

REQUEST FOR PROPOSALS
FOR
WHOLESALE ELECTRIC SUPPLY
FOR THE
BOROUGH OF MIDDLETOWN, MIDDLETOWN, PENNSYLVANIA

ISSUE DATE: September 7, 2016

INITIAL SUBMISSION DUE DATE: September 28, 2016

ISSUED BY:

BOROUGH OF MIDDLETOWN PUBLIC WORKS

60 West Emaus Street
Middletown, PA 17057

1. INTRODUCTION

The Borough of Middletown ("Borough"), requests proposals to provide wholesale energy, capacity, transmission, ancillary services, and scheduling services for Middletown. The Borough is issuing this Request for Proposals ("RFP") to solicit proposals from potential respondents ("Respondents") to meet the Borough's electric generation supply requirements.

The Borough is a municipal electric utility, serving approximately 3,950 residential, commercial, and industrial electric customers located in Middletown, Pennsylvania. The Borough seeks an arrangement by which its supplier provides fixed-price and firm energy, capacity, transmission and ancillary services to meet the portion of the Borough's load that is not met by other resources to which the Borough is contractually entitled during the applicable term ("Partial Requirements Service").

Through this RFP, the Borough looks to secure a contract for Partial Requirements Service, as described above, for a 36-month, 48-month, or 60-month term commencing January 1, 2017. The Respondent should treat Network Integrated Transmission Service ("NITS") and capacity as "pass-throughs" of actual costs.

1. POINTS OF DELIVERY

The Delivery Points are the PNode ID numbers set forth as follows:

- Supplier settlement will occur at the Metropolitan Edison ("Met-Ed") Residual Aggregate Zonal PNode 116472947;
- Settlement volumes will be based on meter readings at the Delivery Points set forth above, as adjusted by the NYPA production further described in Section 4(a), below.

2. SYSTEM PEAKS AND ENERGY USAGE

The Borough had a 2015 system peak of approximately 18 MW and 2016 system peak (through July 2016) of 15.79 MW. The following table provides the Borough's annual system peaks and annual energy usage for the years 2014-2016.

Year	Annual Peak Demand (MW)	Annual Energy Usage (MWh)
2014	17.72	71,349
2015	17.84	71,553
2016 ¹	15.79 ²	42,277

¹ Through July 31, 2016.

² The Borough's lower peak demand for 2016 to date is primarily due to a milder winter season compared to 2014 and 2015.

A summary of the monthly peak demand and energy requirements for the period January 2014 – July 2016 is attached as Exhibit B. Hourly load data for the January 2014-July 2016 time period has been provided in addition to this RFP. The provided hourly meter data represents the PJM wholesale load responsibility of the supplier and reflects the meter reads at the physical point of interconnection between the Borough and the Met-Ed transmission system as adjusted by PJM.

3. THE BOROUGH'S CUSTOMER BASE AND RETAIL ACCESS STATUS

Set forth below is information on the Borough's customer base.

Customer Class	Dec 2014	Dec 2015
Residential	3625	3,626
Commercial	232	233
Large Com. & Industrial	97	97
Total	3,954	3,956

All eligible customers receive service through the Borough. The Borough does not have a customer choice program.

4. OTHER BOROUGH RESOURCES

Other resources to which the Borough is contractually entitled include:

(a) "Preference power" from the New York Power Authority ("NYPA") that will be available through the contract period. As set forth in Exhibit C to the RFP, the Borough received from 283 MWh to 375 MWh per month pursuant to this allocation in 2015. The total production available to Middletown in 2015 was 3,920 MWh. This resource would be used to meet the requirements of the Borough's load and should be netted with the Borough's load. The energy associated with the NYPA entitlement shall be applied to the PJM load subaccount for the Borough and subtracted from the Borough's load. The PJM import pricing point for the NYPA energy is the MetEd Residual Aggregate Zone (PNode ID 116472947). Please note that the load data provided by Middletown is not net of the NYPA production.

5. TRANSACTION STRUCTURE

The Borough seeks a partial-requirements contract to provide energy, capacity, transmission, ancillary services, and scheduling services to meet the portion of the Borough's load that is not met by other resources to which the Borough is contractually entitled. The Borough desires a fixed priced product that includes energy, ancillary services, transmission losses and congestion management costs. The Borough requests that proposals include the provision of all required transmission and capacity on a pass-through basis, so the Borough's total electricity requirements are met on a firm basis. The Borough is interested in proposals for a 36-month, 48-month, or 60-month term, beginning

January 1, 2017. Respondents may bid on any or all of the terms that the Respondent is interested in supplying.

The Borough's preferred structure is for its supplier to create a subaccount at PJM to break out charges related to the Borough's load for the various services that PJM provides. The Borough will pay for NITS based on its Network Service Peak Load ("NSPL") in the Met-Ed transmission zone and capacity based on its Peak Load Contribution ("PLC") value in the Met-Ed transmission zone, priced at the Reliability Pricing Model ("RPM") capacity charge to load for the applicable delivery year. Because the Borough is neither a PJM Member nor a PJM Load-Serving Entity ("LSE"), the successful Respondent will function as the Borough's LSE in PJM, including developing daily load forecasts based on accurate forecast models that minimize pass-through costs associated with deviations between schedules and real-time transactions. As the LSE, any winning Respondent would receive the Auction Revenue Rights ("ARRs") and Marginal Loss Credits attributable to the Borough's load.

A form EEI Master Agreement is provided in Exhibit A. Respondent shall review the form contract and provide any proposed edits or comments in the form of a mark-up and consistent with the schedule set forth in Section 6 of this RFP. The Borough of Middletown shall be the counterparty executing the contract. Please note that financial information for the Borough of Middletown may be found in the 2014 Audited Financial Statement attached as Exhibit D.³

The Borough will negotiate a Transaction Confirmation in the form attached to form EEI Master Agreement with a short-list of selected suppliers based on initial proposals received. As more fully set out in the negotiated confirmation, the Supplier will be responsible for:

1. The supply of firm energy to the Borough at specified Delivery Point;
2. The supply of capacity sufficient to satisfy the PJM Capacity obligations, the cost of which shall be collected from the Borough on a pass-through basis;
3. All necessary PJM ancillary services;
4. Arranging transmission service, the cost of which shall be collected from the Borough on a pass-through basis; and,
5. Scheduling the Borough's other resources (*i.e.*, NYPA).

The energy pricing proposal must be inclusive of all costs, with the exception of PJM services that the Respondent identifies in its proposal that will be treated as pass-throughs.

³ The Borough's 2015 Audited Financial Statement is not yet available.

The supplier will be responsible for providing the power necessary to meet all load growth at the price specified in the power purchase agreement ("PPA") that is ultimately negotiated.

Regarding the NYPA resource, the Respondent must agree to schedule the NYPA power on the Borough's behalf to meet its load at no cost to the Borough. In so doing, the amount of MWs, based on the amount of water that flowed, would simply be scheduled into the selected supplier's account for the Borough's load.

6. SCHEDULE

The following schedule addresses the submission of proposals and subsequent contract award:

<u>Action</u>	<u>Date To Be Completed</u>
Issue RFP	Wednesday, September 7, 2016
Deadline To Submit Questions	Monday, September 19, 2016
Deadline to Provide Notice of Intent To Participate	Monday, September 19, 2016
All Questions To Be Answered	Friday, September 23, 2016
Proposals Due, including:	Wednesday, September 28, 2016
1. Proposed Edits to the form EEI Master Agreement; and	
2. Proposed Transaction Confirmation	
Confirmation of any Accepted Edits to the form EEI Master Agreement and Finalization of Transaction Confirmation	Wednesday, October 5, 2016
Request for Final Bids	After Monday, October 10, 2016 (Final Bids will be requested on a date on which Borough Council is available to ratify the award)

7. BID PROCESS

Proposals must be received no later than 5:00 p.m. on Wednesday, September 28, 2016, and delivered as follows:

Four hard copies (an original and three copies) plus one electronic .pdf copy are to be enclosed in a sealed envelope, bearing on the outside the name and address of the Respondent making the proposal and marked "PROPOSAL FOR SUPPLY OF WHOLESALE ELECTRICITY" and addressed to:

Pamela C. Polacek
Adeolu A. Bakare
McNees Wallace & Nurick LLC
100 Pine Street
Harrisburg, PA 17101

Notwithstanding the required hard copies, service via email by 5:00 p.m.⁴, on Wednesday, September 28, 2016, shall be considered timely, with the hard copies following by overnight mail for delivery by September 29, 2016. It is the Respondent's responsibility to ensure proposals are timely received.

Due to the volatility of the electric power markets, indicative pricing and firm pricing structures may be provided in response to this RFP, subject to the ability to refresh bids at future times as requested by the Borough. Actual pricing will be updated at the time of contract execution. The Borough will not be responsible for any additional costs not specifically identified in the proposal.

Proprietary data and information that a Respondent does not want disclosed to the public shall be clearly indicated. The Borough shall regard as public record all proposals and information submitted except to the extent that proposal information is clearly indicated as proprietary and segregated from the rest of the proposal. The Respondent must identify proprietary information on each page of the proposal. If a third party under Pennsylvania's Public Records Law requests any document that includes information designated as "proprietary" by Respondent, then the Borough will notify Respondent of the request and will release the document with the information designated as proprietary redacted. It will be the responsibility of the Respondent, not the Borough, to defend the designation of information as proprietary, including initiation of any court proceedings necessary to prevent disclosure as a public record.

8. COMMUNICATIONS

No Respondent is to contact the Borough with questions. Any questions with respect to this RFP must be submitted in writing by Monday, September 19, 2016, via email to McNees Wallace & Nurick LLC (Pamela C. Polacek (ppolacek@mcneeslaw.com) Adeolu A. Bakare (abakare@mcneeslaw.com) and Kevin Dean (kdean@mcneeslaw.com)). Answers thereto will be issued via email by Friday, September 23, 2016.

9. EVALUATION CRITERIA

Proposals will be judged based on their ability to meet the Borough's need for economical and reliable power supply. Respondents to this solicitation should provide all relevant information necessary to allow the Borough to conduct a thorough analysis of the proposal.

⁴ See Section 8 for email addresses for the Borough's representatives.

The principal criteria to be used by the Borough in evaluating proposals include:

- Quality and feasibility of the technical proposal and ability to perform the required service, including reliability of proposed power supply;
- Total delivered cost of power;
- Availability of delivery to the PNodes specified above;
- Financial viability of the Respondent, including its parent or any other guarantor of services under the Respondent's proposal (please include copies of the most recent Moody's/Fitch/S&P ratings reports for the performance guarantor);
- Competence of the Respondent to perform the required service;
- Experience as indicated by past performance providing comparable service to similarly situated customers;
- Compliance with all applicable state and federal laws, rules and orders;
- Minimization of the risks of future energy price changes; and,
- Term of contract.

The Borough reserves the right to consider other relevant factors that the Borough deems to be appropriate in evaluating the proposal that will best meet its power supply needs.

9.1 Total Delivered Cost of Power

The total cost of power delivered to the Borough will be considered, taking into account any additional costs required for the Borough to utilize the proposed power supply, including losses, imbalance charges, capacity charges, transmission charges, and the costs of any other services provided by the Respondent.

The Respondent should clearly explain the pricing under the proposal so that the Borough can evaluate the total price of power under the terms of the proposal. Respondents should separately identify and specify any costs included for transmission charges necessary to deliver energy to the Borough.

9.2 Viability of Respondent

The Respondent must provide sufficient evidence of financial and operational capability to provide the services outlined in the proposal during the contract term. The financial and operational viability of any third parties relied upon by the Respondent for providing service to the Borough must also be demonstrated. The Respondent, its parent, and any

other guarantor of services under the Respondent's proposal, must provide an Annual Report and audited financial statements from the previous two years in order to demonstrate financial viability. If the Respondent's guarantor has a credit rating, the most recent ratings' reports must be provided also. The Respondent should disclose any defaults in the PJM energy market over the past five years and identify any pending or resolved investigations by Respondent's applicable federal or state energy regulatory authorities. Information submitted to demonstrate operational capability must include description of its experience providing wholesale supply services generally and to municipal and cooperative wholesale customers specifically, including references of current and/or recent power supply agreements with municipal and cooperative wholesale customers.

9.3 Reliability of Delivered Power

The power supply provided pursuant to the PPA must be firm and be deliverable under the PJM Open Access Transmission Tariff ("OATT") to be acceptable to the Borough. In general, the energy proposed to be offered should be available at all times to the Borough, even during adverse conditions, subject only to interruption due to forces beyond the reasonable control of the Borough or the Respondent (*i.e.*, "Force Majeure").

Preference will be given to those proposals providing assurances of reliability including corporate or other such guarantees that ensure delivery should the proposed power supply resource be unavailable to serve the Borough's loads.

10. RFP CONDITIONS

Respondents are responsible for their costs to participate in this process, including (but not limited to) proposal preparation costs, the cost of investigation and other due diligence activities, and the costs of participation in any discussions or meetings.

This RFP does not constitute an offer by the Borough. The Borough expressly reserves the right to cancel this process at any time, modify the RFP, adjust the schedule, exclude any Respondent from the process and/or to reject any or all bids and offers submitted in response to this RFP, in each case without liability. Please note further that the consummation of this transaction is subject to the Borough's execution and delivery of a definitive agreement.

The information contained herein has been prepared to assist interested parties in making their own proposals and does not purport to be all-inclusive or to contain all of the information that a prospective supplier may desire. The Borough makes no representation or warranty (express or implied) as to the accuracy or completeness of the information contained in this RFP and expressly disclaims any and all liability based on or relating to any representations or warranties (express or implied) contained in, or errors or omissions from, this RFP or based on or relating to the recipient's use or the use by any of its affiliates or representatives of this RFP or any other written or oral

communications transmitted to the recipient or any of its affiliates or representatives in the course of making its proposal.

Please be further advised that:

- The Borough, at its sole discretion, shall evaluate responsive proposals and select proposals, if any, which provide the most value to the Borough and its customers;
- Proposals may be combined with other proposals, at the Borough's sole discretion;
- The Borough shall evaluate any proposal in terms of price and non-price attributes;
- The Borough shall perform an initial screening evaluation to identify and eliminate any proposals that are not responsive to the RFP, do not meet the minimum requirements set forth in the RFP, are clearly not economically competitive with other proposals, or are submitted by Respondents that lack appropriate creditworthiness, sufficient financial resources, or qualifications to provide dependable and reliable services;
- The Borough reserves the right, without qualification and in its sole discretion, to accept or reject any or all proposals for any reason without explanation to the Respondent, or to make the award to that Respondent, who, in the opinion of the Borough, will provide the most value to the Borough and its customers. The Borough also reserves the right to make an award to a Respondent other than the one with the lowest price offer or the proposal evidencing the greatest technical ability if the Borough determines that to do so would result in the greatest value to the Borough and its customers;
- The Borough reserves the right to reject any, all, or portions of the proposals received for failure to meet any criteria set forth in this RFP. The Borough also may decline to enter into a power purchase arrangement with any Respondent, terminate negotiations with any Respondent, or to abandon the RFP process in its entirety; and
- Those Respondents who submit proposals agree to do so without legal recourse against the Borough, its members, and their directors, officers, employees and agents for rejection of their proposal(s) or for failure to execute a power purchase agreement for any reason. The Borough shall not be liable to any Respondent or party in law or equity for any reason whatsoever for any acts or omissions arising out of or in connection with this RFP.

11. DEFINITIVE AGREEMENT PROVISIONS

Consistent with Section 8.1 of the form EEI Master Agreement, any agreement executed with a successful Respondent must contain a contract performance bond or a letter of credit or equivalent, which will address Supplier nonperformance respecting the delivery

of reliable wholesale energy and capacity. This performance surety will be designed to protect the Borough from financial risk related to the Supplier's failure to perform based on the price and delivery terms specified in the Agreement. The Borough reserves the right to impose additional contractual requirements as part of the negotiation process.

EXHIBITS

- Exhibit A Form EEI Master Agreement
- Exhibit B Monthly Load Data for the Period January 2014-July 2016
- Exhibit C New York Power Authority Load Data for the Period January 2014-July 2016
- Exhibit D Borough of Middletown 2014 Audited Financial Statements

Exhibit A

FORM EEI MASTER AGREEMENT

Master Power Purchase & Sale Agreement



Version 2.1 (modified 4/25/00)
©COPYRIGHT 2000 by the Edison Electric Institute and National Energy Marketers Association

ALL RIGHTS RESERVED UNDER U.S. AND FOREIGN LAW, TREATIES AND CONVENTIONS
AUTOMATIC LICENSE – PERMISSION OF THE COPYRIGHT OWNERS IS GRANTED FOR REPRODUCTION BY DOWNLOADING
FROM A COMPUTER AND PRINTING ELECTRONIC COPIES OF THE WORK. NO AUTHORIZED COPY MAY BE SOLD. THE
INDUSTRY IS ENCOURAGED TO USE THIS MASTER POWER PURCHASE AND SALE AGREEMENT IN ITS TRANSACTIONS.
ATTRIBUTION TO THE COPYRIGHT OWNERS IS REQUESTED.

MASTER POWER PURCHASE AND SALES AGREEMENT

TABLE OF CONTENTS

COVER SHEET.....1

GENERAL TERMS AND CONDITIONS6

ARTICLE ONE: GENERAL DEFINITIONS6

ARTICLE TWO: TRANSACTION TERMS AND CONDITIONS.....11

 2.1 Transactions11

 2.2 Governing Terms11

 2.3 Confirmation11

 2.4 Additional Confirmation Terms.....12

 2.5 Recording.....12

ARTICLE THREE: OBLIGATIONS AND DELIVERIES12

 3.1 Seller’s and Buyer’s Obligations12

 3.2 Transmission and Scheduling12

 3.3 Force Majeure13

ARTICLE FOUR: REMEDIES FOR FAILURE TO DELIVER/RECEIVE13

 4.1 Seller Failure13

 4.2 Buyer Failure13

ARTICLE FIVE: EVENTS OF DEFAULT; REMEDIES13

 5.1 Events of Default13

 5.2 Declaration of an Early Termination Date and Calculation of Settlement
 Amounts15

 5.3 Net Out of Settlement Amounts.....15

 5.4 Notice of Payment of Termination Payment15

 5.5 Disputes With Respect to Termination Payment15

 5.6 Closeout Setoffs16

 5.7 Suspension of Performance.....16

ARTICLE SIX: PAYMENT AND NETTING16

 6.1 Billing Period16

 6.2 Timeliness of Payment.....17

 6.3 Disputes and Adjustments of Invoices.....17

 6.4 Netting of Payments.....17

 6.5 Payment Obligation Absent Netting17

 6.6 Security18

 6.7 Payment for Options18

 6.8 Transaction Netting.....18

ARTICLE SEVEN: LIMITATIONS.....	18
7.1 Limitation of Remedies, Liability and Damages	18
ARTICLE EIGHT: CREDIT AND COLLATERAL REQUIREMENTS	19
8.1 Party A Credit Protection.....	19
8.2 Party B Credit Protection	21
8.3 Grant of Security Interest/Remedies	22
ARTICLE NINE: GOVERNMENTAL CHARGES.....	23
9.1 Cooperation.....	23
9.2 Governmental Charges.....	23
ARTICLE TEN: MISCELLANEOUS	23
10.1 Term of Master Agreement.....	23
10.2 Representations and Warranties.....	23
10.3 Title and Risk of Loss	25
10.4 Indemnity	25
10.5 Assignment	25
10.6 Governing Law	25
10.7 Notices	26
10.8 General.....	26
10.9 Audit	26
10.10 Forward Contract	27
10.11 Confidentiality	27
SCHEDULE M: GOVERNMENTAL ENTITY OR PUBLIC POWER SYSTEMS	28
SCHEDULE P: PRODUCTS AND RELATED DEFINITIONS.....	32
EXHIBIT A: CONFIRMATION LETTER.....	39

MASTER POWER PURCHASE AND SALE AGREEMENT

COVER SHEET

This *Master Power Purchase and Sale Agreement* (“*Master Agreement*”) is made as of the following date: _____ (“Effective Date”). The *Master Agreement*, together with the exhibits, schedules and any written supplements hereto, the Party A Tariff, if any, the Party B Tariff, if any, any designated collateral, credit support or margin agreement or similar arrangement between the Parties and all Transactions (including any confirmations accepted in accordance with Section 2.3 hereto) shall be referred to as the “Agreement.” The Parties to this *Master Agreement* are the following:

Name (“_____” or “Party A”)
All Notices:
Street: _____
City: _____ Zip: _____
Attn: Contract Administration
Phone: _____
Facsimile: _____
Duns: _____
Federal Tax ID Number: _____

Name (“Counterparty” or “Party B”)
All Notices:
Street: _____
City: _____ Zip: _____
Attn: Contract Administration
Phone: _____
Facsimile: _____
Duns: _____
Federal Tax ID Number: _____

Invoices:
Attn: _____
Phone: _____
Facsimile: _____

Invoices:
Attn: _____
Phone: _____
Facsimile: _____

Scheduling:
Attn: _____
Phone: _____
Facsimile: _____

Scheduling:
Attn: _____
Phone: _____
Facsimile: _____

Payments:
Attn: _____
Phone: _____
Facsimile: _____

Payments:
Attn: _____
Phone: _____
Facsimile: _____

Wire Transfer:
BNK: _____
ABA: _____
ACCT: _____

Wire Transfer:
BNK: _____
ABA: _____
ACCT: _____

Credit and Collections:
Attn: _____
Phone: _____
Facsimile: _____

Credit and Collections:
Attn: _____
Phone: _____
Facsimile: _____

With additional Notices of an Event of Default or Potential Event of Default to:
Attn: _____
Phone: _____
Facsimile: _____

With additional Notices of an Event of Default or Potential Event of Default to:
Attn: _____
Phone: _____
Facsimile: _____

The Parties hereby agree that the General Terms and Conditions are incorporated herein, and to the following provisions as provided for in the General Terms and Conditions:

Party A Tariff Tariff _____ Dated _____ Docket Number _____

Party B Tariff Tariff _____ Dated _____ Docket Number _____

Article Two

Transaction Terms and Conditions Optional provision in Section 2.4. If not checked, inapplicable.

