and the accrual basis of accounting, whereby all revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Depreciation and amortization of assets are recognized on the Statement of Revenue, Expenses, and Changes in Net Position. All assets, deferred outflows of resources, liabilities, or deferred inflows of resources associated with the operation of the Authority are included on the Statement of Net Position.

THE MUNICIPAL AUTHORITY OF THE BOROUGH OF LEWISTOWN

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

Cash consists of currency on hand, demand deposits, and non-negotiable certificates of deposit. The Authority considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. As a result, the Authority classifies their interest in an external investment pool as cash and cash equivalents on the Statement of Net Position, but is classified as investments for purposes of the disclosures in Note 2 - "*Cash Deposits and Investments*".

Accounts Receivable and Bad Debt

The Authority writes-off any accounts receivable determined to be uncollectible. Potential bad debt at the end of the period is generally immaterial in relation to the total accounts receivable. Therefore, a reserve for doubtful accounts has not been established.

Accounts Receivable - Unbilled

During the year, customers' water meters are read and bills are rendered throughout monthly or quarterly periods. Because not every meter is read on the same date and not all customers are billed through December 31st, revenue for water distributed is estimated and accrued at fiscal year-end to match revenue with related expenses.

Materials and Supplies

Materials and supplies consist principally of spare parts, which are recorded when purchased and expensed or capitalized when used. Materials and supplies are recorded using the first-in, first-out ("FIFO") method of accounting.

Pension

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to the pension, and pension expense, information about the fiduciary net position of the Municipal Authority of the Borough of Lewistown Pension Plan (the plan), and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows/Outflows of Resources

Pursuant to the Government Auditing Standards Board ("GASB") Concepts Statement No. 4 *Deferred Outflow of Resources* are a consumption of net position (assets minus liabilities) by the government that is applicable to a future period, while an "asset" is a resource with present service capacity that the government presently controls. The "*Deferred Inflow of Resources*" are an acquisition of net position (assets minus liabilities) by the government that is applicable to a future reporting period, while a "liability" is a present obligation to sacrifice resources that the government has little or no discretion to avoid. Deferred outflows and inflows of resources are reported separate from assets and liabilities on the Statement of Net Position.

When debt is refunded, the difference between the reacquisition price and the net carrying amount of the extinguished debt is recognized as deferred outflows of resources. The amount is amortized as a component of interest expense over the shorter of the new debt's life or the remaining life of the old debt. Changes in the net pension liability (asset) not included in pension expense are also required to be reported as deferred outflows or inflows of resources (See Note 7 for additional information).

THE MUNICIPAL AUTHORITY OF THE BOROUGH OF LEWISTOWN

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments Held With Trustee

In accordance with the terms of the trust indentures securing the Water Revenue Bonds, moneys are held in various funds, segregated for specific use and for the security of the bondholders, and maintained by an independent trustee. Investments held with trustee consist of the following funds at December 31:

	2017	2016
Debt Service Fund	\$ 1,579,527	\$ 1,561,571
Debt Service Reserve Fund	2,020,003	1,916,680
Bond Redemption and Improvement Fund	2,671,874	1,397,460
Total Investments Held With Trustee	\$ 6,271,404	\$ 4,875,711

In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," the Authority's investments are carried at fair value, which approximates cost. The fair value of the investments is based on quoted market prices.

Capital Assets

Capital assets are stated at cost. Depreciation is provided using the straight-line method of accounting over the expected economic useful lives of the assets. The expected economic useful lives of the assets are listed below.

Dam and Reservoirs	10 - 100 Years
Water Treatment Plant	5 - 50 Years
Distribution System	7 - 50 Years
Office Building	10 - 25 Years
Equipment	5 - 50 Years

When assets are retired or otherwise disposed of, the applicable cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized as income for the period. Routine expenditures for maintenance and repairs are charged against income as incurred. Expenditures, which significantly increase the value or extend the useful lives of the assets, are capitalized.

Consumer Deposits

Consumer deposits covering water billings to tenants (in lieu of property owners), at the Authority's discretion, may be refunded after two years of timely payments by the consumer or after service is discontinued.

Components of Net Position

Proprietary fund financial statements are required to report net position in three components:

- * **Net Investment in Capital Assets** - This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, notes, or other borrowings, and deferred outflows of resources, which are attributable to the acquisition, construction, or improvement of those assets.

THE MUNICIPAL AUTHORITY OF THE BOROUGH OF LEWISTOWN

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Components of Net Position (Continued)

- * **Restricted** - This consists of net resources, which are legally restricted by outside parties, or by law, through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first and then unrestricted resources when they are needed.

- * **Unrestricted** - This consists of net assets, which do not meet the definition of "Net Investment in Capital Assets" or "Restricted."