Article Four

Remedies for Failure to Deliver or Receive Accelerated Payment of Damages. If not checked, inapplicable.

Article Five

Events of Default; Remedies Cross Default for Party A:

Party A: _____ Cross Default Amount \$ _____

Other Entity: _____ Cross Default Amount \$ _____

Cross Default for Party B:

Party B: _____ Cross Default Amount \$ _____

Other Entity: _____ Cross Default Amount \$ _____

5.6 Closeout Setoff

- Option A (Applicable if no other selection is made.)
- Option B - Affiliates shall have the meaning set forth in the Agreement unless otherwise specified as follows: _____
- Option C (No Setoff)

Article 8

Credit and Collateral Requirements

8.1 Party A Credit Protection:

- (a) Financial Information:
 - Option A
 - Option B Specify: _____
 - Option C Specify: _____
- (b) Credit Assurances:
 - Not Applicable
 - Applicable
- (c) Collateral Threshold:
 - Not Applicable
 - Applicable

If applicable, complete the following:

Party B Collateral Threshold: \$ _____; provided, however, that Party B's Collateral Threshold shall be zero if an Event of Default or Potential Event of Default with respect to Party B has occurred and is continuing.

Party B Independent Amount: \$ _____

Party B Rounding Amount: \$ _____

(d) Downgrade Event:

- Not Applicable
- Applicable

If applicable, complete the following:

- It shall be a Downgrade Event for Party B if Party B's Credit Rating falls below _____ from S&P or _____ from Moody's or if Party B is not rated by either S&P or Moody's

- Other:
Specify: _____

(e) Guarantor for Party B: _____

Guarantee Amount: _____

8.2 Party B Credit Protection:

(a) Financial Information:

- Option A
- Option B Specify: _____
- Option C Specify: _____

(b) Credit Assurances:

- Not Applicable
- Applicable

(c) Collateral Threshold:

- Not Applicable
- Applicable

If applicable, complete the following:

Party A Collateral Threshold: \$ _____; provided, however, that Party A's Collateral Threshold shall be zero if an Event of Default or Potential Event of Default with respect to Party A has occurred and is continuing.

Party A Independent Amount: \$ _____

Party A Rounding Amount: \$ _____

(d) Downgrade Event:

- Not Applicable
- Applicable

If applicable, complete the following:

- It shall be a Downgrade Event for Party A if Party A's Credit Rating falls below _____ from S&P or _____ from Moody's or if Party A is not rated by either S&P or Moody's
- Other:
Specify: _____

(e) Guarantor for Party A: _____
 Guarantee Amount: _____

Article 10

Confidentiality Confidentiality Applicable If not checked, inapplicable.

Schedule M

- Party A is a Governmental Entity or Public Power System
- Party B is a Governmental Entity or Public Power System
- Add Section 3.6. If not checked, inapplicable
- Add Section 8.6. If not checked, inapplicable

Other Changes

Specify, if any: _____

IN WITNESS WHEREOF, the Parties have caused this Master Agreement to be duly executed as of the date first above written.

Party A Name

Party B Name

By: _____

By: _____

Name: _____

Name: _____

Title: _____

Title: _____

DISCLAIMER: This Master Power Purchase and Sale Agreement was prepared by a committee of representatives of Edison Electric Institute (“EEI”) and National Energy Marketers Association (“NEM”) member companies to facilitate orderly trading in and development of wholesale power markets. Neither EEI nor NEM nor any member company nor any of their agents, representatives or attorneys shall be responsible for its use, or any damages resulting therefrom. By providing this Agreement EEI and NEM do not offer legal advice and all users are urged to consult their own legal counsel to ensure that their commercial objectives will be achieved and their legal interests are adequately protected.

GENERAL TERMS AND CONDITIONS

ARTICLE ONE: GENERAL DEFINITIONS

1.1 “Affiliate” means, with respect to any person, any other person (other than an individual) that, directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with, such person. For this purpose, “control” means the direct or indirect ownership of fifty percent (50%) or more of the outstanding capital stock or other equity interests having ordinary voting power.

1.2 “Agreement” has the meaning set forth in the Cover Sheet.

1.3 “Bankrupt” means with respect to any entity, such entity (i) files a petition or otherwise commences, authorizes or acquiesces in the commencement of a proceeding or cause of action under any bankruptcy, insolvency, reorganization or similar law, or has any such petition filed or commenced against it, (ii) makes an assignment or any general arrangement for the benefit of creditors, (iii) otherwise becomes bankrupt or insolvent (however evidenced), (iv) has a liquidator, administrator, receiver, trustee, conservator or similar official appointed with respect to it or any substantial portion of its property or assets, or (v) is generally unable to pay its debts as they fall due.

1.4 “Business Day” means any day except a Saturday, Sunday, or a Federal Reserve Bank holiday. A Business Day shall open at 8:00 a.m. and close at 5:00 p.m. local time for the relevant Party’s principal place of business. The relevant Party, in each instance unless otherwise specified, shall be the Party from whom the notice, payment or delivery is being sent and by whom the notice or payment or delivery is to be received.

1.5 “Buyer” means the Party to a Transaction that is obligated to purchase and receive, or cause to be received, the Product, as specified in the Transaction.

1.6 “Call Option” means an Option entitling, but not obligating, the Option Buyer to purchase and receive the Product from the Option Seller at a price equal to the Strike Price for the Delivery Period for which the Option may be exercised, all as specified in the Transaction. Upon proper exercise of the Option by the Option Buyer, the Option Seller will be obligated to sell and deliver the Product for the Delivery Period for which the Option has been exercised.

1.7 “Claiming Party” has the meaning set forth in Section 3.3.

1.8 “Claims” means all third party claims or actions, threatened or filed and, whether groundless, false, fraudulent or otherwise, that directly or indirectly relate to the subject matter of an indemnity, and the resulting losses, damages, expenses, attorneys’ fees and court costs, whether incurred by settlement or otherwise, and whether such claims or actions are threatened or filed prior to or after the termination of this Agreement.

1.9 “Confirmation” has the meaning set forth in Section 2.3.

1.10 “Contract Price” means the price in \$U.S. (unless otherwise provided for) to be paid by Buyer to Seller for the purchase of the Product, as specified in the Transaction.

1.11 “Costs” means, with respect to the Non-Defaulting Party, brokerage fees, commissions and other similar third party transaction costs and expenses reasonably incurred by such Party either in terminating any arrangement pursuant to which it has hedged its obligations or entering into new arrangements which replace a Terminated Transaction; and all reasonable attorneys’ fees and expenses incurred by the Non-Defaulting Party in connection with the termination of a Transaction.

1.12 “Credit Rating” means, with respect to any entity, the rating then assigned to such entity’s unsecured, senior long-term debt obligations (not supported by third party credit enhancements) or if such entity does not have a rating for its senior unsecured long-term debt, then the rating then assigned to such entity as an issues rating by S&P, Moody’s or any other rating agency agreed by the Parties as set forth in the Cover Sheet.

1.13 “Cross Default Amount” means the cross default amount, if any, set forth in the Cover Sheet for a Party.

1.14 “Defaulting Party” has the meaning set forth in Section 5.1.

1.15 “Delivery Period” means the period of delivery for a Transaction, as specified in the Transaction.

1.16 “Delivery Point” means the point at which the Product will be delivered and received, as specified in the Transaction.

1.17 “Downgrade Event” has the meaning set forth on the Cover Sheet.

1.18 “Early Termination Date” has the meaning set forth in Section 5.2.

1.19 “Effective Date” has the meaning set forth on the Cover Sheet.

1.20 “Equitable Defenses” means any bankruptcy, insolvency, reorganization and other laws affecting creditors’ rights generally, and with regard to equitable remedies, the discretion of the court before which proceedings to obtain same may be pending.

1.21 “Event of Default” has the meaning set forth in Section 5.1.

1.22 “FERC” means the Federal Energy Regulatory Commission or any successor government agency.

1.23 “Force Majeure” means an event or circumstance which prevents one Party from performing its obligations under one or more Transactions, which event or circumstance was not anticipated as of the date the Transaction was agreed to, which is not within the reasonable control of, or the result of the negligence of, the Claiming Party, and which, by the exercise of due diligence, the Claiming Party is unable to overcome or avoid or cause to be avoided. Force Majeure shall not be based on (i) the loss of Buyer’s markets; (ii) Buyer’s inability economically

to use or resell the Product purchased hereunder; (iii) the loss or failure of Seller's supply; or (iv) Seller's ability to sell the Product at a price greater than the Contract Price. Neither Party may raise a claim of Force Majeure based in whole or in part on curtailment by a Transmission Provider unless (i) such Party has contracted for firm transmission with a Transmission Provider for the Product to be delivered to or received at the Delivery Point and (ii) such curtailment is due to "force majeure" or "uncontrollable force" or a similar term as defined under the Transmission Provider's tariff; provided, however, that existence of the foregoing factors shall not be sufficient to conclusively or presumptively prove the existence of a Force Majeure absent a showing of other facts and circumstances which in the aggregate with such factors establish that a Force Majeure as defined in the first sentence hereof has occurred. The applicability of Force Majeure to the Transaction is governed by the terms of the Products and Related Definitions contained in Schedule P.

1.24 "Gains" means, with respect to any Party, an amount equal to the present value of the economic benefit to it, if any (exclusive of Costs), resulting from the termination of a Terminated Transaction, determined in a commercially reasonable manner.

1.25 "Guarantor" means, with respect to a Party, the guarantor, if any, specified for such Party on the Cover Sheet.

1.26 "Interest Rate" means, for any date, the lesser of (a) the per annum rate of interest equal to the prime lending rate as may from time to time be published in *The Wall Street Journal* under "Money Rates" on such day (or if not published on such day on the most recent preceding day on which published), plus two percent (2%) and (b) the maximum rate permitted by applicable law.

1.27 "Letter(s) of Credit" means one or more irrevocable, transferable standby letters of credit issued by a U.S. commercial bank or a foreign bank with a U.S. branch with such bank having a credit rating of at least A- from S&P or A3 from Moody's, in a form acceptable to the Party in whose favor the letter of credit is issued. Costs of a Letter of Credit shall be borne by the applicant for such Letter of Credit.

1.28 "Losses" means, with respect to any Party, an amount equal to the present value of the economic loss to it, if any (exclusive of Costs), resulting from termination of a Terminated Transaction, determined in a commercially reasonable manner.

1.29 "Master Agreement" has the meaning set forth on the Cover Sheet.

1.30 "Moody's" means Moody's Investor Services, Inc. or its successor.

1.31 "NERC Business Day" means any day except a Saturday, Sunday or a holiday as defined by the North American Electric Reliability Council or any successor organization thereto. A NERC Business Day shall open at 8:00 a.m. and close at 5:00 p.m. local time for the relevant Party's principal place of business. The relevant Party, in each instance unless otherwise specified, shall be the Party from whom the notice, payment or delivery is being sent and by whom the notice or payment or delivery is to be received.

1.32 “Non-Defaulting Party” has the meaning set forth in Section 5.2.

1.33 “Offsetting Transactions” mean any two or more outstanding Transactions, having the same or overlapping Delivery Period(s), Delivery Point and payment date, where under one or more of such Transactions, one Party is the Seller, and under the other such Transaction(s), the same Party is the Buyer.

1.34 “Option” means the right but not the obligation to purchase or sell a Product as specified in a Transaction.

1.35 “Option Buyer” means the Party specified in a Transaction as the purchaser of an option, as defined in Schedule P.

1.36 “Option Seller” means the Party specified in a Transaction as the seller of an option, as defined in Schedule P.

1.37 “Party A Collateral Threshold” means the collateral threshold, if any, set forth in the Cover Sheet for Party A.

1.38 “Party B Collateral Threshold” means the collateral threshold, if any, set forth in the Cover Sheet for Party B.

1.39 “Party A Independent Amount” means the amount, if any, set forth in the Cover Sheet for Party A.

1.40 “Party B Independent Amount” means the amount, if any, set forth in the Cover Sheet for Party B.

1.41 “Party A Rounding Amount” means the amount, if any, set forth in the Cover Sheet for Party A.

1.42 “Party B Rounding Amount” means the amount, if any, set forth in the Cover Sheet for Party B.

1.43 “Party A Tariff” means the tariff, if any, specified in the Cover Sheet for Party A.

1.44 “Party B Tariff” means the tariff, if any, specified in the Cover Sheet for Party B.

1.45 “Performance Assurance” means collateral in the form of either cash, Letter(s) of Credit, or other security acceptable to the Requesting Party.

1.46 “Potential Event of Default” means an event which, with notice or passage of time or both, would constitute an Event of Default.

1.47 “Product” means electric capacity, energy or other product(s) related thereto as specified in a Transaction by reference to a Product listed in Schedule P hereto or as otherwise specified by the Parties in the Transaction.

1.48 “Put Option” means an Option entitling, but not obligating, the Option Buyer to sell and deliver the Product to the Option Seller at a price equal to the Strike Price for the Delivery Period for which the option may be exercised, all as specified in a Transaction. Upon proper exercise of the Option by the Option Buyer, the Option Seller will be obligated to purchase and receive the Product.

1.49 “Quantity” means that quantity of the Product that Seller agrees to make available or sell and deliver, or cause to be delivered, to Buyer, and that Buyer agrees to purchase and receive, or cause to be received, from Seller as specified in the Transaction.

1.50 “Recording” has the meaning set forth in Section 2.4.

1.51 “Replacement Price” means the price at which Buyer, acting in a commercially reasonable manner, purchases at the Delivery Point a replacement for any Product specified in a Transaction but not delivered by Seller, plus (i) costs reasonably incurred by Buyer in purchasing such substitute Product and (ii) additional transmission charges, if any, reasonably incurred by Buyer to the Delivery Point, or at Buyer’s option, the market price at the Delivery Point for such Product not delivered as determined by Buyer in a commercially reasonable manner; provided, however, in no event shall such price include any penalties, ratcheted demand or similar charges, nor shall Buyer be required to utilize or change its utilization of its owned or controlled assets or market positions to minimize Seller’s liability. For the purposes of this definition, Buyer shall be considered to have purchased replacement Product to the extent Buyer shall have entered into one or more arrangements in a commercially reasonable manner whereby Buyer repurchases its obligation to sell and deliver the Product to another party at the Delivery Point.

1.52 “S&P” means the Standard & Poor’s Rating Group (a division of McGraw-Hill, Inc.) or its successor.

1.53 “Sales Price” means the price at which Seller, acting in a commercially reasonable manner, resells at the Delivery Point any Product not received by Buyer, deducting from such proceeds any (i) costs reasonably incurred by Seller in reselling such Product and (ii) additional transmission charges, if any, reasonably incurred by Seller in delivering such Product to the third party purchasers, or at Seller’s option, the market price at the Delivery Point for such Product not received as determined by Seller in a commercially reasonable manner; provided, however, in no event shall such price include any penalties, ratcheted demand or similar charges, nor shall Seller be required to utilize or change its utilization of its owned or controlled assets, including contractual assets, or market positions to minimize Buyer’s liability. For purposes of this definition, Seller shall be considered to have resold such Product to the extent Seller shall have entered into one or more arrangements in a commercially reasonable manner whereby Seller repurchases its obligation to purchase and receive the Product from another party at the Delivery Point.

1.54 “Schedule” or “Scheduling” means the actions of Seller, Buyer and/or their designated representatives, including each Party’s Transmission Providers, if applicable, of notifying, requesting and confirming to each other the quantity and type of Product to be delivered on any given day or days during the Delivery Period at a specified Delivery Point.

1.55 “Seller” means the Party to a Transaction that is obligated to sell and deliver, or cause to be delivered, the Product, as specified in the Transaction.

1.56 “Settlement Amount” means, with respect to a Transaction and the Non-Defaulting Party, the Losses or Gains, and Costs, expressed in U.S. Dollars, which such party incurs as a result of the liquidation of a Terminated Transaction pursuant to Section 5.2.

1.57 “Strike Price” means the price to be paid for the purchase of the Product pursuant to an Option.

1.58 “Terminated Transaction” has the meaning set forth in Section 5.2.

1.59 “Termination Payment” has the meaning set forth in Section 5.3.

1.60 “Transaction” means a particular transaction agreed to by the Parties relating to the sale and purchase of a Product pursuant to this Master Agreement.

1.61 “Transmission Provider” means any entity or entities transmitting or transporting the Product on behalf of Seller or Buyer to or from the Delivery Point in a particular Transaction.

ARTICLE TWO: TRANSACTION TERMS AND CONDITIONS

2.1 Transactions. A Transaction shall be entered into upon agreement of the Parties orally or, if expressly required by either Party with respect to a particular Transaction, in writing, including an electronic means of communication. Each Party agrees not to contest, or assert any defense to, the validity or enforceability of the Transaction entered into in accordance with this Master Agreement (i) based on any law requiring agreements to be in writing or to be signed by the parties, or (ii) based on any lack of authority of the Party or any lack of authority of any employee of the Party to enter into a Transaction.

2.2 Governing Terms. Unless otherwise specifically agreed, each Transaction between the Parties shall be governed by this Master Agreement. This Master Agreement (including all exhibits, schedules and any written supplements hereto), , the Party A Tariff, if any, and the Party B Tariff, if any, any designated collateral, credit support or margin agreement or similar arrangement between the Parties and all Transactions (including any Confirmations accepted in accordance with Section 2.3) shall form a single integrated agreement between the Parties. Any inconsistency between any terms of this Master Agreement and any terms of the Transaction shall be resolved in favor of the terms of such Transaction.

2.3 Confirmation. Seller may confirm a Transaction by forwarding to Buyer by facsimile within three (3) Business Days after the Transaction is entered into a confirmation (“Confirmation”) substantially in the form of Exhibit A. If Buyer objects to any term(s) of such Confirmation, Buyer shall notify Seller in writing of such objections within two (2) Business Days of Buyer’s receipt thereof, failing which Buyer shall be deemed to have accepted the terms as sent. If Seller fails to send a Confirmation within three (3) Business Days after the Transaction is entered into, a Confirmation substantially in the form of Exhibit A, may be forwarded by Buyer to Seller. If Seller objects to any term(s) of such Confirmation, Seller shall notify Buyer of such objections within two (2) Business Days of Seller’s receipt thereof, failing

which Seller shall be deemed to have accepted the terms as sent. If Seller and Buyer each send a Confirmation and neither Party objects to the other Party's Confirmation within two (2) Business Days of receipt, Seller's Confirmation shall be deemed to be accepted and shall be the controlling Confirmation, unless (i) Seller's Confirmation was sent more than three (3) Business Days after the Transaction was entered into and (ii) Buyer's Confirmation was sent prior to Seller's Confirmation, in which case Buyer's Confirmation shall be deemed to be accepted and shall be the controlling Confirmation. Failure by either Party to send or either Party to return an executed Confirmation or any objection by either Party shall not invalidate the Transaction agreed to by the Parties.

2.4 Additional Confirmation Terms. If the Parties have elected on the Cover Sheet to make this Section 2.4 applicable to this Master Agreement, when a Confirmation contains provisions, other than those provisions relating to the commercial terms of the Transaction (e.g., price or special transmission conditions), which modify or supplement the general terms and conditions of this Master Agreement (e.g., arbitration provisions or additional representations and warranties), such provisions shall not be deemed to be accepted pursuant to Section 2.3 unless agreed to either orally or in writing by the Parties; provided that the foregoing shall not invalidate any Transaction agreed to by the Parties.

2.5 Recording. Unless a Party expressly objects to a Recording (defined below) at the beginning of a telephone conversation, each Party consents to the creation of a tape or electronic recording ("Recording") of all telephone conversations between the Parties to this Master Agreement, and that any such Recordings will be retained in confidence, secured from improper access, and may be submitted in evidence in any proceeding or action relating to this Agreement. Each Party waives any further notice of such monitoring or recording, and agrees to notify its officers and employees of such monitoring or recording and to obtain any necessary consent of such officers and employees. The Recording, and the terms and conditions described therein, if admissible, shall be the controlling evidence for the Parties' agreement with respect to a particular Transaction in the event a Confirmation is not fully executed (or deemed accepted) by both Parties. Upon full execution (or deemed acceptance) of a Confirmation, such Confirmation shall control in the event of any conflict with the terms of a Recording, or in the event of any conflict with the terms of this Master Agreement.

ARTICLE THREE: OBLIGATIONS AND DELIVERIES

3.1 Seller's and Buyer's Obligations. With respect to each Transaction, Seller shall sell and deliver, or cause to be delivered, and Buyer shall purchase and receive, or cause to be received, the Quantity of the Product at the Delivery Point, and Buyer shall pay Seller the Contract Price; provided, however, with respect to Options, the obligations set forth in the preceding sentence shall only arise if the Option Buyer exercises its Option in accordance with its terms. Seller shall be responsible for any costs or charges imposed on or associated with the Product or its delivery of the Product up to the Delivery Point. Buyer shall be responsible for any costs or charges imposed on or associated with the Product or its receipt at and from the Delivery Point.

3.2 Transmission and Scheduling. Seller shall arrange and be responsible for transmission service to the Delivery Point and shall Schedule or arrange for Scheduling services

with its Transmission Providers, as specified by the Parties in the Transaction, or in the absence thereof, in accordance with the practice of the Transmission Providers, to deliver the Product to the Delivery Point. Buyer shall arrange and be responsible for transmission service at and from the Delivery Point and shall Schedule or arrange for Scheduling services with its Transmission Providers to receive the Product at the Delivery Point.

3.3 Force Majeure. To the extent either Party is prevented by Force Majeure from carrying out, in whole or part, its obligations under the Transaction and such Party (the “Claiming Party”) gives notice and details of the Force Majeure to the other Party as soon as practicable, then, unless the terms of the Product specify otherwise, the Claiming Party shall be excused from the performance of its obligations with respect to such Transaction (other than the obligation to make payments then due or becoming due with respect to performance prior to the Force Majeure). The Claiming Party shall remedy the Force Majeure with all reasonable dispatch. The non-Claiming Party shall not be required to perform or resume performance of its obligations to the Claiming Party corresponding to the obligations of the Claiming Party excused by Force Majeure.

ARTICLE FOUR: REMEDIES FOR FAILURE TO DELIVER/RECEIVE

4.1 Seller Failure. If Seller fails to schedule and/or deliver all or part of the Product pursuant to a Transaction, and such failure is not excused under the terms of the Product or by Buyer’s failure to perform, then Seller shall pay Buyer, on the date payment would otherwise be due in respect of the month in which the failure occurred or, if “Accelerated Payment of Damages” is specified on the Cover Sheet, within five (5) Business Days of invoice receipt, an amount for such deficiency equal to the positive difference, if any, obtained by subtracting the Contract Price from the Replacement Price. The invoice for such amount shall include a written statement explaining in reasonable detail the calculation of such amount.

4.2 Buyer Failure. If Buyer fails to schedule and/or receive all or part of the Product pursuant to a Transaction and such failure is not excused under the terms of the Product or by Seller’s failure to perform, then Buyer shall pay Seller, on the date payment would otherwise be due in respect of the month in which the failure occurred or, if “Accelerated Payment of Damages” is specified on the Cover Sheet, within five (5) Business Days of invoice receipt, an amount for such deficiency equal to the positive difference, if any, obtained by subtracting the Sales Price from the Contract Price. The invoice for such amount shall include a written statement explaining in reasonable detail the calculation of such amount.

ARTICLE FIVE: EVENTS OF DEFAULT; REMEDIES

5.1 Events of Default. An “Event of Default” shall mean, with respect to a Party (a “Defaulting Party”), the occurrence of any of the following:

- (a) the failure to make, when due, any payment required pursuant to this Agreement if such failure is not remedied within three (3) Business Days after written notice;

- (b) any representation or warranty made by such Party herein is false or misleading in any material respect when made or when deemed made or repeated;
- (c) the failure to perform any material covenant or obligation set forth in this Agreement (except to the extent constituting a separate Event of Default, and except for such Party's obligations to deliver or receive the Product, the exclusive remedy for which is provided in Article Four) if such failure is not remedied within three (3) Business Days after written notice;
- (d) such Party becomes Bankrupt;
- (e) the failure of such Party to satisfy the creditworthiness/collateral requirements agreed to pursuant to Article Eight hereof;
- (f) such Party consolidates or amalgamates with, or merges with or into, or transfers all or substantially all of its assets to, another entity and, at the time of such consolidation, amalgamation, merger or transfer, the resulting, surviving or transferee entity fails to assume all the obligations of such Party under this Agreement to which it or its predecessor was a party by operation of law or pursuant to an agreement reasonably satisfactory to the other Party;
- (g) if the applicable cross default section in the Cover Sheet is indicated for such Party, the occurrence and continuation of (i) a default, event of default or other similar condition or event in respect of such Party or any other party specified in the Cover Sheet for such Party under one or more agreements or instruments, individually or collectively, relating to indebtedness for borrowed money in an aggregate amount of not less than the applicable Cross Default Amount (as specified in the Cover Sheet), which results in such indebtedness becoming, or becoming capable at such time of being declared, immediately due and payable or (ii) a default by such Party or any other party specified in the Cover Sheet for such Party in making on the due date therefor one or more payments, individually or collectively, in an aggregate amount of not less than the applicable Cross Default Amount (as specified in the Cover Sheet);
- (h) with respect to such Party's Guarantor, if any:
 - (i) if any representation or warranty made by a Guarantor in connection with this Agreement is false or misleading in any material respect when made or when deemed made or repeated;
 - (ii) the failure of a Guarantor to make any payment required or to perform any other material covenant or obligation in any guaranty made in connection with this Agreement and such failure shall not be remedied within three (3) Business Days after written notice;

- (iii) a Guarantor becomes Bankrupt;
- (iv) the failure of a Guarantor's guaranty to be in full force and effect for purposes of this Agreement (other than in accordance with its terms) prior to the satisfaction of all obligations of such Party under each Transaction to which such guaranty shall relate without the written consent of the other Party; or
- (v) a Guarantor shall repudiate, disaffirm, disclaim, or reject, in whole or in part, or challenge the validity of any guaranty.

5.2 Declaration of an Early Termination Date and Calculation of Settlement Amounts. If an Event of Default with respect to a Defaulting Party shall have occurred and be continuing, the other Party (the "Non-Defaulting Party") shall have the right (i) to designate a day, no earlier than the day such notice is effective and no later than 20 days after such notice is effective, as an early termination date ("Early Termination Date") to accelerate all amounts owing between the Parties and to liquidate and terminate all, but not less than all, Transactions (each referred to as a "Terminated Transaction") between the Parties, (ii) withhold any payments due to the Defaulting Party under this Agreement and (iii) suspend performance. The Non-Defaulting Party shall calculate, in a commercially reasonable manner, a Settlement Amount for each such Terminated Transaction as of the Early Termination Date (or, to the extent that in the reasonable opinion of the Non-Defaulting Party certain of such Terminated Transactions are commercially impracticable to liquidate and terminate or may not be liquidated and terminated under applicable law on the Early Termination Date, as soon thereafter as is reasonably practicable).

5.3 Net Out of Settlement Amounts. The Non-Defaulting Party shall aggregate all Settlement Amounts into a single amount by: netting out (a) all Settlement Amounts that are due to the Defaulting Party, plus, at the option of the Non-Defaulting Party, any cash or other form of security then available to the Non-Defaulting Party pursuant to Article Eight, plus any or all other amounts due to the Defaulting Party under this Agreement against (b) all Settlement Amounts that are due to the Non-Defaulting Party, plus any or all other amounts due to the Non-Defaulting Party under this Agreement, so that all such amounts shall be netted out to a single liquidated amount (the "Termination Payment") payable by one Party to the other. The Termination Payment shall be due to or due from the Non-Defaulting Party as appropriate.

5.4 Notice of Payment of Termination Payment. As soon as practicable after a liquidation, notice shall be given by the Non-Defaulting Party to the Defaulting Party of the amount of the Termination Payment and whether the Termination Payment is due to or due from the Non-Defaulting Party. The notice shall include a written statement explaining in reasonable detail the calculation of such amount. The Termination Payment shall be made by the Party that owes it within two (2) Business Days after such notice is effective.

5.5 Disputes With Respect to Termination Payment. If the Defaulting Party disputes the Non-Defaulting Party's calculation of the Termination Payment, in whole or in part, the Defaulting Party shall, within two (2) Business Days of receipt of Non-Defaulting Party's calculation of the Termination Payment, provide to the Non-Defaulting Party a detailed written

explanation of the basis for such dispute; provided, however, that if the Termination Payment is due from the Defaulting Party, the Defaulting Party shall first transfer Performance Assurance to the Non-Defaulting Party in an amount equal to the Termination Payment.

5.6 Closeout Setoffs.

Option A: After calculation of a Termination Payment in accordance with Section 5.3, if the Defaulting Party would be owed the Termination Payment, the Non-Defaulting Party shall be entitled, at its option and in its discretion, to (i) set off against such Termination Payment any amounts due and owing by the Defaulting Party to the Non-Defaulting Party under any other agreements, instruments or undertakings between the Defaulting Party and the Non-Defaulting Party and/or (ii) to the extent the Transactions are not yet liquidated in accordance with Section 5.2, withhold payment of the Termination Payment to the Defaulting Party. The remedy provided for in this Section shall be without prejudice and in addition to any right of setoff, combination of accounts, lien or other right to which any Party is at any time otherwise entitled (whether by operation of law, contract or otherwise).

Option B: After calculation of a Termination Payment in accordance with Section 5.3, if the Defaulting Party would be owed the Termination Payment, the Non-Defaulting Party shall be entitled, at its option and in its discretion, to (i) set off against such Termination Payment any amounts due and owing by the Defaulting Party or any of its Affiliates to the Non-Defaulting Party or any of its Affiliates under any other agreements, instruments or undertakings between the Defaulting Party or any of its Affiliates and the Non-Defaulting Party or any of its Affiliates and/or (ii) to the extent the Transactions are not yet liquidated in accordance with Section 5.2, withhold payment of the Termination Payment to the Defaulting Party. The remedy provided for in this Section shall be without prejudice and in addition to any right of setoff, combination of accounts, lien or other right to which any Party is at any time otherwise entitled (whether by operation of law, contract or otherwise).

Option C: Neither Option A nor B shall apply.

5.7 Suspension of Performance. Notwithstanding any other provision of this Master Agreement, if (a) an Event of Default or (b) a Potential Event of Default shall have occurred and be continuing, the Non-Defaulting Party, upon written notice to the Defaulting Party, shall have the right (i) to suspend performance under any or all Transactions; provided, however, in no event shall any such suspension continue for longer than ten (10) NERC Business Days with respect to any single Transaction unless an early Termination Date shall have been declared and notice thereof pursuant to Section 5.2 given, and (ii) to the extent an Event of Default shall have occurred and be continuing to exercise any remedy available at law or in equity.

ARTICLE SIX: PAYMENT AND NETTING

6.1 Billing Period. Unless otherwise specifically agreed upon by the Parties in a Transaction, the calendar month shall be the standard period for all payments under this Agreement (other than Termination Payments and, if “Accelerated Payment of Damages” is specified by the Parties in the Cover Sheet, payments pursuant to Section 4.1 or 4.2 and Option premium payments pursuant to Section 6.7). As soon as practicable after the end of each month,

each Party will render to the other Party an invoice for the payment obligations, if any, incurred hereunder during the preceding month.

6.2 Timeliness of Payment. Unless otherwise agreed by the Parties in a Transaction, all invoices under this Master Agreement shall be due and payable in accordance with each Party's invoice instructions on or before the later of the twentieth (20th) day of each month, or tenth (10th) day after receipt of the invoice or, if such day is not a Business Day, then on the next Business Day. Each Party will make payments by electronic funds transfer, or by other mutually agreeable method(s), to the account designated by the other Party. Any amounts not paid by the due date will be deemed delinquent and will accrue interest at the Interest Rate, such interest to be calculated from and including the due date to but excluding the date the delinquent amount is paid in full.

6.3 Disputes and Adjustments of Invoices. A Party may, in good faith, dispute the correctness of any invoice or any adjustment to an invoice, rendered under this Agreement or adjust any invoice for any arithmetic or computational error within twelve (12) months of the date the invoice, or adjustment to an invoice, was rendered. In the event an invoice or portion thereof, or any other claim or adjustment arising hereunder, is disputed, payment of the undisputed portion of the invoice shall be required to be made when due, with notice of the objection given to the other Party. Any invoice dispute or invoice adjustment shall be in writing and shall state the basis for the dispute or adjustment. Payment of the disputed amount shall not be required until the dispute is resolved. Upon resolution of the dispute, any required payment shall be made within two (2) Business Days of such resolution along with interest accrued at the Interest Rate from and including the due date to but excluding the date paid. Inadvertent overpayments shall be returned upon request or deducted by the Party receiving such overpayment from subsequent payments, with interest accrued at the Interest Rate from and including the date of such overpayment to but excluding the date repaid or deducted by the Party receiving such overpayment. Any dispute with respect to an invoice is waived unless the other Party is notified in accordance with this Section 6.3 within twelve (12) months after the invoice is rendered or any specific adjustment to the invoice is made. If an invoice is not rendered within twelve (12) months after the close of the month during which performance of a Transaction occurred, the right to payment for such performance is waived.

6.4 Netting of Payments. The Parties hereby agree that they shall discharge mutual debts and payment obligations due and owing to each other on the same date pursuant to all Transactions through netting, in which case all amounts owed by each Party to the other Party for the purchase and sale of Products during the monthly billing period under this Master Agreement, including any related damages calculated pursuant to Article Four (unless one of the Parties elects to accelerate payment of such amounts as permitted by Article Four), interest, and payments or credits, shall be netted so that only the excess amount remaining due shall be paid by the Party who owes it.

6.5 Payment Obligation Absent Netting. If no mutual debts or payment obligations exist and only one Party owes a debt or obligation to the other during the monthly billing period, including, but not limited to, any related damage amounts calculated pursuant to Article Four, interest, and payments or credits, that Party shall pay such sum in full when due.

6.6 Security. Unless the Party benefiting from Performance Assurance or a guaranty notifies the other Party in writing, and except in connection with a liquidation and termination in accordance with Article Five, all amounts netted pursuant to this Article Six shall not take into account or include any Performance Assurance or guaranty which may be in effect to secure a Party's performance under this Agreement.

6.7 Payment for Options. The premium amount for the purchase of an Option shall be paid within two (2) Business Days of receipt of an invoice from the Option Seller. Upon exercise of an Option, payment for the Product underlying such Option shall be due in accordance with Section 6.1.

6.8 Transaction Netting. If the Parties enter into one or more Transactions, which in conjunction with one or more other outstanding Transactions, constitute Offsetting Transactions, then all such Offsetting Transactions may by agreement of the Parties, be netted into a single Transaction under which:

- (a) the Party obligated to deliver the greater amount of Energy will deliver the difference between the total amount it is obligated to deliver and the total amount to be delivered to it under the Offsetting Transactions, and
- (b) the Party owing the greater aggregate payment will pay the net difference owed between the Parties.

Each single Transaction resulting under this Section shall be deemed part of the single, indivisible contractual arrangement between the parties, and once such resulting Transaction occurs, outstanding obligations under the Offsetting Transactions which are satisfied by such offset shall terminate.

ARTICLE SEVEN: LIMITATIONS

7.1 Limitation of Remedies, Liability and Damages. EXCEPT AS SET FORTH HEREIN, THERE IS NO WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, AND ANY AND ALL IMPLIED WARRANTIES ARE DISCLAIMED. THE PARTIES CONFIRM THAT THE EXPRESS REMEDIES AND MEASURES OF DAMAGES PROVIDED IN THIS AGREEMENT SATISFY THE ESSENTIAL PURPOSES HEREOF. FOR BREACH OF ANY PROVISION FOR WHICH AN EXPRESS REMEDY OR MEASURE OF DAMAGES IS PROVIDED, SUCH EXPRESS REMEDY OR MEASURE OF DAMAGES SHALL BE THE SOLE AND EXCLUSIVE REMEDY, THE OBLIGOR'S LIABILITY SHALL BE LIMITED AS SET FORTH IN SUCH PROVISION AND ALL OTHER REMEDIES OR DAMAGES AT LAW OR IN EQUITY ARE WAIVED. IF NO REMEDY OR MEASURE OF DAMAGES IS EXPRESSLY PROVIDED HEREIN OR IN A TRANSACTION, THE OBLIGOR'S LIABILITY SHALL BE LIMITED TO DIRECT ACTUAL DAMAGES ONLY, SUCH DIRECT ACTUAL DAMAGES SHALL BE THE SOLE AND EXCLUSIVE REMEDY AND ALL OTHER REMEDIES OR DAMAGES AT LAW OR IN EQUITY ARE WAIVED. UNLESS EXPRESSLY HEREIN PROVIDED, NEITHER PARTY SHALL BE LIABLE FOR CONSEQUENTIAL, INCIDENTAL, PUNITIVE, EXEMPLARY OR INDIRECT DAMAGES, LOST PROFITS OR

OTHER BUSINESS INTERRUPTION DAMAGES, BY STATUTE, IN TORT OR CONTRACT, UNDER ANY INDEMNITY PROVISION OR OTHERWISE. IT IS THE INTENT OF THE PARTIES THAT THE LIMITATIONS HEREIN IMPOSED ON REMEDIES AND THE MEASURE OF DAMAGES BE WITHOUT REGARD TO THE CAUSE OR CAUSES RELATED THERETO, INCLUDING THE NEGLIGENCE OF ANY PARTY, WHETHER SUCH NEGLIGENCE BE SOLE, JOINT OR CONCURRENT, OR ACTIVE OR PASSIVE. TO THE EXTENT ANY DAMAGES REQUIRED TO BE PAID HEREUNDER ARE LIQUIDATED, THE PARTIES ACKNOWLEDGE THAT THE DAMAGES ARE DIFFICULT OR IMPOSSIBLE TO DETERMINE, OR OTHERWISE OBTAINING AN ADEQUATE REMEDY IS INCONVENIENT AND THE DAMAGES CALCULATED HEREUNDER CONSTITUTE A REASONABLE APPROXIMATION OF THE HARM OR LOSS.

ARTICLE EIGHT: CREDIT AND COLLATERAL REQUIREMENTS

8.1 Party A Credit Protection. The applicable credit and collateral requirements shall be as specified on the Cover Sheet. If no option in Section 8.1(a) is specified on the Cover Sheet, Section 8.1(a) Option C shall apply exclusively. If none of Sections 8.1(b), 8.1(c) or 8.1(d) are specified on the Cover Sheet, Section 8.1(b) shall apply exclusively.