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

New Accounting Pronouncements

During January 2016, GASB issued Statement No. 80, "*Blending Requirements for Certain Component Units*," an amendment of GASB Statement No. 14. Statement No. 80 amends the blending requirements related to not-for-profit corporations for which the primary government is the sole corporate member. The guidance is retrospective, and the adoption of this standard did not have any impact on the Authority's financial statements.

2. CASH DEPOSITS AND INVESTMENTS

Pennsylvania statutes and the Authority's trust indenture provide for investment of governmental funds into certain authorized investment types, including U.S. Treasury bills, other short-term obligations of the U.S. and Pennsylvania government obligations, insured or collateralized time deposits, and certificates of deposit. The statutes do not prescribe regulations related to demand deposits, however, they do allow pooling of government funds for investment purposes. The deposit and investment policy of the Authority is to adhere to state statutes and the trust indentures.

Cash Deposits

Custodial credit risk for cash deposits is the risk that, in the event of a failure of a depository financial institution, the Authority will not be able to recover deposits, which are in the possession of the institution.

The following is a summary of the Authority's cash deposits at December 31:

	2017	2016
Insured	\$ 500,000	\$ 347,838
Collateralized Held by Institution's Trust		
Department not in the Authority's Name	2,136,722	3,254,684
Total Cash Deposits and Certificates of Deposit	\$ 2,636,722	\$ 3,602,522

THE MUNICIPAL AUTHORITY OF THE BOROUGH OF LEWISTOWN

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

2. CASH DEPOSITS AND INVESTMENTS (Continued)

Cash Deposits (Continued)

The Federal Deposit Insurance Corporation ("FDIC") insures the Authority's deposits. Those deposits exceeding the FDIC limit of \$250,000 are collateralized in accordance with the Commonwealth of Pennsylvania Act 72, which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution's name, not the Authority's name. Therefore, the Authority had \$2,136,722 and \$3,254,684, respectively, exposed to custodial credit risk at December 31, 2017 and 2016. The Authority does not have a formal investment policy for custodial credit risk specific to cash and cash equivalents.

Investments

The following is a summary of investments at December 31:

<u>Investment Type</u>	<u>Reported on the Statement of Net Position</u>	<u>Maturity</u>	<u>2017 Fair Value</u>
External Investment Pool	Cash and Cash Equivalents	01/01/18	\$ 34,162
Money Market Mutual Funds	Investments Held With Trustee	01/01/18	\$ 6,271,404

<u>Investment Type</u>	<u>Reported on the Statement of Net Position</u>	<u>Maturity</u>	<u>2016 Fair Value</u>
External Investment Pool	Cash and Cash Equivalents	01/01/17	\$ 6,283
Money Market Mutual Funds	Investments Held With Trustee	01/01/17	\$ 4,875,711

Credit risk for investments is the risk that an issuer or counterparty will not fulfill its obligations. At December 31, 2017 and 2016, the external investment pool and the money market mutual funds received an AAAM rating from Standard and Poor's, an independent credit rating agency. The Authority does not have a formal investment policy, which would limit its investment choices, based on the credit ratings by nationally recognized statistical rating organizations.

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the Authority will not be able to recover investments, which are in the possession of an outside entity. At December 31, 2017 and 2016, the Authority's investments had no exposure to custodial credit risk.

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer, which is identified when the fair value of an investment, by one issuer, represents 5.0 percent of more of the fair value of the investment portfolio. At December 31, 2017 and 2016, the Authority's investments had no exposure to concentration of credit risk. The Authority does not have a formal investment policy, which limits the amount it may invest with any one issuer.

Interest rate risk is the risk that changes in the interest rates will adversely affect the fair value of an investment in debt securities. The Authority does not have a formal investment policy, which limits investment maturities as a means of exposure to the fair value losses arising from increasing interest rates. All investments of the Authority mature in less than one year.

THE MUNICIPAL AUTHORITY OF THE BOROUGH OF LEWISTOWN

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

2. CASH DEPOSITS AND INVESTMENTS (Continued)

The Pennsylvania Local Government Investment Trust ("PLGIT") is a common law trust organized to provide Pennsylvania local governments with a convenient method of pooling their cash for temporary investment. PLGIT functions similar to a money market fund, seeking to maintain a net asset value of \$1 per share. Participants purchase "shares" in PLGIT, which invests the proceeds in: obligations of the United States Government, its agencies or instrumentalities; obligations of the Commonwealth of Pennsylvania, its agencies, instrumentalities, or political subdivisions; and deposits in savings accounts, time deposits, or share accounts of institutions insured by FDIC to the extent that such accounts are so insured, and for any amounts above the insured maximum, provided that approved collateral as provided by law is pledged by the depository. Shares may be withdrawn at any time. PLGIT/PLGIT PLUS have received an AAAM rating from Standard & Poor's. At December 31, 2017, the carrying amount and bank balance of the Authority's deposits with PLGIT was \$34,162. Due to the short-term nature and liquidity of the investments held within the pool, the fair value of the underlying investments approximates amortized cost.

3. CAPITAL ASSETS

The following is a summary of the Authority's capital assets activity for the years ended December 31:

	2017			
	Beginning Balance	Additions	Transfers/ Dispositions	Ending Balance
<i>Capital Assets Not Depreciated</i>				
Construction-in-Progress	\$ 941,166	\$ 903,878	\$ (988,882)	\$ 856,162
Land and Right-of-Ways	380,061	0	0	380,061
Total Capital Assets Not Depreciated	1,321,227	903,878	(988,882)	1,236,223
<i>Capital Assets Depreciated</i>				
Dam and Reservoirs	15,453,528	8,156	930,121	16,391,805
Water Treatment Plant	11,326,198	9,863	0	11,336,061
Distribution System	30,158,267	168,628	1,537	30,328,432
Office Building	196,359	7,720	0	204,079
Equipment	1,290,209	4,350	(41,122)	1,253,437
Total Capital Assets Depreciated	58,424,561	198,717	890,536	59,513,814
<i>Less: Accumulated Depreciation for</i>				
Dam and Reservoirs	(4,152,528)	(317,655)	0	(4,470,183)
Water Treatment Plant	(4,985,942)	(344,894)	0	(5,330,836)
Distribution System	(12,268,258)	(731,168)	57,224	(12,942,202)
Office Building	(79,610)	(8,986)	0	(88,596)
Equipment	(792,164)	(92,013)	28,596	(855,581)
Total Accumulated Depreciation	(22,278,502)	(1,494,716)	85,820	(23,687,398)
Total Capital Assets - Net	<u>\$37,467,286</u>	<u>\$ (392,121)</u>	<u>\$ (12,526)</u>	<u>\$37,062,639</u>

THE MUNICIPAL AUTHORITY OF THE BOROUGH OF LEWISTOWN

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

3. CAPITAL ASSETS (Continued)

	2016			
	Beginning Balance	Additions	Transfers/ Dispositions	Ending Balance
<i>Capital Assets Not Depreciated</i>				
Construction-in-Progress	\$ 2,368,780	\$ 420,852	\$ (1,848,466)	\$ 941,166
Land and Right-of-Ways	380,061	0	0	380,061
Total Capital Assets Not Depreciated	2,748,841	420,852	(1,848,466)	1,321,227
<i>Capital Assets Depreciated</i>				
Dam and Reservoirs	15,453,528	0	0	15,453,528
Water Treatment Plant	11,321,436	35,264	(30,502)	11,326,198
Distribution System	28,131,124	439,021	1,588,122	30,158,267
Office Building	196,359	0	0	196,359
Equipment	1,157,299	132,910	0	1,290,209
Total Capital Assets Depreciated	56,259,746	607,195	1,557,620	58,424,561
<i>Less: Accumulated Depreciation for</i>				
Dam and Reservoirs	(3,932,766)	(219,762)	0	(4,152,528)
Water Treatment Plant	(4,669,091)	(347,354)	30,503	(4,985,942)
Distribution System	(11,847,615)	(680,986)	260,343	(12,268,258)
Office Building	(70,065)	(9,545)	0	(79,610)
Equipment	(705,195)	(86,969)	0	(792,164)
Total Accumulated Depreciation	(21,224,732)	(1,344,616)	290,846	(22,278,502)
Total Capital Assets - Net	<u>\$37,783,855</u>	<u>\$ (316,569)</u>	<u>\$ 0</u>	<u>\$37,467,286</u>

Depreciation for the years ended December 31, 2017 and 2016 was \$1,494,716 and \$1,344,616, respectively.

4. CAPITAL LEASE OBLIGATIONS

The Authority leases various pieces of equipment under agreements, which are classified as capital lease obligations. The cost of the equipment is included in capital assets and amortized using the straight-line method of accounting over the expected economic useful lives of the respective assets. Amortization of assets, under capital lease obligations, is included in depreciation. Assets recorded, under capital lease obligations, consist of the following at December 31:

	2017	2016
Equipment	\$ 106,684	\$ 106,684
Less: Accumulated Amortization	(29,338)	(18,670)
Total Net Book Value of Assets under Capital Lease Obligations	<u>\$ 77,346</u>	<u>\$ 88,014</u>

THE MUNICIPAL AUTHORITY OF THE BOROUGH OF LEWISTOWN

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

4. CAPITAL LEASE OBLIGATIONS (Continued)

The future minimum lease payments required, under the capital lease obligations, and the present value of the minimum lease payments, are as follows at December 31:

2018	\$	27,944
Less: Amount Representing Interest		(866)
Total Capital Lease Obligation		\$ 27,078

5. WATER REVENUE BONDS

Water revenue bonds consist of the following at December 31:

	2017	2016
a. Water Revenue Bonds, Series of 2014	\$ 4,025,000	\$ 4,265,000
b. Water Revenue Bonds, Series A of 2015	14,640,000	15,720,000
c. Water Revenue Bonds, Series of 2015 (PennVest 2015 Bonds)	2,059,549	2,135,090
Total	20,724,549	22,120,090
Less: Current Portions	(1,442,979)	(1,464,486)
Less: Unamortized Bonds Discount	(54,445)	(62,007)
Total Water Revenue Bonds	\$ 19,227,125	\$ 20,593,597

- a. On October 16, 2014, the Authority issued \$4,300,000 of Water Revenue Bonds, Series of 2014 ("2014 Bonds"). The 2014 Bonds were issued to provide funds to (1) effect a current refunding of the remaining balance of all of the Authority's Water Revenue Bonds, Series of 2007 in the outstanding principal amount of \$4,045,000, plus accrued interest and (2) pay costs of issuance of the 2014 Bonds. The 2014 Bonds mature at various times through 2029 and bear interest rates from 0.75 percent to 2.875 percent.

- b. On October 16, 2015, the Authority issued \$15,975,000 of Water Revenue Bonds, Series A of 2015 ("2015A Bonds"). The 2015A Bonds were issued to provide funds to (1) effect a current refunding of the remaining balance of all of the Authority's Water Revenue Bonds, Series of 2010 in the outstanding principal amount of \$15,450,000, plus accrued interest and (2) pay costs of issuance of the 2015A Bonds. The 2015A Bonds mature at various times through 2028 and bear interest rate of 2.238 percent. The issuance of the 2015A Bonds resulted in proceeds of \$15,949,200, net of commitment fee of \$25,800.

- c. On June 18, 2015, the Authority issued \$4,000,000 of Water Revenue Bonds, Series of 2015 ("PennVest 2015 Bonds"). The PennVest 2015 Bonds are issued to finance the costs of construction projects of the Authority. The PennVest 2015 Bonds mature during 2036 and bear an interest rate of 1.00 percent.

Through its trust indenture, the Authority has pledged all of its water revenue as security to the Water Revenue Bonds.

THE MUNICIPAL AUTHORITY OF THE BOROUGH OF LEWISTOWN

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

5. WATER REVENUE BONDS (Continued)

The following is a summary of Authority's Bonds activity for the years ended December 31:

	2014 Bonds	2015A Bonds	2015 Bonds	Total
Balance - January 1, 2016	\$4,300,000	\$15,975,000	\$1,388,738	\$21,663,738
Retirements	(35,000)	(255,000)	(36,031)	(326,031)
Bonds Issuance	<u>0</u>	<u>0</u>	<u>782,383</u>	<u>782,383</u>
Balance - December 31, 2016	4,265,000	15,720,000	2,135,090	22,120,090
Retirements	(240,000)	(1,080,000)	(124,637)	(1,444,637)
Bonds Issuance	<u>0</u>	<u>0</u>	<u>49,096</u>	<u>49,096</u>
Balance - December 31, 2017	<u>\$4,025,000</u>	<u>\$14,640,000</u>	<u>\$2,059,549</u>	<u>\$20,724,549</u>

Investment income from the investment of tax-exempt bonds' proceeds is offset against interest expense. Net interest expense on the bonds was \$458,085 and \$514,486 for the years ended December 31, 2017 and 2016, respectively.

Debt service requirements for the bonds are as follows at December 31:

	Principal	Interest	Total Debt Service
2018	\$ 1,442,979	\$ 429,969	\$ 1,872,948
2019	1,478,963	399,087	1,878,050
2020	1,514,957	367,424	1,882,381
2021	1,540,284	338,204	1,878,488
2022	1,569,711	314,163	1,883,874
2023-2027	8,400,456	1,029,697	9,430,153
2028-2032	4,313,269	141,160	4,454,429
2033-2036	<u>463,930</u>	<u>15,665</u>	<u>479,595</u>
Total	<u>\$ 20,724,549</u>	<u>\$ 3,035,369</u>	<u>\$ 23,759,918</u>

6. RECONCILIATION OF STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION - ACCRUAL BASIS TO CASH BASIS

The net income as presented on the Statement of Revenue, Expenses, and Changes in Net Position on Page 9 differs from the Statement of Revenue, Expenses, and Changes in Net Position - Budget to Actual - Budgetary Basis on Page 30 for the reason that in the current year, the budget for the Authority was prepared on the cash basis of accounting. Under Governmental Accounting Standards, the Statement of Revenue, Expenses, and Changes in Net Position - Budget to Actual in the financial statements is required to be presented on the budgetary basis.