(a) Financial Information. Option A: If requested by Party A, Party B shall deliver (i) within 120 days following the end of each fiscal year, a copy of Party B's annual report containing audited consolidated financial statements for such fiscal year and (ii) within 60 days after the end of each of its first three fiscal quarters of each fiscal year, a copy of Party B's quarterly report containing unaudited consolidated financial statements for such fiscal quarter. In all cases the statements shall be for the most recent accounting period and prepared in accordance with generally accepted accounting principles; provided, however, that should any such statements not be available on a timely basis due to a delay in preparation or certification, such delay shall not be an Event of Default so long as Party B diligently pursues the preparation, certification and delivery of the statements.

Option B: If requested by Party A, Party B shall deliver (i) within 120 days following the end of each fiscal year, a copy of the annual report containing audited consolidated financial statements for such fiscal year for the party(s) specified on the Cover Sheet and (ii) within 60 days after the end of each of its first three fiscal quarters of each fiscal year, a copy of quarterly report containing unaudited consolidated financial statements for such fiscal quarter for the party(s) specified on the Cover Sheet. In all cases the statements shall be for the most recent accounting period and shall be prepared in accordance with generally accepted accounting principles; provided, however, that should any such statements not be available on a timely basis due to a delay in preparation or certification, such delay shall not be an Event of Default so long as the relevant entity diligently pursues the preparation, certification and delivery of the statements.

Option C: Party A may request from Party B the information specified in the Cover Sheet.

(b) Credit Assurances. If Party A has reasonable grounds to believe that Party B's creditworthiness or performance under this Agreement has become unsatisfactory, Party A will provide Party B with written notice requesting Performance Assurance in an amount determined by Party A in a commercially reasonable manner. Upon receipt of such notice Party B shall have three (3) Business Days to remedy the situation by providing such Performance Assurance to Party A. In the event that Party B fails to provide such Performance Assurance, or a guaranty or other credit assurance acceptable to Party A within three (3) Business Days of receipt of notice, then an Event of Default under Article Five will be deemed to have occurred and Party A will be entitled to the remedies set forth in Article Five of this Master Agreement.

(c) Collateral Threshold. If at any time and from time to time during the term of this Agreement (and notwithstanding whether an Event of Default has occurred), the Termination Payment that would be owed to Party A plus Party B's Independent Amount, if any, exceeds the Party B Collateral Threshold, then Party A, on any Business Day, may request that Party B provide Performance Assurance in an amount equal to the amount by which the Termination Payment plus Party B's Independent Amount, if any, exceeds the Party B Collateral Threshold (rounding upwards for any fractional amount to the next Party B Rounding Amount) ("Party B Performance Assurance"), less any Party B Performance Assurance already posted with Party A. Such Party B Performance Assurance shall be delivered to Party A within three (3) Business Days of the date of such request. On any Business Day (but no more frequently than weekly with respect to Letters of Credit and daily with respect to cash), Party B, at its sole cost, may request that such Party B Performance Assurance be reduced correspondingly to the amount of such excess Termination Payment plus Party B's Independent Amount, if any, (rounding upwards for any fractional amount to the next Party B Rounding Amount). In the event that Party B fails to provide Party B Performance Assurance pursuant to the terms of this Article Eight within three (3) Business Days, then an Event of Default under Article Five shall be deemed to have occurred and Party A will be entitled to the remedies set forth in Article Five of this Master Agreement.

For purposes of this Section 8.1(c), the calculation of the Termination Payment shall be calculated pursuant to Section 5.3 by Party A as if all outstanding Transactions had been liquidated, and in addition thereto, shall include all amounts owed but not yet paid by Party B to Party A, whether or not such amounts are due, for performance already provided pursuant to any and all Transactions.

(d) Downgrade Event. If at any time there shall occur a Downgrade Event in respect of Party B, then Party A may require Party B to provide Performance Assurance in an amount determined by Party A in a commercially reasonable manner. In the event Party B shall fail to provide such Performance Assurance or a guaranty or other credit assurance acceptable to Party A within three (3) Business Days of receipt of notice, then an Event of Default shall be deemed to have occurred and Party A will be entitled to the remedies set forth in Article Five of this Master Agreement.

(e) If specified on the Cover Sheet, Party B shall deliver to Party A, prior to or concurrently with the execution and delivery of this Master Agreement a guarantee in an amount not less than the Guarantee Amount specified on the Cover Sheet and in a form reasonably acceptable to Party A.

8.2 Party B Credit Protection. The applicable credit and collateral requirements shall be as specified on the Cover Sheet. If no option in Section 8.2(a) is specified on the Cover Sheet, Section 8.2(a) Option C shall apply exclusively. If none of Sections 8.2(b), 8.2(c) or 8.2(d) are specified on the Cover Sheet, Section 8.2(b) shall apply exclusively.

(a) Financial Information. Option A: If requested by Party B, Party A shall deliver (i) within 120 days following the end of each fiscal year, a copy of Party A's annual report containing audited consolidated financial statements for such fiscal year and (ii) within 60 days after the end of each of its first three fiscal quarters of each fiscal year, a copy of such Party's quarterly report containing unaudited consolidated financial statements for such fiscal quarter. In all cases the statements shall be for the most recent accounting period and prepared in accordance with generally accepted accounting principles; provided, however, that should any such statements not be available on a timely basis due to a delay in preparation or certification, such delay shall not be an Event of Default so long as such Party diligently pursues the preparation, certification and delivery of the statements.

Option B: If requested by Party B, Party A shall deliver (i) within 120 days following the end of each fiscal year, a copy of the annual report containing audited consolidated financial statements for such fiscal year for the party(s) specified on the Cover Sheet and (ii) within 60 days after the end of each of its first three fiscal quarters of each fiscal year, a copy of quarterly report containing unaudited consolidated financial statements for such fiscal quarter for the party(s) specified on the Cover Sheet. In all cases the statements shall be for the most recent accounting period and shall be prepared in accordance with generally accepted accounting principles; provided, however, that should any such statements not be available on a timely basis due to a delay in preparation or certification, such delay shall not be an Event of Default so long as the relevant entity diligently pursues the preparation, certification and delivery of the statements.

Option C: Party B may request from Party A the information specified in the Cover Sheet.

(b) Credit Assurances. If Party B has reasonable grounds to believe that Party A's creditworthiness or performance under this Agreement has become unsatisfactory, Party B will provide Party A with written notice requesting Performance Assurance in an amount determined by Party B in a commercially reasonable manner. Upon receipt of such notice Party A shall have three (3) Business Days to remedy the situation by providing such Performance Assurance to Party B. In the event that Party A fails to provide such Performance Assurance, or a guaranty or other credit assurance acceptable to Party B within three (3) Business Days of receipt of notice, then an Event of Default under Article Five will be deemed to have occurred and Party B will be entitled to the remedies set forth in Article Five of this Master Agreement.

(c) Collateral Threshold. If at any time and from time to time during the term of this Agreement (and notwithstanding whether an Event of Default has occurred), the Termination Payment that would be owed to Party B plus Party A's Independent Amount, if any, exceeds the Party A Collateral Threshold, then Party B, on any Business Day, may request that Party A provide Performance Assurance in an amount equal to the amount by which the Termination Payment plus Party A's Independent Amount, if any, exceeds the Party A Collateral

Threshold (rounding upwards for any fractional amount to the next Party A Rounding Amount) (“Party A Performance Assurance”), less any Party A Performance Assurance already posted with Party B. Such Party A Performance Assurance shall be delivered to Party B within three (3) Business Days of the date of such request. On any Business Day (but no more frequently than weekly with respect to Letters of Credit and daily with respect to cash), Party A, at its sole cost, may request that such Party A Performance Assurance be reduced correspondingly to the amount of such excess Termination Payment plus Party A’s Independent Amount, if any, (rounding upwards for any fractional amount to the next Party A Rounding Amount). In the event that Party A fails to provide Party A Performance Assurance pursuant to the terms of this Article Eight within three (3) Business Days, then an Event of Default under Article Five shall be deemed to have occurred and Party B will be entitled to the remedies set forth in Article Five of this Master Agreement.

For purposes of this Section 8.2(c), the calculation of the Termination Payment shall be calculated pursuant to Section 5.3 by Party B as if all outstanding Transactions had been liquidated, and in addition thereto, shall include all amounts owed but not yet paid by Party A to Party B, whether or not such amounts are due, for performance already provided pursuant to any and all Transactions.

(d) Downgrade Event. If at any time there shall occur a Downgrade Event in respect of Party A, then Party B may require Party A to provide Performance Assurance in an amount determined by Party B in a commercially reasonable manner. In the event Party A shall fail to provide such Performance Assurance or a guaranty or other credit assurance acceptable to Party B within three (3) Business Days of receipt of notice, then an Event of Default shall be deemed to have occurred and Party B will be entitled to the remedies set forth in Article Five of this Master Agreement.

(e) If specified on the Cover Sheet, Party A shall deliver to Party B, prior to or concurrently with the execution and delivery of this Master Agreement a guarantee in an amount not less than the Guarantee Amount specified on the Cover Sheet and in a form reasonably acceptable to Party B.

8.3 Grant of Security Interest/Remedies. To secure its obligations under this Agreement and to the extent either or both Parties deliver Performance Assurance hereunder, each Party (a “Pledgor”) hereby grants to the other Party (the “Secured Party”) a present and continuing security interest in, and lien on (and right of setoff against), and assignment of, all cash collateral and cash equivalent collateral and any and all proceeds resulting therefrom or the liquidation thereof, whether now or hereafter held by, on behalf of, or for the benefit of, such Secured Party, and each Party agrees to take such action as the other Party reasonably requires in order to perfect the Secured Party’s first-priority security interest in, and lien on (and right of setoff against), such collateral and any and all proceeds resulting therefrom or from the liquidation thereof. Upon or any time after the occurrence or deemed occurrence and during the continuation of an Event of Default or an Early Termination Date, the Non-Defaulting Party may do any one or more of the following: (i) exercise any of the rights and remedies of a Secured Party with respect to all Performance Assurance, including any such rights and remedies under law then in effect; (ii) exercise its rights of setoff against any and all property of the Defaulting Party in the possession of the Non-Defaulting Party or its agent; (iii) draw on any outstanding

Letter of Credit issued for its benefit; and (iv) liquidate all Performance Assurance then held by or for the benefit of the Secured Party free from any claim or right of any nature whatsoever of the Defaulting Party, including any equity or right of purchase or redemption by the Defaulting Party. The Secured Party shall apply the proceeds of the collateral realized upon the exercise of any such rights or remedies to reduce the Pledgor's obligations under the Agreement (the Pledgor remaining liable for any amounts owing to the Secured Party after such application), subject to the Secured Party's obligation to return any surplus proceeds remaining after such obligations are satisfied in full.

ARTICLE NINE: GOVERNMENTAL CHARGES

9.1 Cooperation. Each Party shall use reasonable efforts to implement the provisions of and to administer this Master Agreement in accordance with the intent of the parties to minimize all taxes , so long as neither Party is materially adversely affected by such efforts.

9.2 Governmental Charges. Seller shall pay or cause to be paid all taxes imposed by any government authority("Governmental Charges") on or with respect to the Product or a Transaction arising prior to the Delivery Point. Buyer shall pay or cause to be paid all Governmental Charges on or with respect to the Product or a Transaction at and from the Delivery Point (other than ad valorem, franchise or income taxes which are related to the sale of the Product and are, therefore, the responsibility of the Seller). In the event Seller is required by law or regulation to remit or pay Governmental Charges which are Buyer's responsibility hereunder, Buyer shall promptly reimburse Seller for such Governmental Charges. If Buyer is required by law or regulation to remit or pay Governmental Charges which are Seller's responsibility hereunder, Buyer may deduct the amount of any such Governmental Charges from the sums due to Seller under Article 6 of this Agreement. Nothing shall obligate or cause a Party to pay or be liable to pay any Governmental Charges for which it is exempt under the law.

ARTICLE TEN: MISCELLANEOUS

10.1 Term of Master Agreement. The term of this Master Agreement shall commence on the Effective Date and shall remain in effect until terminated by either Party upon (thirty) 30 days' prior written notice; provided, however, that such termination shall not affect or excuse the performance of either Party under any provision of this Master Agreement that by its terms survives any such termination and, provided further, that this Master Agreement and any other documents executed and delivered hereunder shall remain in effect with respect to the Transaction(s) entered into prior to the effective date of such termination until both Parties have fulfilled all of their obligations with respect to such Transaction(s), or such Transaction(s) that have been terminated under Section 5.2 of this Agreement.

10.2 Representations and Warranties. On the Effective Date and the date of entering into each Transaction, each Party represents and warrants to the other Party that:

- (i) it is duly organized, validly existing and in good standing under the laws of the jurisdiction of its formation;

- (ii) it has all regulatory authorizations necessary for it to legally perform its obligations under this Master Agreement and each Transaction (including any Confirmation accepted in accordance with Section 2.3);
- (iii) the execution, delivery and performance of this Master Agreement and each Transaction (including any Confirmation accepted in accordance with Section 2.3) are within its powers, have been duly authorized by all necessary action and do not violate any of the terms and conditions in its governing documents, any contracts to which it is a party or any law, rule, regulation, order or the like applicable to it;
- (iv) this Master Agreement, each Transaction (including any Confirmation accepted in accordance with Section 2.3), and each other document executed and delivered in accordance with this Master Agreement constitutes its legally valid and binding obligation enforceable against it in accordance with its terms; subject to any Equitable Defenses.
- (v) it is not Bankrupt and there are no proceedings pending or being contemplated by it or, to its knowledge, threatened against it which would result in it being or becoming Bankrupt;
- (vi) there is not pending or, to its knowledge, threatened against it or any of its Affiliates any legal proceedings that could materially adversely affect its ability to perform its obligations under this Master Agreement and each Transaction (including any Confirmation accepted in accordance with Section 2.3);
- (vii) no Event of Default or Potential Event of Default with respect to it has occurred and is continuing and no such event or circumstance would occur as a result of its entering into or performing its obligations under this Master Agreement and each Transaction (including any Confirmation accepted in accordance with Section 2.3);
- (viii) it is acting for its own account, has made its own independent decision to enter into this Master Agreement and each Transaction (including any Confirmation accepted in accordance with Section 2.3) and as to whether this Master Agreement and each such Transaction (including any Confirmation accepted in accordance with Section 2.3) is appropriate or proper for it based upon its own judgment, is not relying upon the advice or recommendations of the other Party in so doing, and is capable of assessing the merits of and understanding, and understands and accepts, the terms, conditions and risks of this Master Agreement and each Transaction (including any Confirmation accepted in accordance with Section 2.3);
- (ix) it is a “forward contract merchant” within the meaning of the United States Bankruptcy Code;

- (x) it has entered into this Master Agreement and each Transaction (including any Confirmation accepted in accordance with Section 2.3) in connection with the conduct of its business and it has the capacity or ability to make or take delivery of all Products referred to in the Transaction to which it is a Party;
- (xi) with respect to each Transaction (including any Confirmation accepted in accordance with Section 2.3) involving the purchase or sale of a Product or an Option, it is a producer, processor, commercial user or merchant handling the Product, and it is entering into such Transaction for purposes related to its business as such; and
- (xii) the material economic terms of each Transaction are subject to individual negotiation by the Parties.

10.3 Title and Risk of Loss. Title to and risk of loss related to the Product shall transfer from Seller to Buyer at the Delivery Point. Seller warrants that it will deliver to Buyer the Quantity of the Product free and clear of all liens, security interests, claims and encumbrances or any interest therein or thereto by any person arising prior to the Delivery Point.

10.4 Indemnity. Each Party shall indemnify, defend and hold harmless the other Party from and against any Claims arising from or out of any event, circumstance, act or incident first occurring or existing during the period when control and title to Product is vested in such Party as provided in Section 10.3. Each Party shall indemnify, defend and hold harmless the other Party against any Governmental Charges for which such Party is responsible under Article Nine.

10.5 Assignment. Neither Party shall assign this Agreement or its rights hereunder without the prior written consent of the other Party, which consent may be withheld in the exercise of its sole discretion; provided, however, either Party may, without the consent of the other Party (and without relieving itself from liability hereunder), (i) transfer, sell, pledge, encumber or assign this Agreement or the accounts, revenues or proceeds hereof in connection with any financing or other financial arrangements, (ii) transfer or assign this Agreement to an affiliate of such Party which affiliate's creditworthiness is equal to or higher than that of such Party, or (iii) transfer or assign this Agreement to any person or entity succeeding to all or substantially all of the assets whose creditworthiness is equal to or higher than that of such Party; provided, however, that in each such case, any such assignee shall agree in writing to be bound by the terms and conditions hereof and so long as the transferring Party delivers such tax and enforceability assurance as the non-transferring Party may reasonably request.

10.6 Governing Law. THIS AGREEMENT AND THE RIGHTS AND DUTIES OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY AND CONSTRUED, ENFORCED AND PERFORMED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW. EACH PARTY WAIVES ITS RESPECTIVE RIGHT TO ANY JURY TRIAL WITH RESPECT TO ANY LITIGATION ARISING UNDER OR IN CONNECTION WITH THIS AGREEMENT.

10.7 Notices. All notices, requests, statements or payments shall be made as specified in the Cover Sheet. Notices (other than scheduling requests) shall, unless otherwise specified herein, be in writing and may be delivered by hand delivery, United States mail, overnight courier service or facsimile. Notice by facsimile or hand delivery shall be effective at the close of business on the day actually received, if received during business hours on a Business Day, and otherwise shall be effective at the close of business on the next Business Day. Notice by overnight United States mail or courier shall be effective on the next Business Day after it was sent. A Party may change its addresses by providing notice of same in accordance herewith.

10.8 General. This Master Agreement (including the exhibits, schedules and any written supplements hereto), the Party A Tariff, if any, the Party B Tariff, if any, any designated collateral, credit support or margin agreement or similar arrangement between the Parties and all Transactions (including any Confirmation accepted in accordance with Section 2.3) constitute the entire agreement between the Parties relating to the subject matter. Notwithstanding the foregoing, any collateral, credit support or margin agreement or similar arrangement between the Parties shall, upon designation by the Parties, be deemed part of this Agreement and shall be incorporated herein by reference. This Agreement shall be considered for all purposes as prepared through the joint efforts of the parties and shall not be construed against one party or the other as a result of the preparation, substitution, submission or other event of negotiation, drafting or execution hereof. Except to the extent herein provided for, no amendment or modification to this Master Agreement shall be enforceable unless reduced to writing and executed by both Parties. Each Party agrees if it seeks to amend any applicable wholesale power sales tariff during the term of this Agreement, such amendment will not in any way affect outstanding Transactions under this Agreement without the prior written consent of the other Party. Each Party further agrees that it will not assert, or defend itself, on the basis that any applicable tariff is inconsistent with this Agreement. This Agreement shall not impart any rights enforceable by any third party (other than a permitted successor or assignee bound to this Agreement). Waiver by a Party of any default by the other Party shall not be construed as a waiver of any other default. Any provision declared or rendered unlawful by any applicable court of law or regulatory agency or deemed unlawful because of a statutory change (individually or collectively, such events referred to as "Regulatory Event") will not otherwise affect the remaining lawful obligations that arise under this Agreement; and provided, further, that if a Regulatory Event occurs, the Parties shall use their best efforts to reform this Agreement in order to give effect to the original intention of the Parties. The term "including" when used in this Agreement shall be by way of example only and shall not be considered in any way to be in limitation. The headings used herein are for convenience and reference purposes only. All indemnity and audit rights shall survive the termination of this Agreement for twelve (12) months. This Agreement shall be binding on each Party's successors and permitted assigns.

10.9 Audit. Each Party has the right, at its sole expense and during normal working hours, to examine the records of the other Party to the extent reasonably necessary to verify the accuracy of any statement, charge or computation made pursuant to this Master Agreement. If requested, a Party shall provide to the other Party statements evidencing the Quantity delivered at the Delivery Point. If any such examination reveals any inaccuracy in any statement, the necessary adjustments in such statement and the payments thereof will be made promptly and shall bear interest calculated at the Interest Rate from the date the overpayment or underpayment was made until paid; provided, however, that no adjustment for any statement or payment will be

made unless objection to the accuracy thereof was made prior to the lapse of twelve (12) months from the rendition thereof, and thereafter any objection shall be deemed waived.