THE MUNICIPAL AUTHORITY OF THE BOROUGH OF LEWISTOWN

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

6. RECONCILIATION OF STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION - ACCRUAL BASIS TO CASH BASIS (Continued)

Reconciliation of the net income is as follows:

Net Cash and Investments Provided	\$	466,208
Add: Acquisition and Construction of Capital Assets		1,052,739
Add: Principal Paid on Capital Lease Obligations		26,238
Add: Principal Paid on Long-Term Debt and Water Revenue Bonds		1,444,637
Add: Net Decrease in Assets		68,464
Add: Capital Contributions		44,425
Add: Net Decrease in Accrued Interest		13,085
Less: Change in Net Pension Liability (Asset) (Net of Related Deferred Inflows / Outflows of Resources)		(54,307)
Less: Proceeds from Sale of Capital Assets		(2,300)
Less: Net Decrease in Liabilities		(120,177)
Less: Depreciation		(1,494,716)
Less: Net Proceeds from Borrowing		(49,096)
Less: Deferred Interest Expense on Bond Obligations		(141,594)
Less: Loss on Disposal of Assets		(10,226)
Net Income	\$	1,243,380

7. PENSION

General Information About the Pension Plan

The Authority has a single-employer defined benefit pension plan. All permanent, full-time employees, who have one year of service (defined as 1,000 hours of service) may participate in the Plan. The Municipal Pension Plan Funding and Recovery Act (Act 205) requires a full actuarial valuation once every two years. Based on the most recent biennial actuarial valuation, there were twenty-two active employees, four vested, former employees eligible for future benefits, and thirteen retired employees currently receiving benefits covered by the plan. Benefits vest 20.0 percent after two years of service, plus 20.0 percent each year, thereafter, up to 100.0 percent of service. The plan provides pension benefits for normal retirement, at age sixty-five, based on a formula, including service factors and employees average compensation. Early retirement, at age fifty-five, is available upon ten years of service. The Authority's employees, who terminate after ten years of credited service, will receive a deferred pension commencing at retirement age. The plan also provides for death benefits. A minimum funding standard exists for the plan, based on the current actuarial valuation report. Any obligation, with respect to the plan, shall be paid by the Authority. Active members of the plan are required to contribute 2.0 percent of their compensation.

At December 31, the following employees were covered by the benefit terms:

	2017	2016
Active Employees	22	23
Inactive Employees Entitled to, But Not Yet Receiving Benefits	4	3
Inactive Employees or Beneficiaries Currently Receiving Benefits	13	13
Total	39	39

THE MUNICIPAL AUTHORITY OF THE BOROUGH OF LEWISTOWN

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

7. PENSION (Continued)

Net Pension Liability

The Authority's net pension liability was measured at December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by rolling forward the liabilities from an actuarial valuation as of January 1, 2017.

The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00 percent
Salary Increases	4.50 percent (average, including inflation)
Investment Rate of Return	7.00 percent (including inflation)
Postretirement Cost of Living Increase	0.00 percent

Mortality rates were based on the Internal Revenue Services ("IRS") 2017 Static Combined Table for Small Plans. Incorporated into the table are rates for annuitants projected seven years and rates for non-annuitants projected fifteen years using Scale AA to reflect mortality improvement.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	58.00%	5.50% - 7.50%
International Equity	6.00%	4.50% - 6.50%
Fixed Income	33.00%	1.00% - 3.00%
Real Estate	3.00%	4.50% - 6.50%
Cash	0.00%	0.00% - 1.00%

The discount rate used to measure the total pension liability was 7.00 percent. The pension plan's fiduciary net position is projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability/asset. The Authority has always met the funding requirements of Pennsylvania Law Act 205 of 1984. Act 205 requires full funding of the entry age normal cost, plus plan expenses, as well as amortization of the unfunded liability.

THE MUNICIPAL AUTHORITY OF THE BOROUGH OF LEWISTOWN

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

7. PENSION (Continued)

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balances - December 31, 2016	\$ 2,417,086	\$ 2,698,877	\$ (281,791)
Service Cost	61,658	0	61,658
Interest Cost	201,674	0	201,674
Changes of Benefit Terms	0	0	0
Changes for Experience	106,662	0	106,662
Changes for Assumptions	363,182	0	363,182
Contributions - Employer	0	45,143	(45,143)
Contributions - Member	0	23,454	(23,454)
Net Investment Income	0	355,083	(355,083)
Benefit Payments, Including Refunds of Member Contributions	(135,056)	(135,056)	0
Administrative Expenses	0	0	0
Other Changes	0	0	0
Net Changes	598,120	288,624	309,496
Balances - December 31, 2017	\$ 3,015,206	\$ 2,987,501	\$ 27,705

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balances - December 31, 2015	\$ 2,293,136	\$ 2,504,705	\$ (211,569)
Service Cost	61,039	0	61,039
Interest Cost	183,510	0	183,510
Changes of Benefit Terms	0	0	0
Changes for Experience	0	0	0
Changes for Assumptions	0	0	0
Contributions - Employer	0	44,110	(44,110)
Contributions - Member	0	23,796	(23,796)
Net Investment Income	0	246,865	(246,865)
Benefit Payments, Including Refunds of Member Contributions	(120,599)	(120,599)	0
Administrative Expenses	0	0	0
Other Changes	0	0	0
Net Changes	123,950	194,172	(70,222)
Balances - December 31, 2016	\$ 2,417,086	\$ 2,698,877	\$ (281,791)

THE MUNICIPAL AUTHORITY OF THE BOROUGH OF LEWISTOWN

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

7. PENSION (Continued)

The following presents the net pension liability of the plan, calculated using the discount rate of 7.00 percent, as well as what the plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	2017		
	1.0% Decrease	Current	1.0% Increase
	(6.0%)	Discount Rate (7.0%)	(8.0%)
Plan's Net Pension Liability (Asset)	<u>\$ 390,874</u>	<u>\$ 27,705</u>	<u>\$ (282,301)</u>
	2016		
	1.0% Decrease	Current	1.0% Increase
	(7.0%)	Discount Rate (8.0%)	(9.0%)
Plan's Net Pension Liability (Asset)	<u>\$ (29,112)</u>	<u>\$ (281,791)</u>	<u>\$ (500,858)</u>

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

For the year ended December 31, 2017 and 2016, the Authority recognized pension expense of \$99,450 and \$50,144, respectively. At December 31, the Authority reported deferred outflows of resources and deferred inflows of resources related to the pension from the following sources:

	2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 33,202	\$ 0
Changes of Assumptions	322,828	0
Net Difference Between Projected and Actual Investment Earnings	0	64,548
Total	<u>\$ 356,030</u>	<u>\$ 64,548</u>
	2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 0	\$ 73,931
Changes of Assumptions	0	0
Net Difference Between Projected and Actual Investment Earnings	110,224	0
Total	<u>\$ 110,224</u>	<u>\$ 73,931</u>

THE MUNICIPAL AUTHORITY OF THE BOROUGH OF LEWISTOWN

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

7. PENSION (Continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows for the years ending December 31:

Year Ended December 31:

2018	\$	46,166
2019		46,166
2020		(3,534)
2021		6,185
2022		39,883
Thereafter		<u>156,616</u>
Total	\$	<u>291,482</u>

8. FEDERAL AND STATE GRANTS

In the normal course of operations, the Authority receives grant funds from various federal and state agencies. The grant programs are subject to audits by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of the funds. Any liability for reimbursement that may arise, as the result of these audits, is not believed to be material.

9. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of asset, errors and omissions, and natural disasters for which the Authority carries commercial insurance.

10. SUBSEQUENT EVENTS

Management of the Authority has evaluated subsequent events through April 18, 2018, which is the date the financial statements were available to be issued. Management is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

11. PENDING CHANGES IN ACCOUNTING PRINCIPLES

In January 2017, GASB issued Statement No. 84, *"Fiduciary Activities."* The objective of this statement is to improve guidance related to the identification of fiduciary activities for accounting and financial reporting purposes. This standard establishes criteria for identifying fiduciary activities of all state and local governments, with the focus being on whether a government controls the assets of the fiduciary activity and the beneficiaries of the assets. In addition, for all fiduciary activities, both a Statement of Net Position and Statement of Changes in Net Position will now be required. The Authority is required to adopt Statement No. 84 for its 2019 financial statements.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. Statement No. 85 addresses a variety of topics, including issues related to blending component units, goodwill, fair value measurement, and postemployment benefits, that have been identified during implementation and application of certain GASB Statements. To the extent applicable, the Authority is required to adopt Statement No. 85 for its December 2018 financial statements.

THE MUNICIPAL AUTHORITY OF THE BOROUGH OF LEWISTOWN

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

11. PENDING CHANGES IN ACCOUNTING PRINCIPLES (Continued)

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. Statement No. 86 provides additional guidance on the accounting and financial reporting for in-substance defeasance of debt, for prepaid insurance on debt that is extinguished, and notes to financial statements for debt that is defeased in substance. To the extent applicable, the Authority is required to adopt Statement No. 86 for its December 2018 financial statements.

In June 2017, the GASB issued Statement No. 87, *Leases*. Statement No. 87 improves recognition of certain lease assets and liabilities for leases and establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. To the extent applicable, the Authority is required to adopt Statement No. 87 for its December 2020 financial statements.

Management of the Authority is in the process of evaluating, but has not yet determined how the adoption of the above GASB guidance will impact the Authority's financial statements.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Members of the Authority
**The Municipal Authority of
the Borough of Lewistown**
Lewistown, Pennsylvania 17044

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of **The Municipal Authority of the Borough of Lewistown** (the "Authority"), a component unit of the Borough of Lewistown, Pennsylvania, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed on the Table of Contents, and have issued our report thereon, dated April 18, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly Virchow Krause, LLP