10.10 Forward Contract. The Parties acknowledge and agree that all Transactions constitute “forward contracts” within the meaning of the United States Bankruptcy Code.

10.11 Confidentiality. If the Parties have elected on the Cover Sheet to make this Section 10.11 applicable to this Master Agreement, neither Party shall disclose the terms or conditions of a Transaction under this Master Agreement to a third party (other than the Party’s employees, lenders, counsel, accountants or advisors who have a need to know such information and have agreed to keep such terms confidential) except in order to comply with any applicable law, regulation, or any exchange, control area or independent system operator rule or in connection with any court or regulatory proceeding; provided, however, each Party shall, to the extent practicable, use reasonable efforts to prevent or limit the disclosure. The Parties shall be entitled to all remedies available at law or in equity to enforce, or seek relief in connection with, this confidentiality obligation.

SCHEDULE M

(THIS SCHEDULE IS INCLUDED IF THE APPROPRIATE BOX ON THE COVER SHEET IS MARKED INDICATING A PARTY IS A GOVERNMENTAL ENTITY OR PUBLIC POWER SYSTEM)

- A. The Parties agree to add the following definitions in Article One.

“Act” means _____.¹

“Governmental Entity or Public Power System” means a municipality, county, governmental board, public power authority, public utility district, joint action agency, or other similar political subdivision or public entity of the United States, one or more States or territories or any combination thereof.

“Special Fund” means a fund or account of the Governmental Entity or Public Power System set aside and or pledged to satisfy the Public Power System’s obligations hereunder out of which amounts shall be paid to satisfy all of the Public Power System’s obligations under this Master Agreement for the entire Delivery Period.

- B. The following sentence shall be added to the end of the definition of “Force Majeure” in Article One.

If the Claiming Party is a Governmental Entity or Public Power System, Force Majeure does not include any action taken by the Governmental Entity or Public Power System in its governmental capacity.

- C. The Parties agree to add the following representations and warranties to Section 10.2:

Further and with respect to a Party that is a Governmental Entity or Public Power System, such Governmental Entity or Public Power System represents and warrants to the other Party continuing throughout the term of this Master Agreement, with respect to this Master Agreement and each Transaction, as follows: (i) all acts necessary to the valid execution, delivery and performance of this Master Agreement, including without limitation, competitive bidding, public notice, election, referendum, prior appropriation or other required procedures has or will be taken and performed as required under the Act and the Public Power System’s ordinances, bylaws or other regulations, (ii) all persons making up the governing body of Governmental Entity or Public Power System are the duly elected or appointed incumbents in their positions and hold such

¹ Cite the state enabling and other relevant statutes applicable to Governmental Entity or Public Power System.

positions in good standing in accordance with the Act and other applicable law, (iii) entry into and performance of this Master Agreement by Governmental Entity or Public Power System are for a proper public purpose within the meaning of the Act and all other relevant constitutional, organic or other governing documents and applicable law, (iv) the term of this Master Agreement does not extend beyond any applicable limitation imposed by the Act or other relevant constitutional, organic or other governing documents and applicable law, (v) the Public Power System's obligations to make payments hereunder are unsubordinated obligations and such payments are (a) operating and maintenance costs (or similar designation) which enjoy first priority of payment at all times under any and all bond ordinances or indentures to which it is a party, the Act and all other relevant constitutional, organic or other governing documents and applicable law or (b) otherwise not subject to any prior claim under any and all bond ordinances or indentures to which it is a party, the Act and all other relevant constitutional, organic or other governing documents and applicable law and are available without limitation or deduction to satisfy all Governmental Entity or Public Power System' obligations hereunder and under each Transaction or (c) are to be made solely from a Special Fund, (vi) entry into and performance of this Master Agreement and each Transaction by the Governmental Entity or Public Power System will not adversely affect the exclusion from gross income for federal income tax purposes of interest on any obligation of Governmental Entity or Public Power System otherwise entitled to such exclusion, and (vii) obligations to make payments hereunder do not constitute any kind of indebtedness of Governmental Entity or Public Power System or create any kind of lien on, or security interest in, any property or revenues of Governmental Entity or Public Power System which, in either case, is proscribed by any provision of the Act or any other relevant constitutional, organic or other governing documents and applicable law, any order or judgment of any court or other agency of government applicable to it or its assets, or any contractual restriction binding on or affecting it or any of its assets.

D. The Parties agree to add the following sections to Article Three:

Section 3.4 Public Power System's Deliveries. On the Effective Date and as a condition to the obligations of the other Party under this Agreement, Governmental Entity or Public Power System shall provide the other Party hereto (i) certified copies of all ordinances, resolutions, public notices and other documents evidencing the necessary authorizations with respect to the execution, delivery and performance by Governmental Entity or Public Power System of this Master Agreement and (ii) an opinion of counsel for Governmental Entity or Public Power System, in form and substance reasonably satisfactory to the Other Party, regarding the validity, binding effect and enforceability of this Master Agreement against Governmental Entity or Public Power System in

respect of the Act and all other relevant constitutional organic or other governing documents and applicable law.

Section 3.5 No Immunity Claim. Governmental Entity or Public Power System warrants and covenants that with respect to its contractual obligations hereunder and performance thereof, it will not claim immunity on the grounds of sovereignty or similar grounds with respect to itself or its revenues or assets from (a) suit, (b) jurisdiction of court (including a court located outside the jurisdiction of its organization), (c) relief by way of injunction, order for specific performance or recovery of property, (d) attachment of assets, or (e) execution or enforcement of any judgment.

E. If the appropriate box is checked on the Cover Sheet, as an alternative to selecting one of the options under Section 8.3, the Parties agree to add the following section to Article Three:

Section 3.6 Governmental Entity or Public Power System Security. With respect to each Transaction, Governmental Entity or Public Power System shall either (i) have created and set aside a Special Fund or (ii) upon execution of this Master Agreement and prior to the commencement of each subsequent fiscal year of Governmental Entity or Public Power System during any Delivery Period, have obtained all necessary budgetary approvals and certifications for payment of all of its obligations under this Master Agreement for such fiscal year; any breach of this provision shall be deemed to have arisen during a fiscal period of Governmental Entity or Public Power System for which budgetary approval or certification of its obligations under this Master Agreement is in effect and, notwithstanding anything to the contrary in Article Four, an Early Termination Date shall automatically and without further notice occur hereunder as of such date wherein Governmental Entity or Public Power System shall be treated as the Defaulting Party. Governmental Entity or Public Power System shall have allocated to the Special Fund or its general funds a revenue base that is adequate to cover Public Power System's payment obligations hereunder throughout the entire Delivery Period.

F. If the appropriate box is checked on the Cover Sheet, the Parties agree to add the following section to Article Eight:

Section 8.4 Governmental Security. As security for payment and performance of Public Power System's obligations hereunder, Public Power System hereby pledges, sets over, assigns and grants to the other Party a security interest in all of Public Power System's right, title and interest in and to [specify collateral].

G. The Parties agree to add the following sentence at the end of Section 10.6 -
Governing Law:

NOTWITHSTANDING THE FOREGOING, IN RESPECT OF THE
APPLICABILITY OF THE ACT AS HEREIN PROVIDED, THE LAWS
OF THE STATE OF _____² SHALL APPLY.

² Insert relevant state for Governmental Entity or Public Power System.

SCHEDULE P: PRODUCTS AND RELATED DEFINITIONS

“Ancillary Services” means any of the services identified by a Transmission Provider in its transmission tariff as “ancillary services” including, but not limited to, regulation and frequency response, energy imbalance, operating reserve-spinning and operating reserve-supplemental, as may be specified in the Transaction.

“Capacity” has the meaning specified in the Transaction.

“Energy” means three-phase, 60-cycle alternating current electric energy, expressed in megawatt hours.

“Firm (LD)” means, with respect to a Transaction, that either Party shall be relieved of its obligations to sell and deliver or purchase and receive without liability only to the extent that, and for the period during which, such performance is prevented by Force Majeure. In the absence of Force Majeure, the Party to which performance is owed shall be entitled to receive from the Party which failed to deliver/receive an amount determined pursuant to Article Four.

“Firm Transmission Contingent - Contract Path” means, with respect to a Transaction, that the performance of either Seller or Buyer (as specified in the Transaction) shall be excused, and no damages shall be payable including any amounts determined pursuant to Article Four, if the transmission for such Transaction is interrupted or curtailed and (i) such Party has provided for firm transmission with the transmission provider(s) for the Product in the case of the Seller from the generation source to the Delivery Point or in the case of the Buyer from the Delivery Point to the ultimate sink, and (ii) such interruption or curtailment is due to “force majeure” or “uncontrollable force” or a similar term as defined under the applicable transmission provider’s tariff. This contingency shall excuse performance for the duration of the interruption or curtailment notwithstanding the provisions of the definition of “Force Majeure” in Section 1.23 to the contrary.

“Firm Transmission Contingent - Delivery Point” means, with respect to a Transaction, that the performance of either Seller or Buyer (as specified in the Transaction) shall be excused, and no damages shall be payable including any amounts determined pursuant to Article Four, if the transmission to the Delivery Point (in the case of Seller) or from the Delivery Point (in the case of Buyer) for such Transaction is interrupted or curtailed and (i) such Party has provided for firm transmission with the transmission provider(s) for the Product, in the case of the Seller, to be delivered to the Delivery Point or, in the case of Buyer, to be received at the Delivery Point and (ii) such interruption or curtailment is due to “force majeure” or “uncontrollable force” or a similar term as defined under the applicable transmission provider’s tariff. This transmission contingency excuses performance for the duration of the interruption or curtailment, notwithstanding the provisions of the definition of “Force Majeure” in Section 1.23 to the contrary. Interruptions or curtailments of transmission other than the transmission either immediately to or from the Delivery Point shall not excuse performance

“Firm (No Force Majeure)” means, with respect to a Transaction, that if either Party fails to perform its obligation to sell and deliver or purchase and receive the Product, the Party to which performance is owed shall be entitled to receive from the Party which failed to perform an

amount determined pursuant to Article Four. Force Majeure shall not excuse performance of a Firm (No Force Majeure) Transaction.

“Into _____ (the “Receiving Transmission Provider”), Seller’s Daily Choice” means that, in accordance with the provisions set forth below, (1) the Product shall be scheduled and delivered to an interconnection or interface (“Interface”) either (a) on the Receiving Transmission Provider’s transmission system border or (b) within the control area of the Receiving Transmission Provider if the Product is from a source of generation in that control area, which Interface, in either case, the Receiving Transmission Provider identifies as available for delivery of the Product in or into its control area; and (2) Seller has the right on a daily prescheduled basis to designate the Interface where the Product shall be delivered. An “Into” Product shall be subject to the following provisions:

1. Prescheduling and Notification. Subject to the provisions of Section 6, not later than the prescheduling deadline of 11:00 a.m. CPT on the Business Day before the next delivery day or as otherwise agreed to by Buyer and Seller, Seller shall notify Buyer (“Seller’s Notification”) of Seller’s immediate upstream counterparty and the Interface (the “Designated Interface”) where Seller shall deliver the Product for the next delivery day, and Buyer shall notify Seller of Buyer’s immediate downstream counterparty.

2. Availability of “Firm Transmission” to Buyer at Designated Interface; “Timely Request for Transmission,” “ADI” and “Available Transmission.” In determining availability to Buyer of next-day firm transmission (“Firm Transmission”) from the Designated Interface, a “Timely Request for Transmission” shall mean a properly completed request for Firm Transmission made by Buyer in accordance with the controlling tariff procedures, which request shall be submitted to the Receiving Transmission Provider no later than 30 minutes after delivery of Seller’s Notification, provided, however, if the Receiving Transmission Provider is not accepting requests for Firm Transmission at the time of Seller’s Notification, then such request by Buyer shall be made within 30 minutes of the time when the Receiving Transmission Provider first opens thereafter for purposes of accepting requests for Firm Transmission.

Pursuant to the terms hereof, delivery of the Product may under certain circumstances be redesignated to occur at an Interface other than the Designated Interface (any such alternate designated interface, an “ADI”) either (a) on the Receiving Transmission Provider’s transmission system border or (b) within the control area of the Receiving Transmission Provider if the Product is from a source of generation in that control area, which ADI, in either case, the Receiving Transmission Provider identifies as available for delivery of the Product in or into its control area using either firm or non-firm transmission, as available on a day-ahead or hourly basis (individually or collectively referred to as “Available Transmission”) within the Receiving Transmission Provider’s transmission system.

3. Rights of Buyer and Seller Depending Upon Availability of/Timely Request for Firm Transmission.

A. Timely Request for Firm Transmission made by Buyer, Accepted by the Receiving Transmission Provider and Purchased by Buyer. If a Timely Request for Firm Transmission is made by Buyer and is accepted by the Receiving Transmission Provider

and Buyer purchases such Firm Transmission, then Seller shall deliver and Buyer shall receive the Product at the Designated Interface.

i. If the Firm Transmission purchased by Buyer within the Receiving Transmission Provider's transmission system from the Designated Interface ceases to be available to Buyer for any reason, or if Seller is unable to deliver the Product at the Designated Interface for any reason except Buyer's non-performance, then at Seller's choice from among the following, Seller shall: (a) to the extent Firm Transmission is available to Buyer from an ADI on a day-ahead basis, require Buyer to purchase such Firm Transmission from such ADI, and schedule and deliver the affected portion of the Product to such ADI on the basis of Buyer's purchase of Firm Transmission, or (b) require Buyer to purchase non-firm transmission, and schedule and deliver the affected portion of the Product on the basis of Buyer's purchase of non-firm transmission from the Designated Interface or an ADI designated by Seller, or (c) to the extent firm transmission is available on an hourly basis, require Buyer to purchase firm transmission, and schedule and deliver the affected portion of the Product on the basis of Buyer's purchase of such hourly firm transmission from the Designated Interface or an ADI designated by Seller.

ii. If the Available Transmission utilized by Buyer as required by Seller pursuant to Section 3A(i) ceases to be available to Buyer for any reason, then Seller shall again have those alternatives stated in Section 3A(i) in order to satisfy its obligations.

iii. Seller's obligation to schedule and deliver the Product at an ADI is subject to Buyer's obligation referenced in Section 4B to cooperate reasonably therewith. If Buyer and Seller cannot complete the scheduling and/or delivery at an ADI, then Buyer shall be deemed to have satisfied its receipt obligations to Seller and Seller shall be deemed to have failed its delivery obligations to Buyer, and Seller shall be liable to Buyer for amounts determined pursuant to Article Four.

iv. In each instance in which Buyer and Seller must make alternative scheduling arrangements for delivery at the Designated Interface or an ADI pursuant to Sections 3A(i) or (ii), and Firm Transmission had been purchased by both Seller and Buyer into and within the Receiving Transmission Provider's transmission system as to the scheduled delivery which could not be completed as a result of the interruption or curtailment of such Firm Transmission, Buyer and Seller shall bear their respective transmission expenses and/or associated congestion charges incurred in connection with efforts to complete delivery by such alternative scheduling and delivery arrangements. In any instance except as set forth in the immediately preceding sentence, Buyer and Seller must make alternative scheduling arrangements for delivery at the Designated Interface or an ADI under Sections 3A(i) or (ii), Seller shall be responsible for any additional transmission purchases and/or associated congestion charges incurred by Buyer in connection with such alternative scheduling arrangements.

B. Timely Request for Firm Transmission Made by Buyer but Rejected by the Receiving Transmission Provider. If Buyer's Timely Request for Firm Transmission is rejected by the Receiving Transmission Provider because of unavailability of Firm Transmission from the Designated Interface, then Buyer shall notify Seller within 15 minutes after receipt of the Receiving Transmission Provider's notice of rejection ("Buyer's Rejection Notice"). If Buyer timely notifies Seller of such unavailability of Firm Transmission from the Designated Interface, then Seller shall be obligated either (1) to the extent Firm Transmission is available to Buyer from an ADI on a day-ahead basis, to require Buyer to purchase (at Buyer's own expense) such Firm Transmission from such ADI and schedule and deliver the Product to such ADI on the basis of Buyer's purchase of Firm Transmission, and thereafter the provisions in Section 3A shall apply, or (2) to require Buyer to purchase (at Buyer's own expense) non-firm transmission, and schedule and deliver the Product on the basis of Buyer's purchase of non-firm transmission from the Designated Interface or an ADI designated by the Seller, in which case Seller shall bear the risk of interruption or curtailment of the non-firm transmission; provided, however, that if the non-firm transmission is interrupted or curtailed or if Seller is unable to deliver the Product for any reason, Seller shall have the right to schedule and deliver the Product to another ADI in order to satisfy its delivery obligations, in which case Seller shall be responsible for any additional transmission purchases and/or associated congestion charges incurred by Buyer in connection with Seller's inability to deliver the Product as originally prescheduled. If Buyer fails to timely notify Seller of the unavailability of Firm Transmission, then Buyer shall bear the risk of interruption or curtailment of transmission from the Designated Interface, and the provisions of Section 3D shall apply.

C. Timely Request for Firm Transmission Made by Buyer, Accepted by the Receiving Transmission Provider and not Purchased by Buyer. If Buyer's Timely Request for Firm Transmission is accepted by the Receiving Transmission Provider but Buyer elects to purchase non-firm transmission rather than Firm Transmission to take delivery of the Product, then Buyer shall bear the risk of interruption or curtailment of transmission from the Designated Interface. In such circumstances, if Seller's delivery is interrupted as a result of transmission relied upon by Buyer from the Designated Interface, then Seller shall be deemed to have satisfied its delivery obligations to Buyer, Buyer shall be deemed to have failed to receive the Product and Buyer shall be liable to Seller for amounts determined pursuant to Article Four.

D. No Timely Request for Firm Transmission Made by Buyer, or Buyer Fails to Timely Send Buyer's Rejection Notice. If Buyer fails to make a Timely Request for Firm Transmission or Buyer fails to timely deliver Buyer's Rejection Notice, then Buyer shall bear the risk of interruption or curtailment of transmission from the Designated Interface. In such circumstances, if Seller's delivery is interrupted as a result of transmission relied upon by Buyer from the Designated Interface, then Seller shall be deemed to have satisfied its delivery obligations to Buyer, Buyer shall be deemed to have failed to receive the Product and Buyer shall be liable to Seller for amounts determined pursuant to Article Four.

4. Transmission.

A. Seller's Responsibilities. Seller shall be responsible for transmission required to deliver the Product to the Designated Interface or ADI, as the case may be. It is expressly agreed that Seller is not required to utilize Firm Transmission for its delivery obligations hereunder, and Seller shall bear the risk of utilizing non-firm transmission. If Seller's scheduled delivery to Buyer is interrupted as a result of Buyer's attempted transmission of the Product beyond the Receiving Transmission Provider's system border, then Seller will be deemed to have satisfied its delivery obligations to Buyer, Buyer shall be deemed to have failed to receive the Product and Buyer shall be liable to Seller for damages pursuant to Article Four.

B. Buyer's Responsibilities. Buyer shall be responsible for transmission required to receive and transmit the Product at and from the Designated Interface or ADI, as the case may be, and except as specifically provided in Section 3A and 3B, shall be responsible for any costs associated with transmission therefrom. If Seller is attempting to complete the designation of an ADI as a result of Seller's rights and obligations hereunder, Buyer shall co-operate reasonably with Seller in order to effect such alternate designation.