State College, Pennsylvania
April 18, 2018

SUPPLEMENTARY INFORMATION

THE MUNICIPAL AUTHORITY OF THE BOROUGH OF LEWISTOWN

SCHEDULE TO STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION

	Years Ended December 31,	
	2017	2016
GENERAL		
Auditing and Consulting	\$ 37,807	\$ 31,699
Employee Benefits	208,093	206,914
Employee Insurance	336,095	359,466
Engineering	22,868	31,658
General Property Expense	139,961	127,622
Insurance	56,228	62,199
Inventory Adjustment	0	6,189
Legal	22,137	17,593
Office Expense	132,648	136,012
Payroll Taxes	101,636	101,005
Pension	99,450	50,144
Salaries	357,144	372,112
Salaries - Officers	10,200	10,200
Security	3,597	6,546
Uncollectible Accounts	11,579	8,999
TOTAL GENERAL	\$ 1,539,443	\$ 1,528,358
 FILTER PLANT		
Labor	\$ 252,765	\$ 240,891
Supplies	15,548	11,925
Power and Heat	37,180	35,565
Maintenance	66,701	45,733
TOTAL FILTER PLANT	\$ 372,194	\$ 334,114

THE MUNICIPAL AUTHORITY OF THE BOROUGH OF LEWISTOWN

SCHEDULE TO STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION

	Years Ended December 31,	
	2017	2016
PURIFICATION		
Labor	\$ 9,632	\$ 9,663
Supplies	6,122	2,345
Regulatory Monitoring	22,656	20,844
Chemicals	104,465	90,158
Maintenance	3,000	2,940
TOTAL PURIFICATION	\$ 145,875	\$ 125,950
DISTRIBUTION		
Labor	\$ 238,789	\$ 275,923
Supplies	22,268	17,920
Maintenance		
Mains	47,450	57,405
Service Lines	9,931	16,559
Reservoirs	52,116	46,502
Meters	13,475	18,546
Hydrants	3,729	2,808
TOTAL DISTRIBUTION	\$ 387,758	\$ 435,663
CONTROL STATION		
Labor	\$ 14,647	\$ 11,355
Supplies	16,617	12,851
Power	6,753	6,358
Maintenance	4,615	1,789
TOTAL CONTROL STATION	\$ 42,632	\$ 32,353
WATER COLLECTION		
Labor	\$ 0	\$ 168
Power	11,474	17,030
Maintenance	0	304
TOTAL WATER COLLECTION	\$ 11,474	\$ 17,502

THE MUNICIPAL AUTHORITY OF THE BOROUGH OF LEWISTOWN

STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION - BUDGET TO ACTUAL - BUDGETARY BASIS YEAR ENDED DECEMBER 31, 2017

	<u>Actual</u>	<u>Budget (Unaudited)</u>	<u>Over (Under) Budget</u>
OPERATING REVENUE			
Metered Revenue			
Domestic	\$ 3,449,958	\$ 3,523,152	\$ (73,194)
Commercial	989,944	977,785	12,159
Industrial	370,343	349,107	21,236
Public	254,465	257,407	(2,942)
Fire Protection	123,806	107,908	15,898
Capital Component Collections	139,920	138,060	1,860
Total Metered Revenue	<u>5,328,436</u>	<u>5,353,419</u>	<u>(24,983)</u>
Unmetered Revenue	<u>253,720</u>	<u>207,744</u>	<u>45,976</u>
TOTAL OPERATING REVENUE	<u>5,582,156</u>	<u>5,561,163</u>	<u>20,993</u>
OPERATING EXPENSES			
General	1,372,382	1,630,421	(258,039)
Filter Plant	372,194	369,000	3,194
Purification	145,875	125,000	20,875
Distribution	387,758	416,000	(28,242)
Control Station	42,632	43,800	(1,168)
Water Collection	11,474	51,200	(39,726)
Timber Management	0	3,500	(3,500)
Net Customer Deposits Paid	1,777	0	1,777
TOTAL OPERATING EXPENSES	<u>2,334,092</u>	<u>2,638,921</u>	<u>(304,829)</u>
OPERATING INCOME	3,248,064	2,922,242	325,822
NON-OPERATING REVENUE (EXPENSE)			
Interest Income	19,938	5,500	14,438
Investment Income	130,630	105,000	25,630
Borrowing from PennVest Loan	49,096	0	49,096
Principal Paid on Long-Term Debt and Revenue Bonds	(1,444,637)	(1,492,000)	47,363
Interest Paid on Debt Service	(458,500)	(442,881)	(15,619)
TOTAL NON-OPERATING REVENUE (EXPENSE)	<u>(1,703,473)</u>	<u>(1,824,381)</u>	<u>120,908</u>
NET INCOME BEFORE CAPITAL EXPENDITURES	1,544,591	1,097,861	446,730
CAPITAL EXPENDITURES			
Capital Expenditures	(1,052,739)	(2,913,185)	(1,860,446)
Proceeds from Sale of Capital Assets	2,300	0	(2,300)
Principal Paid on Capital Lease Obligations	(26,238)	(26,238)	0
Interest Paid on Capital Lease Obligations	(1,706)	(1,706)	0
TOTAL CAPITAL EXPENDITURES	<u>(1,078,383)</u>	<u>(2,941,129)</u>	<u>(1,862,746)</u>
NET CASH AND INVESTMENTS PROVIDED	466,208	(1,843,268)	<u>\$ 2,309,476</u>
NET POSITION - BEGINNING	<u>26,027,766</u>	<u>26,027,766</u>	
NET POSITION - ENDING - BUDGETARY BASIS	<u>\$ 26,493,974</u>	<u>\$ 24,184,498</u>	

REQUIRED SUPPLEMENTARY INFORMATION

THE MUNICIPAL AUTHORITY OF THE BOROUGH OF LEWISTOWN

SCHEDULE OF CHANGES IN THE AUTHORITY'S NET PENSION LIABILITY (ASSET) AND RELATED RATIOS LAST TEN FISCAL YEARS *

	2017	2016	2015	2014
Total Pension Liability				
Service Cost	\$ 61,658	\$ 61,039	\$ 57,857	\$ 44,059
Interest Cost	201,674	183,510	173,434	170,255
Changes of Benefit Terms	0	0	0	0
Changes for Experience	106,662	0	(98,575)	0
Differences Between Expected and Actual Experience		0	0	0
Changes for Assumptions	363,182	0	0	0
Benefit Payments, Including Refunds of Member Contributions	(135,056)	(120,599)	(96,435)	(83,186)
Net Change in Total Pension Liability	598,120	123,950	36,281	131,128
Total Pension Liability - Beginning	2,417,086	2,293,136	2,256,855	2,125,727
Total Pension Liability - Ending (a)	3,015,206	2,417,086	2,293,136	2,256,855
Plan Fiduciary Net Position				
Contributions - Employer	45,143	44,110	45,328	70,195
Contributions - Member	23,454	23,796	23,969	21,308
Net Investment Income	355,083	246,865	(43,773)	129,176
Benefit Payments, Including Refunds of Member Contributions	(135,056)	(120,599)	(96,435)	(83,186)
Administrative Expenses	0	0	0	0
Other Changes	0	0	0	0
Net Change in Plan Fiduciary Net Position	288,624	194,172	(70,911)	137,493
Plan Fiduciary Net Position - Beginning	2,698,877	2,504,705	2,575,616	2,438,123
Plan Fiduciary Net Position - Ending (b)	2,987,501	2,698,877	2,504,705	2,575,616
Authority's Net Pension Liability (Asset) - Ending (a) - (b)	<u>\$ 27,705</u>	<u>\$ (281,791)</u>	<u>\$ (211,569)</u>	<u>\$ (318,761)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	0.92%	-11.66%	-9.23%	-14.12%
Covered-Employee Payroll	<u>\$1,165,411</u>	<u>\$1,176,493</u>	<u>\$1,185,907</u>	<u>\$1,112,000</u>
Authority's Net Pension Liability (Asset) as a Percentage of Covered-Employee Payroll	2.38%	-23.95%	-17.84%	-28.67%

Note to Schedule

* This schedule is required to show information for ten years, however, until a full ten-year trend is compiled, the Authority will present those years for which information is available.

THE MUNICIPAL AUTHORITY OF THE BOROUGH OF LEWISTOWN
SCHEDULE OF AUTHORITY'S CONTRIBUTIONS
LAST TEN FISCAL YEARS

Calendar Year	Actuarially Determined Contribution	Contributions from Employer	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions As a % of Payroll
2017	\$ 0	\$ 45,143	\$ (45,143)	\$ 1,165,411	3.87%
2016	\$ 0	\$ 44,110	\$ (44,110)	\$ 1,176,493	3.75%
2015	\$ 33,328	\$ 45,328	\$ (12,000)	\$ 1,185,907	3.82%
2014	\$ 22,195	\$ 70,195	\$ (48,000)	\$ 1,112,000	6.31%
2013	\$ 93,389	\$ 99,388	\$ (5,999)	\$ 856,258	11.61%
2012	\$ 92,759	\$ 242,759	\$ (150,000)	n/a	n/a
2011	\$ 109,761	\$ 315,761	\$ (206,000)	\$ 780,044	40.48%
2010	\$ 68,742	\$ 74,742	\$ (6,000)	n/a	n/a
2009	\$ 70,583	\$ 76,583	\$ (6,000)	\$ 743,602	10.30%
2008	\$ 69,530	\$ 75,530	\$ (6,000)	n/a	n/a

NOTES TO SCHEDULE

Valuation Date: Actuarially determined contribution rates are calculated as of January 1, two to four years prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial Valuation Date	January 1, 2015
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar Closed
Remaining Amortization Period	N/A
Actuarial Asset Valuation Method	Market Value as Determined by Trustee
Inflation	3.00 Percent
Salary Increases	5.50 Percent
Investment Rate of Return	8.00 Percent
Retirement Age	Normal Retirement Age
Mortality	RP 2000 Table. This table does not include projected improvements.

Change in benefit terms: None since 1/1/2015