5. Force Majeure. An "Into" Product shall be subject to the "Force Majeure" provisions in Section 1.23.

6. Multiple Parties in Delivery Chain Involving a Designated Interface. Seller and Buyer recognize that there may be multiple parties involved in the delivery and receipt of the Product at the Designated Interface or ADI to the extent that (1) Seller may be purchasing the Product from a succession of other sellers ("Other Sellers"), the first of which Other Sellers shall be causing the Product to be generated from a source ("Source Seller") and/or (2) Buyer may be selling the Product to a succession of other buyers ("Other Buyers"), the last of which Other Buyers shall be using the Product to serve its energy needs ("Sink Buyer"). Seller and Buyer further recognize that in certain Transactions neither Seller nor Buyer may originate the decision as to either (a) the original identification of the Designated Interface or ADI (which designation may be made by the Source Seller) or (b) the Timely Request for Firm Transmission or the purchase of other Available Transmission (which request may be made by the Sink Buyer). Accordingly, Seller and Buyer agree as follows:

A. If Seller is not the Source Seller, then Seller shall notify Buyer of the Designated Interface promptly after Seller is notified thereof by the Other Seller with whom Seller has a contractual relationship, but in no event may such designation of the Designated Interface be later than the prescheduling deadline pertaining to the Transaction between Buyer and Seller pursuant to Section 1.

B. If Buyer is not the Sink Buyer, then Buyer shall notify the Other Buyer with whom Buyer has a contractual relationship of the Designated Interface promptly after Seller notifies Buyer thereof, with the intent being that the party bearing actual responsibility to secure transmission shall have up to 30 minutes after receipt of the Designated Interface to submit its Timely Request for Firm Transmission.

C. Seller and Buyer each agree that any other communications or actions required to be given or made in connection with this “Into Product” (including without limitation, information relating to an ADI) shall be made or taken promptly after receipt of the relevant information from the Other Sellers and Other Buyers, as the case may be.

D. Seller and Buyer each agree that in certain Transactions time is of the essence and it may be desirable to provide necessary information to Other Sellers and Other Buyers in order to complete the scheduling and delivery of the Product. Accordingly, Seller and Buyer agree that each has the right, but not the obligation, to provide information at its own risk to Other Sellers and Other Buyers, as the case may be, in order to effect the prescheduling, scheduling and delivery of the Product

“Native Load” means the demand imposed on an electric utility or an entity by the requirements of retail customers located within a franchised service territory that the electric utility or entity has statutory obligation to serve.

“Non-Firm” means, with respect to a Transaction, that delivery or receipt of the Product may be interrupted for any reason or for no reason, without liability on the part of either Party.

“System Firm” means that the Product will be supplied from the owned or controlled generation or pre-existing purchased power assets of the system specified in the Transaction (the “System”) with non-firm transmission to and from the Delivery Point, unless a different Transmission Contingency is specified in a Transaction. Seller’s failure to deliver shall be excused: (i) by an event or circumstance which prevents Seller from performing its obligations, which event or circumstance was not anticipated as of the date the Transaction was agreed to, which is not within the reasonable control of, or the result of the negligence of, the Seller; (ii) by Buyer’s failure to perform; (iii) to the extent necessary to preserve the integrity of, or prevent or limit any instability on, the System; (iv) to the extent the System or the control area or reliability council within which the System operates declares an emergency condition, as determined in the system’s, or the control area’s, or reliability council’s reasonable judgment; or (v) by the interruption or curtailment of transmission to the Delivery Point or by the occurrence of any Transmission Contingency specified in a Transaction as excusing Seller’s performance. Buyer’s failure to receive shall be excused (i) by Force Majeure; (ii) by Seller’s failure to perform, or (iii) by the interruption or curtailment of transmission from the Delivery Point or by the occurrence of any Transmission Contingency specified in a Transaction as excusing Buyer’s performance. In any of such events, neither party shall be liable to the other for any damages, including any amounts determined pursuant to Article Four.

“Transmission Contingent” means, with respect to a Transaction, that the performance of either Seller or Buyer (as specified in the Transaction) shall be excused, and no damages shall be payable including any amounts determined pursuant to Article Four, if the transmission for such Transaction is unavailable or interrupted or curtailed for any reason, at any time, anywhere from the Seller’s proposed generating source to the Buyer’s proposed ultimate sink, regardless of whether transmission, if any, that such Party is attempting to secure and/or has purchased for the Product is firm or non-firm. If the transmission (whether firm or non-firm) that Seller or Buyer is attempting to secure is from source to sink is unavailable, this contingency excuses performance for the entire Transaction. If the transmission (whether firm or non-firm) that Seller

or Buyer has secured from source to sink is interrupted or curtailed for any reason, this contingency excuses performance for the duration of the interruption or curtailment notwithstanding the provisions of the definition of “Force Majeure” in Article 1.23 to the contrary.

“Unit Firm” means, with respect to a Transaction, that the Product subject to the Transaction is intended to be supplied from a generation asset or assets specified in the Transaction. Seller’s failure to deliver under a “Unit Firm” Transaction shall be excused: (i) if the specified generation asset(s) are unavailable as a result of a Forced Outage (as defined in the NERC Generating Unit Availability Data System (GADS) Forced Outage reporting guidelines) or (ii) by an event or circumstance that affects the specified generation asset(s) so as to prevent Seller from performing its obligations, which event or circumstance was not anticipated as of the date the Transaction was agreed to, and which is not within the reasonable control of, or the result of the negligence of, the Seller or (iii) by Buyer’s failure to perform. In any of such events, Seller shall not be liable to Buyer for any damages, including any amounts determined pursuant to Article Four.

EXHIBIT A

**MASTER POWER PURCHASE AND SALE AGREEMENT
CONFIRMATION LETTER**

This confirmation letter shall confirm the Transaction agreed to on _____, _____
between _____ (“Party A”) and _____ (“Party B”) _____
regarding the sale/purchase of the Product under the terms and conditions as follows:

Seller: _____

Buyer: _____

Product:

- Into _____, Seller’s Daily Choice
- Firm (LD)
- Firm (No Force Majeure)
- System Firm
(Specify System: _____)
- Unit Firm
(Specify Unit(s): _____)
- Other _____
- Transmission Contingency (If not marked, no transmission contingency)
 - FT-Contract Path Contingency Seller Buyer
 - FT-Delivery Point Contingency Seller Buyer
 - Transmission Contingent Seller Buyer
 - Other transmission contingency
(Specify: _____)

Contract Quantity: _____

Delivery Point: _____

Contract Price: _____

Energy Price: _____

Other Charges: _____

Confirmation Letter
Page 2

Delivery Period: _____
 Special Conditions: _____
 Scheduling: _____
 Option Buyer: _____
 Option Seller: _____
 Type of Option: _____
 Strike Price: _____
 Premium: _____
 Exercise Period: _____

This confirmation letter is being provided pursuant to and in accordance with the Master Power Purchase and Sale Agreement dated _____ (the "Master Agreement") between Party A and Party B, and constitutes part of and is subject to the terms and provisions of such Master Agreement. Terms used but not defined herein shall have the meanings ascribed to them in the Master Agreement.

[Party A]

[Party B]

Name: _____
 Title: _____
 Phone No: _____
 Fax: _____

Name: _____
 Title: _____
 Phone No: _____
 Fax: _____

Exhibit B

HISTORICAL MONTHLY PEAK DEMAND AND ENERGY REQUIREMENTS
JANUARY 2014 – JULY 2016

Borough of Middletown

Exhibit B

Peak Demand (MW)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Maximum
2014	17.7	15.4	14.8	9.9	8.6	11.9	12.5	11.8	11.6	7.8	13.4	12.7	17.7
2015	15.7	17.8	14.4	9.9	11.0	11.8	12.6	13.0	12.7	9.1	10.8	11.0	17.8
2016	15.8	15.6	11.9	10.7	10.6	11.3	13.8						15.8 YTD

Energy (MWh)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2014	8,967	7,458	7,130	4,845	4,473	5,231	5,807	5,341	4,727	4,395	5,995	6,980	71,349
2015	8,396	8,328	7,038	4,680	4,916	5,286	6,054	5,915	5,213	4,659	5,132	5,936	71,553
2016	8,110	7,270	5,532	4,803	4,680	5,304	6,578						42,277 YTD

Exhibit C

**NEW YORK POWER AUTHORITY LOAD DATA FOR THE PERIOD JANUARY 2014-
JULY 2016**

Borough of Middletown

Exhibit C

NYPA Preference Power (kWh)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2014	299,717	270,499	324,639	276,947	282,002	269,988	283,119	275,497	267,199	295,532	315,810	357,405	3,518,354
2015	343,405	312,447	342,315	290,216	306,262	374,834	283,119	321,602	306,027	327,083	337,661	374,915	3,919,886
2016	333,698	296,264	350,171	313,359	379,057	323,370	326,807						2,322,726 YTD

Exhibit D

BOROUGH OF MIDDLETOWN 2014 AUDITED FINANCIAL STATEMENT

**BOROUGH OF MIDDLETOWN
MIDDLETOWN, PENNSYLVANIA**

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

BOROUGH OF MIDDLETOWN
YEAR ENDED DECEMBER 31, 2014

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1 - 3
Basic Financial Statements:	
Government-Wide Financial Statements	
Statement of Net Position	4
Statement of Activities	5
Fund Financial Statements	
Balance Sheet – Governmental Funds	6
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	7
Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)	
– Governmental Funds	8
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund	
Balance of Governmental Funds to the Statement of Activities	9
Statement of Net Position – Enterprise Fund	10
Statement of Revenues, Expenses, and Changes in Fund Net Position – Enterprise Fund	11
Statement of Cash Flows – Enterprise Fund	12 - 13
Statement of Fiduciary Net Position – Fiduciary Funds	14
Statement of Changes in Fiduciary Net Position – Fiduciary Funds	15
Notes to Financial Statements	16 - 60
Required Supplementary Information	
Schedule of Employer Contributions and Funding Progress for Police Pension	62
Schedule of Employer Contributions and Funding Progress for Non-Uniform Pension	63
Schedule of Changes in the Net Pension Liability and Related Ratios – Last 10 Years for	
Police Pension	64
Schedule of Changes in the Net Pension Liability and Related Ratios – Last 10 Years for	
Non-Uniform Pension	65
Schedule of Employer Contributions – Last 10 Years	66
Schedule of Investment Returns – Last 10 Years	67
Schedule of Funding Progress for Postemployment Benefits Other than Pensions	68
Schedule of Revenues, Expenditures, and Changes in Fund Balance	
– Budget and Actual – General Fund	69
Other Supplementary Information	
Combining Balance Sheet – Nonmajor Governmental Funds	71
Combining Statement of Revenues, Expenditures, and Changes in Fund	
Balances (Deficit) – Nonmajor Governmental Funds	72
Combining Statement of Net Position Enterprise Fund – Water –	
Sewer Fund	73
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position	
Enterprise Fund – Water – Sewer Fund	74
Combining Statement of Net Position – Enterprise Fund – Electric Fund	75
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position	
Enterprise Fund – Electric Fund	76

Zelenkofske Axelrod LLC

INDEPENDENT AUDITORS' REPORT

To the Borough Council
Borough of Middletown
Middletown, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Borough of Middletown, Pennsylvania (the "Borough"), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Borough'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 audit. We did not audit the financial statements of the Middletown Borough Authority, which represents 57.65 percent and 0.52 percent, respectively, of the assets and revenues of the business type activities. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Middletown Borough Authority, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Middletown Borough Authority and the Middletown Borough Industrial and Commercial Development Authority were not audited in accordance with *Governmental Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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.

Harrisburg

830 Sir Thomas Court, Suite 100
Harrisburg, PA 17109
717.561.9200 Fax 717.561.9202

Philadelphia

2370 York Road, Suite A-5
Jamison, Pa 18929
215.918.2277 Fax 215.918.2302

Pittsburgh

3800 McKnight E. Drive, Suite 3805
Pittsburgh, PA 15237
412.367.7102 Fax 412.367.7103

Greensburg

210 Tollgate Hill Road
Greensburg, PA 15601
724.834.2151 Fax 724.834.5969

Zelenkofske Axelrod LLC

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Borough, as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of Governmental Accounting Standards Board Principles

As discussed in Note 1 to the financial statements in 2014, the Borough adopted the provisions of the Governmental Accounting Standard Board ("GASB") Statement No. 67, "*Financial Reporting for Pensions Plans – an amendment of GASB Statements No. 25*" and GASB Statement No. 70, "*Accounting and Financial Reporting for Nonexchange Financial Guarantees*". Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedule of employer contributions and funding progress for police pension, schedule of employer contributions and funding progress for non-uniform pension, schedule of changes in the net pension liability and related ratios – last 10 years for police pension, schedule of changes in the net pension liability and related ratios – last 10 years for non-uniform pension, schedule of employer contributions – last 10 years, schedule of investment returns, schedule of funding progress for postemployment benefits other than pensions, and budgetary comparison information on pages 62 through 69, 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 audit 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.

Zelenkofske Axelrod LLC

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Borough's basic financial statements. The combining and individual nonmajor fund financial statements on pages 71 through 76 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit 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 by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Omission of Management's Discussion and Analysis

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Requirements under *Governmental Auditing Standards*

In accordance with *Governmental Auditing Standards*, we have also issued our report dated March 4, 2016, on our consideration of the Borough's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the Borough's internal control over financial reporting and compliance.

Zelenkofske Axelrod LLC

ZELENKOFSCHE AXELROD LLC

Harrisburg, Pennsylvania
March 4, 2016

BOROUGH OF MIDDLETOWN
STATEMENT OF NET POSITION
DECEMBER 31, 2014

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Unrestricted:			
Cash and Cash Equivalents	\$ 8,614,797	\$ 12,343,126	\$ 20,957,923
Receivables:			
Accounts	406,826	1,996,012	2,402,838
Taxes	550,311	-	550,311
Notes Receivable	49,471	-	49,471
Loan Proceeds	1,481,641	-	1,481,641
Due From Other Governments	1,281,136	45,549	1,326,685
Internal Balances	460,993	(460,993)	-
Prepaid Assets	49,406	6,931	56,337
Other Assets	50	-	50
Total Current Assets	<u>12,894,631</u>	<u>13,930,625</u>	<u>26,825,256</u>
Noncurrent Assets:			
Restricted Cash and Cash Equivalents	48	17,787,781	17,787,829
Restricted Investments	179,000	-	179,000
Investment in Joint Venture	22,407	-	22,407
Service Concession Arrangement Receivable, Net of discount of \$19,822,955	-	9,962,045	9,962,045
Net Pension Asset	1,991,112	1,947,236	3,938,348
Net Other Postemployment Benefits Asset	2,288,944	2,292,669	4,581,613
Capital Assets Not Being Depreciated	401,341	2,971,036	3,372,377
Capital Assets Net of Accumulated Depreciation	5,269,673	28,646,976	33,916,649
Total Noncurrent Assets	<u>10,152,525</u>	<u>63,607,743</u>	<u>73,760,268</u>
Total Assets	<u>23,047,156</u>	<u>77,538,368</u>	<u>100,585,524</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	316,392	1,687,537	2,003,929
Accrued Interest Payable	110,445	-	110,445
Accrued Salaries	40,209	141,487	181,696
Escrowed Liabilities	-	8,843	8,843
Unearned Revenue	169,450	-	169,450
Capital Lease Payable	25,596	-	25,596
Current Portion of Bonds Payable	91,561	291,959	383,520
Total Current Liabilities	<u>753,653</u>	<u>2,129,826</u>	<u>2,883,479</u>
Long-Term Liabilities:			
Security Deposits	-	109,090	109,090
Line of Credit	-	528,500	528,500
Long-Term Portion of Bonds Payable	2,660,318	7,358,840	10,019,158
Compensated Absences	299,631	12,265	311,896
Total Noncurrent Liabilities	<u>2,959,949</u>	<u>8,008,695</u>	<u>10,968,644</u>
Total Liabilities	<u>3,713,602</u>	<u>10,138,521</u>	<u>13,852,123</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows of Resources, Service Concession Arrangement, net of discount of \$19,822,955	-	53,171,711	53,171,711
Total Deferred Inflows of Resources	<u>-</u>	<u>53,171,711</u>	<u>53,171,711</u>
NET POSITION			
Net Investment in Capital Assets	4,693,357	30,337,779	35,031,136
Restricted for:			
Electric Trust	-	9,328,359	9,328,359
Economic Development	-	410,373	410,373
Program Purposes	971,349	-	971,349
Capital Projects	2,187,157	447,533	2,634,690
Unrestricted	11,481,691	(26,295,908)	(14,814,217)
Total Net Position	<u>\$ 19,333,554</u>	<u>\$ 14,228,136</u>	<u>\$ 33,561,690</u>

The accompanying notes are an integral part of the financial statements.

BOROUGH OF MIDDLETOWN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014

Functions/Programs	Program Revenues				Net (Expenses) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
General Government - Administration	\$ 1,542,615	\$ 137,760	\$ -	\$ -	\$ (1,404,855)	\$ -	\$ (1,404,855)
Public Safety	2,774,759	143,394	250,000	-	(2,381,365)	-	(2,381,365)
Public Works	1,810,360	905,959	232,557	1,119,823	447,979	-	447,979
Parks and Recreation	302,102	-	-	-	(302,102)	-	(302,102)
Library	29,499	-	-	-	(29,499)	-	(29,499)
Interest Expense	109,930	-	-	-	(109,930)	-	(109,930)
Total Governmental Activities	6,569,265	1,187,113	482,557	1,119,823	(3,779,772)	-	(3,779,772)
Business-Type Activities:							
Water-Sewer Operations	6,703,241	5,951,154	-	-	-	(752,087)	(752,087)
Electric Operations	7,235,951	8,115,897	-	-	-	879,946	879,946
Economic Development	274,244	36,365	-	-	-	(237,879)	(237,879)
Total Business-Type Activities	14,213,436	14,103,416	-	-	-	(110,020)	(110,020)
Total Primary Government	\$ 20,782,701	\$ 15,290,529	\$ 482,557	\$ 1,119,823	(3,779,772)	(110,020)	(3,889,792)
General Revenues:							
Taxes:							
Property					1,481,185	-	1,481,185
Transfer					70,753	-	70,753
Earned Income Tax					737,032	-	737,032
Business and Mercantile					64,146	-	64,146
Other					84,847	-	84,847
Operating Transfers					10,039,292	(10,039,292)	-
Investment Earnings and Rents					1,071	5,536	6,607
Homestead Program Interest					758	-	758
Miscellaneous					50,542	-	50,542
Total General Revenues					12,529,626	(10,033,756)	2,495,870
Change in Net Position					8,749,854	(10,143,776)	(1,393,922)
Net Position - Beginning, as Restated (Note 28)					10,583,700	24,371,912	34,955,612
Net Position - Ending					\$ 19,333,554	\$ 14,228,136	\$ 33,561,690

The accompanying notes are an integral part of the financial statements.

BOROUGH OF MIDDLETOWN
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2014

	General	Capital Projects	Flood Relief	Lease Proceeds	Nonmajor Governmental Funds	Total Governmental Funds
<u>ASSETS</u>						
Cash and Cash Equivalents						
Operating	\$ 1,068,991	\$ -	\$ 1,882,411	\$ 4,389,157	\$ 1,274,238	\$ 8,614,797
Restricted	-	48	-	-	-	48
Investments						
Restricted	-	179,000	-	-	-	179,000
Accounts Receivable	406,826	-	-	-	-	406,826
Taxes Receivable	547,802	-	-	-	2,509	550,311
Loan Proceeds Receivable	-	-	-	-	1,481,641	1,481,641
Notes Receivable	-	-	-	-	49,471	49,471
Prepaid Assets	49,406	-	-	-	-	49,406
Other Assets	-	50	-	-	-	50
Due from Other Governments	121,291	171,220	988,625	-	-	1,281,136
Due From Other Funds	3,535,534	2,160,652	-	-	18,359	5,714,545
Total Assets	\$ 5,729,850	\$ 2,510,970	\$ 2,871,036	\$ 4,389,157	\$ 2,826,218	\$ 18,327,231
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</u>						
Liabilities:						
Accounts Payable	\$ 282,382	\$ -	\$ -	\$ 423	\$ 33,587	\$ 316,392
Accrued Salaries	40,209	-	-	-	-	40,209
Due To Other Funds	-	323,813	4,521,581	124,545	283,613	5,253,552
Unearned Revenue	108,478	-	-	-	60,972	169,450
Total Liabilities	431,069	323,813	4,521,581	124,968	378,172	5,779,603
Deferred Inflows Of Resources:						
Unavailable Revenue - Property Taxes	286,255	-	-	-	2,509	288,764
Total Deferred Inflows Of Resources	286,255	-	-	-	2,509	288,764
Fund Balances (Deficit):						
Nonspendable	49,406	-	-	-	1,531,112	1,580,518
Restricted for:						
Highway Aid	-	-	-	-	776,631	776,631
Rehabilitation Program	-	-	-	-	13,125	13,125
Fire Sinking	-	-	-	-	181,593	181,593
Capital Projects	-	2,187,157	-	-	-	2,187,157
Assigned to:						
Charity	45,861	-	-	-	-	45,861
Police Sinking	1	-	-	-	-	1
Unassigned (Deficit)	4,917,258	-	(1,650,545)	4,264,189	(56,924)	7,473,978
Total Fund Balances (Deficit)	5,012,526	2,187,157	(1,650,545)	4,264,189	2,445,537	12,258,864
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 5,729,850	\$ 2,510,970	\$ 2,871,036	\$ 4,389,157	\$ 2,826,218	\$ 18,327,231

The accompanying notes are an integral part of the financial statements.

BOROUGH OF MIDDLETOWN
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2014

Total fund balances for governmental funds		\$ 12,258,864
Total net position reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:		
Capital Assets Not Being Depreciated	401,341	
Capital Assets Net of \$12,548,816 Accumulated Depreciation	<u>5,269,673</u>	
Total Capital Assets		5,671,014
Some of the Borough's taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as unavailable revenue - property taxes in the funds.		
		288,764
Other assets are not available to pay for current-period expenditures:		
Net Pension Asset	1,991,112	
Net Other Postemployment Benefits Asset	2,288,944	
Investment in Joint Venture	<u>22,407</u>	
		4,302,463
Long-term liabilities applicable to the Borough's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities - both current and long-term are reported in the statement of net position.		
Balances at December 31, 2014 are:		
Unamortized Premium	(7,618)	
Accrued Interest on Bonds and Loan	(110,445)	
Capital Lease Payable	(25,596)	
Compensated Absences	(299,631)	
Bonds Payable	<u>(2,744,261)</u>	
		<u>(3,187,551)</u>
Total net position of governmental activities		<u>\$ 19,333,554</u>

The accompanying notes are an integral part of the financial statements.

BOROUGH OF MIDDLETOWN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (DEFICIT) - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	General	Capital Projects	Flood Relief	Lease Proceeds	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES						
Taxes	\$ 2,403,638	\$ -	\$ -	\$ -	\$ 6,894	\$ 2,410,532
Licenses and Permits	96,759	-	-	-	-	96,759
Fines and Forfeitures	46,635	-	-	-	-	46,635
Interest and Rents	53	473	63	259	223	1,071
Intergovernmental	421,809	392,629	614,634	-	173,308	1,602,380
Charges for Services	1,043,719	-	-	-	-	1,043,719
Homestead Program Interest	-	-	-	-	758	758
Miscellaneous Income	30,683	-	13,444	-	6,415	50,542
Total Revenues	4,043,296	393,102	628,141	259	187,598	5,252,396
EXPENDITURES						
Current:						
General Government - Administration	751,453	1,051,217	-	-	-	1,802,670
Public Safety	6,149,330	-	-	-	-	6,149,330
Public Works	2,027,550	-	434,882	-	33,374	2,495,806
Parks and Recreation	368,364	-	-	-	-	368,364
Library	24,939	-	-	-	-	24,939
Debt Service:						
Principal	-	-	-	-	1,606,420	1,606,420
Interest	-	252	-	-	89,717	89,969
Total Expenditures	9,321,636	1,051,469	434,882	-	1,729,511	12,537,498
Excess of Revenues Under Expenditures	(5,278,340)	(658,367)	193,259	259	(1,541,913)	(7,285,102)
Other Financing Sources (Uses)						
Loan Proceeds	-	-	-	-	1,500,000	1,500,000
Note Repayments	-	500,000	-	-	-	500,000
Transfers In	6,370,545	800,000	-	4,388,475	1,414,628	12,973,648
Transfers Out	(165,000)	(1,721,268)	(800,000)	(124,545)	(123,543)	(2,934,356)
Total Other Financing Sources	6,205,545	(421,268)	(800,000)	4,263,930	2,791,085	12,039,292
Net Change in Fund Balances	927,205	(1,079,635)	(606,741)	4,264,189	1,249,172	4,754,190
Fund Balances (Deficit) - January 1, 2014	4,085,321	3,266,792	(1,043,804)	-	1,196,365	7,504,674
Fund Balances (Deficit) - December 31, 2014	\$ 5,012,526	\$ 2,187,157	\$ (1,650,545)	\$ 4,264,189	\$ 2,445,537	\$ 12,258,864

The accompanying notes are an integral part of the financial statements.

BOROUGH OF MIDDLETOWN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014

Net change in fund balance - total governmental funds \$ 4,754,190

The change in net position reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$406,981) in the current period is exceeded by depreciation (\$442,774). (35,793)

Long term receivables applicable to the Borough's governmental funds not receivable within the current period are not reported as fund assets. Receivables are considered expenditures in the year the receivable is established, and revenues in the year it is repaid. On the statement of net position, however, repayments of long term receivables result in a reduction of the receivable amount and does not affect the statement of activities. (500,000)

Debt proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.

Debt Issued:			
Revenue Note		(1,500,000)	
Repayments:			
General Obligation Debt		1,606,420	
Capital Leases		24,392	
Net adjustment		130,812	130,812

Under the modified accrual basis of accounting used in governmental funds, revenues are not reported until they become available. In the statement of activities, however, revenues are recorded regardless of when financial resources are available.

Unavailable Revenue - Property Taxes	27,431	
Decrease in Investment in Joint Venture	(15,520)	11,911

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the net changes in the following items:

Bond Proceeds - Premium	846	
Compensated Absences	(5,340)	
Accrued Interest	(5,287)	
Net Pension Asset	1,991,112	
Net Other Postemployment Benefits Asset	2,407,403	4,388,734

Change in net position of governmental activities \$ 8,749,854

The accompanying notes are an integral part of the financial statements.

BOROUGH OF MIDDLETOWN
STATEMENT OF NET POSITION
ENTERPRISE FUND
DECEMBER 31, 2014

Business Type Activities - Enterprise Fund

	Water-Sewer Fund	Electric Fund	Middletown Borough Industrial and Commercial Development Fund	Total
ASSETS				
Current Assets:				
Unrestricted:				
Cash and Cash Equivalents	\$ 9,086,656	\$ 2,977,608	\$ 278,862	\$ 12,343,126
Due from Other Funds	124,545	-	336,158	460,703
Accounts Receivables	1,180,595	815,417	-	1,996,012
Prepaid Expenses	-	6,931	-	6,931
Due from Other Governments	45,549	-	-	45,549
Total Current Assets	10,437,345	3,799,956	615,020	14,852,321
Noncurrent Assets:				
Restricted:				
Cash and Cash Equivalents	6,907,909	10,303,760	576,112	17,787,781
Service Concession Arrangement Receivable, Net of discount of \$19,822,955	9,962,045	-	-	9,962,045
Net Pension Asset	1,389,532	557,704	-	1,947,236
Other Postemployment Benefits Asset	1,527,277	765,392	-	2,292,669
Capital Assets Not Being Depreciated	2,379,550	436,986	154,500	2,971,036
Capital Assets Net of Accumulated Depreciation	25,309,126	2,494,602	843,248	28,646,976
Total Noncurrent Assets	47,475,439	14,558,444	1,573,860	63,607,743
Total Assets	57,912,784	18,358,400	2,188,880	78,460,064
LIABILITIES				
Current Liabilities:				
Accounts Payable	1,064,605	584,370	38,562	1,687,537
Accrued Salaries	132,167	9,320	-	141,487
Developer Escrows	8,843	-	-	8,843
Due to Other Funds	429,576	415,878	76,242	921,696
Current Portion of Bonds Payable	210,000	81,959	-	291,959
Total Current Liabilities	1,845,191	1,091,527	114,804	3,051,522
Long-Term Liabilities:				
Security Deposits	-	107,193	1,897	109,090
Line of Credit	-	-	528,500	528,500
Long-Term Portion of Bonds Payable	6,540,000	818,840	-	7,358,840
Compensated Absences	-	12,265	-	12,265
Total Noncurrent Liabilities	6,540,000	938,298	530,397	8,008,695
Total Liabilities	8,385,191	2,029,825	645,201	11,060,217
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflows of Resources, Service Concession Arrangement, net of discount of \$19,822,955	53,171,711	-	-	53,171,711
Total Deferred Inflows of Resources	53,171,711	-	-	53,171,711
NET POSITION				
Net Investment in Capital Assets	27,837,742	2,030,789	469,248	30,337,779
Restricted:				
Capital Projects	-	447,533	-	447,533
Electric Trust	-	9,328,359	-	9,328,359
Economic Development	-	-	410,373	410,373
Unrestricted Net Position	(31,481,860)	4,521,894	664,058	(26,295,908)
Total Net Position	\$ (3,644,118)	\$ 16,328,575	\$ 1,543,679	\$ 14,228,136

The accompanying notes are an integral part of the financial statements.

BOROUGH OF MIDDLETOWN
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014

	Business Type Activities - Enterprise Fund			
	Water-Sewer Fund	Electric Fund	Middletown Borough Industrial and Commercial Development Fund	Total
Operating Revenues				
Service Billings	\$ 5,851,333	\$ 8,108,247	\$ 7,555	\$ 13,967,135
Total Operating Revenues	5,851,333	8,108,247	7,555	13,967,135
Operating Expenses				
Electric Transmission and Distribution	-	6,388,465	-	6,388,465
Wastewater Collection	311,388	-	-	311,388
Water Distribution	201,527	-	-	201,527
Water Pumping	427,389	-	-	427,389
Wastewater Treatment	1,132,051	-	-	1,132,051
General and Administrative	798,975	626,478	171,351	1,596,804
Other Operating Expenses	-	-	62,240	62,240
Depreciation/Amortization Expenses	1,458,074	177,169	8,472	1,643,715
Total Operating Expenses	4,329,404	7,192,112	242,063	11,763,579
Operating Income (Loss)	1,521,929	916,135	(234,508)	2,203,556
Nonoperating Revenues (Expenses)				
Other Rental Income	27,868	-	28,810	56,678
Intergovernmental Revenue	45,549	-	-	45,549
Investment Income	211	5,325	-	5,536
Interest Expense	(971,178)	(43,839)	(3,681)	(1,018,698)
Debt Issuance Costs	-	-	(28,500)	(28,500)
Miscellaneous Income	26,404	7,650	-	34,054
Service Concession Arrangement Closing Costs	(1,293,845)	-	-	(1,293,845)
Bond Issuance Costs	(52,000)	-	-	(52,000)
Unreimbursed Settlement Costs	(56,814)	-	-	(56,814)
Total Nonoperating Expenses	(2,273,805)	(30,864)	(3,371)	(2,308,040)
Income (Loss) Before Transfers	(751,876)	885,271	(237,879)	(104,484)
Transfers In	974,545	1,722,561	1,872,768	4,569,874
Transfer Out	(11,865,511)	(1,943,655)	(800,000)	(14,609,166)
Changes In Net Position	(11,642,842)	664,177	834,889	(10,143,776)
Total Net Position - Beginning of Year	7,998,724	15,664,398	708,790	24,371,912
Total Net Position - End of Year	\$ (3,644,118)	\$ 16,328,575	\$ 1,543,679	\$ 14,228,136

The accompanying notes are an integral part of the financial statements.

BOROUGH OF MIDDLETOWN
STATEMENT OF CASH FLOWS
ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014

	Business Type Activities - Enterprise Fund			
	Water-Sewer Fund	Electric Fund	Middletown Borough Industrial and Commercial Development Fund	Total
Cash Flows From Operating Activities				
Receipts from Customers and Users	\$ 5,424,041	\$ 8,031,714	\$ 9,452	\$ 13,465,207
Payments to Suppliers	(2,134,519)	(7,083,860)	(457,504)	(9,675,883)
Payments to Employees	(3,001,234)	(1,262,621)	-	(4,263,855)
Internal Activity - payments (to) from other funds	285,497	(72,736)	-	212,761
Other Operating Receipts (Payments)	(322,392)	3,579	-	(318,813)
Net Cash Provided by (Used in) Operating Activities	251,393	(383,924)	(448,052)	(580,583)
Cash Flows from Non-Capital Financing Activities				
Other Rental Income	27,868	-	28,810	56,678
Miscellaneous Income	26,404	7,650	-	34,054
Operating Transfer In (Out)	(10,854,466)	(221,094)	1,036,268	(10,039,292)
Net Cash Provided by (Used in) Non-Capital Financing Activities	(10,800,194)	(213,444)	1,065,078	(9,948,560)
Cash Flows from Capital and Related Financing Activities				
Purchase of Capital Assets	(2,262,295)	(98,153)	(969,720)	(3,330,168)
Issuance of Debt	235,600	-	528,500	764,100
Principal Paid on Debt	(15,885,600)	(553,460)	-	(16,439,060)
Interest Paid on Debt	(971,178)	(43,839)	(3,681)	(1,018,698)
Debt Issuance Costs Paid	(52,000)	-	(28,500)	(80,500)
Service Concession Arrangement Closing Costs	(1,293,845)	-	-	(1,293,845)
Service Concession Arrangement Proceeds	43,209,666	-	-	43,209,666
Net Cash Provided by (Used in) Capital and Related Financing Activities	22,980,348	(695,452)	(473,401)	21,811,495
Cash Flows from Investing Activities				
Investment Income	211	5,325	-	5,536
Net Cash Provided by Investing Activities	211	5,325	-	5,536
Net Increase (Decrease) in Cash and Cash Equivalents	12,431,758	(1,287,495)	143,625	11,287,888
Cash and Cash Equivalents, Beginning of Year	3,562,807	14,568,863	711,349	18,843,019
Cash and Cash Equivalents, End of Year	\$ 15,994,565	\$ 13,281,368	\$ 854,974	\$ 30,130,907
Restricted Cash	\$ 6,907,909	\$ 10,303,760	\$ 576,112	\$ 17,787,781
Unrestricted Cash	9,086,656	2,977,608	278,862	12,343,126
Total	\$ 15,994,565	\$ 13,281,368	\$ 854,974	\$ 30,130,907
Supplemental Disclosure of Noncash Transactions:				
Deferred Inflows of Resources, Service Concession Arrangement, net of discount	\$ (9,962,045)	\$ -	\$ -	\$ (9,962,045)
Service Concession Arrangement Receivable, net of discount	9,962,045	-	-	9,962,045
Land Transferred to/from Other Fund	(36,500)	-	36,500	-
Total Noncash Transactions:	\$ (36,500)	\$ -	\$ 36,500	\$ -

The accompanying notes are an integral part of the financial statements.

BOROUGH OF MIDDLETOWN
STATEMENT OF CASH FLOWS (CONTINUED)
ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014

	Business Type Activities - Enterprise Fund			
	Water-Sewer Fund	Electric Fund	Middletown Borough Industrial and Commercial Development Fund	Totals
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities				
Operating Income (Loss)	\$ 1,521,929	\$ 916,135	\$ (234,508)	\$ 2,203,556
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities				
Depreciation/Amortization Expense	1,458,074	177,169	8,472	1,643,715
Change in Assets and Liabilities				
Accounts Receivable	(427,292)	(78,138)	-	(505,430)
Prepaid Expenses	23,700	3,579	-	27,279
Net Pension Asset	(1,389,532)	(557,704)	-	(1,947,236)
Other Postemployment Benefits	(1,564,578)	(687,798)	-	(2,252,376)
Accounts Payable	736,811	(68,917)	36,003	703,897
Accrued Salaries	113,868	3,195	-	117,063
Escrow Liability	(10,843)	-	-	(10,843)
Due To/From Other Funds	285,497	(72,736)	(259,916)	(47,155)
Accrued Interest Payable	(344,092)	-	-	(344,092)
Compensated Absences	(160,992)	(20,314)	-	(181,306)
Security Deposits	-	1,605	1,897	3,502
Developer Escrows	8,843	-	-	8,843
Net Cash Provided by (Used in) Operating Activities	<u>\$ 251,393</u>	<u>\$ (383,924)</u>	<u>\$ (448,052)</u>	<u>\$ (580,583)</u>

The accompanying notes are an integral part of the financial statements.

BOROUGH OF MIDDLETOWN
STATEMENT OF FIDUCIARY NET POSITION
PENSION AND OTHER POST-EMPLOYMENT BENEFIT TRUST FUNDS
DECEMBER 31, 2014

	Non-Uniform Pension	Police Pension	OPEB	Total Fiduciary Funds
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 4,618	\$ 1,694,419	\$ 5,198,546	\$ 6,897,583
Investments:				
Bond Mutual Funds	3,591,820	-	265,828	3,857,648
Domestic Fixed Income	-	277,361	-	277,361
Domestic Equities	-	156,069	-	156,069
Corporate Bonds	-	-	374,401	374,401
Government Bonds	-	-	712,937	712,937
Equity Mutual Funds	8,411,206	2,223,671	-	10,634,877
Exchange-Traded Products	-	1,869,130	-	1,869,130
International Fixed Income	-	61,287	-	61,287
International Equities	-	66,557	-	66,557
Alternative Investments	-	75,592	-	75,592
Common Stocks	-	-	1,681,600	1,681,600
Cash Surrender Value of Life Insurance	-	79,903	-	79,903
Total Assets	<u>\$ 12,007,644</u>	<u>\$ 6,503,989</u>	<u>\$ 8,233,312</u>	<u>\$ 26,744,945</u>
<u>LIABILITIES</u>				
Accounts Payable	\$ 61,879	\$ 14,618	\$ 12,593	\$ 89,090
Total Liabilities	<u>61,879</u>	<u>14,618</u>	<u>12,593</u>	<u>89,090</u>
<u>NET POSITION</u>				
Net Position Held in Trust for Employees' Pension Benefits and Other Post-Employment Benefits	11,945,765	6,489,371	8,220,719	26,655,855
Total Net Position	<u>\$ 11,945,765</u>	<u>\$ 6,489,371</u>	<u>\$ 8,220,719</u>	<u>\$ 26,655,855</u>

The accompanying notes are an integral part of the financial statements.

BOROUGH OF MIDDLETOWN
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
PENSION AND OTHER POST-EMPLOYMENT BENEFIT TRUST FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Non-Uniform Pension	Police Pension	OPEB	Total Fiduciary Funds
<u>ADDITIONS</u>				
Contributions:				
Employer - Commonwealth Funding	\$ 85,199	\$ 92,944	\$ -	\$ 178,143
Employer	2,655,517	1,802,661	5,466,643	9,924,821
Employee	63,544	18,088	-	81,632
Total Contributions	2,804,260	1,913,693	5,466,643	10,184,596
Investment Income:				
Net Appreciation in Fair Value of Investments	456,928	50,919	15,927	523,774
Dividends	116	146,951	46,491	193,558
Interest	32	6,315	34,012	40,359
Total Investment Income	457,076	204,185	96,430	757,691
Less: Investment Expense	2,637	29,743	-	32,380
Net Investment Income	454,439	174,442	96,430	725,311
Total Additions	3,258,699	2,088,135	5,563,073	10,909,907
<u>DEDUCTIONS</u>				
Administrative Expense	1,976	11,811	51,126	64,913
Benefit Payments	782,861	434,811	473,559	1,691,231
Total Deductions	784,837	446,622	524,685	1,756,144
Change in Net Position	2,473,862	1,641,513	5,038,388	9,153,763
Net Position Held in Trust for Employees' Pension Benefits:				
Beginning of Year	9,471,903	4,847,858	3,182,331	17,502,092
End of Year	\$ 11,945,765	\$ 6,489,371	\$ 8,220,719	\$ 26,655,855

The accompanying notes are an integral part of the financial statements.

BOROUGH OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Borough Middletown (Borough) is located in Dauphin County, Pennsylvania. It operates under an elected mayor and nine-member Council. The Borough provides various services to its residents, including police protection, building codes enforcement, maintenance of roads and parks, contracted refuse collection, an emergency communications center, a public library, and other community enrichment programs. The Borough also operates, maintains, and upgrades, as needed, the water, sewer, and electric systems. The accompanying financial statements of the Borough were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) applicable to government units as prescribed by the Governmental Accounting Standards Board (GASB).

A) Reporting Entity

Consistent with the guidance contained in GASB Statement No. 61, "*The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*", the criteria used by the Borough to evaluate the possible inclusion of related entities within its reporting entity are financial accountability and the nature and significance of the relationship. In determining financial accountability in a given case, the Borough reviews the applicability of the following criteria.

The Borough is financially accountable for:

- Organizations that make up the legal Borough entity.
- Legally separate organizations if the Borough's officials appoint a voting majority of the organization's governing body and the Borough is able to impose its will on the organization or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Borough as defined below:

Impose Its Will – If the Borough can significantly influence the programs, projects, or activities of, or the level of services performed or provided by the organization.

Financial Benefit or Burden – Exists if the Borough (1) is entitled to the organization's resources or (2) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to, the organization or (3) is obligated in some manner for the debt of the organization.

- Organizations that are fiscally dependent on the Borough. Fiscal dependency is established if the organization is unable to adopt its budget, levy taxes or set rates or charges, or issue bonded debt without approval by the Borough.

Blended Component Units

The Middletown Borough Authority (Authority) is governed by a five-member board appointed by Borough Council. Although it is legally separate from the Borough, the Authority is reported as if it were part of the primary government, because its sole purpose is to finance and manage the construction of water and sewer systems' improvements for the Borough. It is blended with the Water-Sewer Fund, which is presented as a major enterprise fund in these financial statements.

BOROUGH OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

A) Reporting Entity (Continued)

Blended Component Units (Continued)

Separate audited financial statements of the Authority are available at the Authority office located in the Borough's Community Building. The Authority operates on a fiscal year ending December 31.

The Middletown Borough Industrial and Commercial Development Authority (the "MBICDA") is governed by a five-member board appointed by Borough Council. Although it is legally separate from the Borough, the MBICDA is reported as if it were part of the primary government, because the Borough has the ability to impose its will on the MBICDA. It is blended as a Middletown Borough Industrial and Commercial Development Fund, which is presented as a major enterprise fund in these financial statements.

Separate audited financial statements of the MBICDA are available at the MBICDA office located in the Borough's Community Building. The MBICDA operates on a fiscal year ending December 31.

Joint Venture

The Olmsted Regional Recreation Board (ORRB) was formed by the Boroughs of Middletown and Royaltown, Lower Swatara Township, and Middletown Area School District to manage the recreational sites within their boundaries. Each of the four governmental participants has a 25% equity interest in the net position of the ORRB. At December 31, 2014, the net position of the ORRB was approximately \$89,630; therefore, the Borough's investment in the joint venture equals \$22,407. This equity interest has been included in the government-wide financial statements. The ORRB does not generate sufficient income to cover its own expenses on an annual basis and relies on the contributions from its four participants. A copy of the ORRB's annual treasurer's report is available at their office located at 55 West Water Street, Middletown, Pennsylvania.

Related Organization

The Borough Council is also responsible for appointing members to the Middletown Public Library Board (the "Library"), but the Borough's accountability for this organization does not extend beyond making appointments. The Borough does not designate management nor does it have the ability to significantly influence the operations of the Library. The Borough does supply funding to the Library, but this funding is not required of the Borough (see Note 25). In addition, the Borough is not responsible for fiscal matters of the Library (i.e. not responsible for deficits or entitled to surpluses, no guarantees of debt, etc.).

B) Government-Wide and Fund Financial Statements

The Government-wide financial statements (i.e. statement of net position, and the statement of activities) report information on all the non-fiduciary activities of the government as a whole. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support.

BOROUGH OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

B) Government-Wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which direct expenses of a given function or segment is affected by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1.) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and 2.) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, the proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grant and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as liabilities in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability rather than an expenditure.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Borough considers revenues to be available if they are collected within 365 days of the end of the current fiscal period with the exception of property taxes which must be received within 60 days of year end to be deemed available. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Licenses, operating grants, capital grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when the Borough receives cash.

Under the current financial resources measurement focus, only current assets and current liabilities are generally included on the balance sheet. The reported fund balance is considered to be a measure of "available spendable resources". Governmental funds operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during the period.

BOROUGH OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)

Because of their spending measurement focus, expenditure recognition for governmental fund types exclude amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures of fund liabilities.

Amounts expended to acquire capital assets are recorded as expenditures in the year that resources were expended rather than as fund assets. The proceeds of long-term debt are recorded as an other financing source rather than a fund liability. However, debt service expenditures, as well as expenditures related to compensated absences and claims for judgments, are recorded only when payment is due.

The Borough reports the following major governmental funds:

- The General Fund is the government's primary operating fund. It accounts for all financial resource of the general government, except those required to be accounted for in another fund.
- The Capital Projects Fund accounts for resources restricted for expenditures for anticipated capital expenditures and improvement projects.
- The Flood Relief Fund accounts for resources restricted for expenditures for Borough flood relief projects.
- The Lease Proceeds Fund accounts for resources related to the Service Concession Arrangement of the Water/Sewer System.

The Borough also has the following nonmajor funds:

Nonmajor Special Revenue Funds: the Highway Aid Fund, Rehabilitation Program Fund, Fire Operations Fund, and Fire Sinking Fund are used to account for and report the proceeds of specific revenue sources that are restricted to expenditures for specified purposes other than debt service or capital projects.

Nonmajor Debt Service Funds: the General Debt Service Fund and Fire Debt Service Fund are used to account for and report financial resources that are restricted to expenditures for principal and interest.

The Borough's enterprise funds are proprietary funds. In the fund financial statements, the proprietary funds are presented using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when the related goods or services are delivered. In the fund financial statements, the proprietary funds are presented using the economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheet. The proprietary fund types operating statement presents increases (revenues) and decreases (expenses) in total net position.

BOROUGH OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)

Proprietary funds operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the funds. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The Borough reports the following major proprietary funds:

- The Water-Sewer Fund is used to account for the fiscal activities for the water-sewer system of the Borough.
- The Electric Fund is used to account for the fiscal activities for the electric system.
- The Middletown Borough Industrial and Commercial Development Fund is used to account for the fiscal activities of the economic development within the Borough.

Fiduciary funds are used to account for assets held by the Borough in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. These include the Pension Trust funds and Other Post-Employment Benefit Trust fund. The fiduciary funds are accounted for in essentially the same manner as the proprietary funds since capital maintenance is critical. The fiduciary fund's financial statements are prepared using the accrual basis of accounting.

Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Additionally, the Borough reports the following fiduciary fund types:

- The Non-Uniform Pension Trust Fund accounts for the revenue (i.e. member contributions, Borough contributions, and net investment income) and the expenses (i.e. contributions refunded, retirement allowances, and death benefits paid) of the Non-Uniform Municipal Employees Pension Trust Fund.
- The Police Pension Trust Fund accounts for the revenue (i.e. member contributions, Borough contributions, and net investment income) and the expenses (i.e. contributions refunded, retirement allowances, and death benefits paid) of the Police Employees Pension Trust Fund.
- The Other Post-Employment Benefit (OPEB) Trust Fund accounted for revenue (i.e. employer contributions, net investment income) and expenses (i.e. direct payments) of qualified retirees.

BOROUGH OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

D) Assets, Liabilities, and Net Position or Fund Balances

1. Cash and Cash Equivalents

For purposes of the accompanying statement of cash flows, the Borough considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

2. Receivables and Payables

Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." All receivables are shown net of an allowance for doubtful accounts.

Utilities Receivable

Receivables are stated at the amount management expects to collect from outstanding balances. Unbilled utilities receivable relate to services performed at December 31 and not billed until the following January. All receivables are shown net of an allowance for doubtful accounts.

3. Investments

Investments for the Borough are reported at fair value. Investments that do not have an establish market value are reported at estimated values.

4. Capital Assets

Capital assets, which include property, plant and equipment and infrastructure assets, are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. Property, plant and equipment, and infrastructure assets, with initial, individual costs that equal or exceed \$5,000 and estimated useful lives of over one year are recorded at estimated fair value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized.

Major outlay of capital assets and improvements are capitalized as projects are completed. Interest incurred during the construction phase of the capital asset of business-type activities is included as part of the capitalized value of the assets constructed.

BOROUGH OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

D) Assets, Liabilities, and Net Position or Fund Balances (Continued)

4. Capital Assets (Continued)

Capital assets are depreciated using the straight-line method over the following intended useful lives:

Assets	Years
Infrastructure	25-50
Buildings and Improvements	40
Vehicles	5-7
Machinery and Equipment	10

Intangible assets with an indefinite life are not subject to depreciation.

5. Allowance for Doubtful Accounts

The Borough has determined that at December 31, 2014, an allowance for doubtful accounts of \$3,876 is reported in the General Fund, \$102,469 in the Water/Sewer Fund, and \$16,204 in the Electric Fund.

6. Compensated Absences

Borough policy permits employees to accumulate a limited amount of earned but unused vacation, sick, and compensatory time. These benefits are payable to employees upon separation of services. All leave pay is accrued when incurred in the government-wide financial statements and the proprietary fund statements. A liability for these amounts is reported.

7. Long-Term Obligations

In the government-wide and proprietary funds financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

BOROUGH OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

D) Assets, Liabilities, and Net Position or Fund Balances (Continued)

8. Unearned Revenues

Revenues that are received but not earned are unearned in the Borough's financial statements. In the Borough's governmental funds, unearned revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the Borough has a legal claim to the resources, the liability for unearned revenue is removed from the governmental funds' balance sheet and revenue is recognized.

9. Net Position/Fund Balances

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Borough is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- *Nonspendable Fund Balance* – Amounts that are not in a spendable form (such as Inventory) or are required to be maintained intact.
- *Restricted Fund Balance* – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- *Committed Fund Balance* – Amounts constrained to specific purposes by the Borough itself, using its highest level of decision-making authority (i.e. Borough Council). To be reported as committed, amounts cannot be used for any other purpose unless the Borough takes the same level action to remove or change the constraint. This formal action is a Borough Council approved Resolution.
- *Assigned Fund Balance* – Amounts the Borough intends to be used for a specific purpose, but are neither restricted nor committed. Assignments of fund balance are created by the Borough Manager pursuant to authorization established by the Borough Council.
- *Unassigned Fund Balance* – Amounts that are available for any purpose. Positive amounts are reported only in the general fund.

When an expenditure is incurred for purposes for which both restricted and unrestricted resources are available, it is the Borough's policy to use restricted resources first. When expenditures are incurred for purposes of which unrestricted resources are available, it is the Borough's policy to spend committed resources first, followed by assigned amounts, and then unassigned amounts.

BOROUGH OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

D) Assets, Liabilities, and Net Position or Fund Balances (Continued)

9. Net Position/Fund Balances (Continued)

The government-wide and proprietary fund financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted, and unrestricted.

- *Net Investment in Capital Assets* – This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted Net Position* – This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Position* – This category represents net position of the Borough not restricted for any project or other purpose.

10. Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions except quasi-external transactions and reimbursements are reported as transfers.

11. Accounting Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual amounts may differ from those estimates.

12. Deferred Outflows / Inflows of Resources

In addition to assets, the statement of financial 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 a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government has no items that qualify for reporting in this category.

BOROUGH OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

D) Assets, Liabilities, and Net Position or Fund Balances (Continued)

12. Deferred Outflows / Inflows of Resources (Continued)

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has two items that qualify for reporting in this category. The first item, service concession arrangement, net of discount, represents future revenue related to the service concession arrangement reported in the government-wide statement of net position (see Note 27). This amount is amortized over the term of the agreement. The second item, which arises under a modified accrual basis of accounting, relates to unavailable revenue from property tax reported in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

13. Adoption of Governmental Accounting Standards

The Borough adopted provisions of GASB Statement No. 67, "*Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*", and GASB Statement No. 70, "*Accounting and Financial Reporting for Nonexchange Financial Guarantees*".

The adoption of GASB 67 resulted in the modification of Note 12 and the addition of three schedules presented as required supplementary information. The adoption of the other statement had no effect on previously reported amounts.

14. Pending Changes in Accounting Principles

In June 2012, the GASB issued Statement No. 68, "*Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*". The Borough is required to adopt Statement No. 68 for its calendar year 2015 financial statements.

In November 2013, the GASB issued Statement No. 71, "*Pension Transition Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*". The Borough is required to adopt Statement No. 71 for its calendar year 2015 financial statements.

In February 2015, the GASB issued Statement No. 72, "*Fair Value Measurement and Application*." The Borough is required to adopt Statement No. 72 for its calendar year 2016 financial statements.

In June 2015, the GASB issued Statement No. 73, "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*". The Borough is required to adopt the provisions of Statement No. 73 for its calendar year 2017 financial statements.

In June 2015, the GASB issued Statement No. 74, "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*". The Borough is required to adopt the provisions of Statement No. 74 for its calendar year 2017 financial statements.

BOROUGH OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

D) Assets, Liabilities, and Net Position or Fund Balances (Continued)

14. Pending Changes in Accounting Principles (Continued)

In June 2015, the GASB issued Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*". The Borough is required to adopt the provisions of Statement No. 75 for its calendar year 2018 financial statements.

In June 2015, the GASB issued Statement No. 76, "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*". The Borough is required to adopt the provisions of Statement No. 76 for its calendar year 2016 financial statements.

In August 2015, the GASB issued Statement No. 77, "*Tax Abatement Disclosures*". The Borough is required to adopt the provisions of Statement No. 77 for its calendar year 2016 financial statements.

In December 2015, the GASB issued Statement No. 78, "*Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*". The Borough is required to adopt the provisions of Statement No. 78 for its calendar year 2016 financial statements.

In December 2015, the GASB issued Statement No. 79, "*Certain External Investment Pools and Pool Participants*". The Borough is required to adopt the provisions of Statement No. 79 for its calendar year 2016 financial statements.

In January 2016, the GASB issued Statement No. 80, "*Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*". The Borough is required to adopt the provisions of Statement No. 80 for its calendar year 2017 financial statements.

The Borough has not yet completed the various analysis required to estimate the financial statement impact of these new pronouncements.

E) Budgets and Budgetary Accounting

Formal budgetary accounting is employed as a management control in certain governmental fund types of the Borough. Annual operating budgets are adopted each year through the passage of an annual budget ordinance and the accrual basis of accounting is used to complete the budget for governmental fund types. Budgetary control is exercised at the department level in the General Fund and at the fund level for all other funds. The Borough approves budgets for the General Fund, Fire Operations Fund, and Capital Projects Fund. The Borough does not prepare a budget for the Flood Relief Fund or Lease Proceeds Fund, which are major special revenue funds.

BOROUGH OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

NOTE 2: DEPOSITS AND INVESTMENTS

A)Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Borough does not have a deposit policy for custodial credit risk. As of December 31, 2014, the Borough's book balance was \$45,643,335 and the bank balance was \$46,170,271. Of the bank balance, \$1,302,963 was covered by the Federal Deposit Insurance Corporation, \$20,929,037 was collateralized under Act No. 72 (Act) of the 1971 Session of the Pennsylvania General Assembly, in which financial institutions were granted the authority to secure deposits of public bodies by pledging a pool of assets, as defined by the Act, to cover all public funds deposited in excess of federal depository insurance limits. The remaining balance of \$23,938,271 was invested in external investment pools described in more detail below.

The Borough uses external investment pools to ensure safety and maximize efficiency, liquidity, and yield for Borough funds.

The Borough has funds totaling \$681,657 and \$177,931 invested in the Pennsylvania Local Government Investment Trust (PLGIT) and Pennsylvania Treasurer's INVEST Program for Local Government and Nonprofits (INVEST), respectively. Each of these entities separately issue audited financial statements that are available to the public via their respective websites. The fair value of the Borough's position in the external investment pools is equivalent to the value of the pool shares. The Commonwealth of Pennsylvania provides external regulatory oversight for the external investment pools. At December 31, 2014, PLGIT and INVEST carry AAAM and AAAM ratings, respectively, and have average maturities of less than one year.

The Borough has funds totaling \$23,078,683 invested in an external investment pool with the Pennsylvania School District Liquid Asset Fund (PSDLAF) investing in bank repurchase agreements, certificates of deposit, U.S. Treasuries, and U.S. Government Obligation. PSDLAF issues audited financial statements that are available to the public via their website.

The fair value of the Borough's position in the external investment pool is equivalent to the value of the pool shares. There is no formal external regulatory oversight for the external investment pool. At December 31, 2014, PSDLAF carries an AAAM rating and has an average maturity of less than one year.

The following represents the unrestricted cash and cash equivalents balance:

Cash and cash equivalents:	
Governmental activities	\$ 8,614,797
Business-type activities	<u>12,343,126</u>
Total cash and cash equivalents	<u>\$ 20,957,923</u>

BOROUGH OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

NOTE 2: DEPOSITS AND INVESTMENTS (CONTINUED)

A) Deposits (Continued)

The Borough maintains cash accounts that are restricted for the following purposes:

Cash and cash equivalents:	
Governmental activities:	
Capital project funds	\$ 48
Total Governmental activities	<u>48</u>
Business-type activities:	
Electric deposits	107,193
Electric capital improvements	447,533
Electric Trust (see Note 21)	9,749,034
Water-Sewer Fund	6,907,909
Economic Development	<u>576,112</u>
Total Business-type activities	<u>17,787,781</u>
Fiduciary Funds:	
Non-Uniform Pension funds	4,618
Police Pension funds	1,694,419
OPEB funds	<u>5,198,546</u>
Total fiduciary accounts	<u>6,897,583</u>
Total restricted accounts	<u>\$24,685,412</u>

B) Investments

The Borough's investments are under the custody of the Finance Director and the Authority's investments are under the Secretary/Bookkeeper. The Borough can deposit or invest funds as authorized for local government units by the Local Government Unit Debt Act. Borough and Authority funds may be invested in: (1) U.S. treasury bills, (2) Short-term obligations of the U.S. governmental and federal agencies, (3) Insured savings and checking accounts and certificates of deposits in banks, savings and loan associations and credit unions, (4) General obligation bonds of the federal government, the Commonwealth of Pennsylvania or any state agency or of any Pennsylvania political subdivision and (5) Shares of mutual funds whose investments are restricted to the above categories.

In addition to the investments authorized for governmental funds, fiduciary fund investments may also be made in corporate stocks and bonds, repurchase agreements, and other investments consistent with sound business practice.

BOROUGH OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

NOTE 2: DEPOSITS AND INVESTMENTS (CONTINUED)

B) Investments (Continued)

Investments consisted of the following at December 31, 2014:

<u>Investment Type</u>	<u>Value</u>
Certificate of Deposit	\$ 179,000
Total Governmental Fund Investments	
Alternative investments	75,592
Bond mutual fund	3,857,648
Common stock	1,681,600
Corporate bonds/fixed income securities	374,401
Domestic equities	156,069
Domestic fixed income	277,361
Equity mutual funds	10,634,877
Exchange-traded products	1,869,130
U.S. Government bonds/fixed income securities	712,937
International equities	66,557
International fixed income	61,287
Total Fiduciary Fund Investments	<u>\$ 19,767,459</u>

Custodial Credit Risk

Custodial credit risk is the risk that the counterparty to an investment transaction will fail and the government will not recover the value of the investment or collateral securities that are in possession of an outside party. The Borough does not have a policy investment policy for custodial credit risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of a loss attributed to the magnitude of a government's investments in a single issuer. The Borough places no limits on the amount the Borough may invest in any one issuer. At December 31, 2014, the Borough was not subject to concentration of credit risk as no more than five percent of the Borough's fixed income investments were held in any one issuer.

Credit Risk

As indicated above, investing is performed in accordance with investment policies complying with State statutes and the Borough Code. The Borough does not have an investment policy that would further limit its investment choices with regard to credit risk.

BOROUGH OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

NOTE 2: DEPOSITS AND INVESTMENTS (CONTINUED)

B) Investments (Continued)

Credit Risk (Continued)

At December 31, 2014, the Borough's investment ratings were as follows:

	<u>Rating</u>	<u>Fair Value</u>	<u>Percent of Investment Type</u>
Corporate bonds/fixed income securities	A1	\$ 45,655	12%
Corporate bonds/fixed income securities	A2	41,784	11%
Corporate bonds/fixed income securities	A3	126,804	34%
Corporate bonds/fixed income securities	BAA1	84,139	23%
Corporate bonds/fixed income securities	BAA3	76,019	20%
U.S. Government bonds/fixed income securities	AAA	712,937	100%
Domestic fixed income	Not Rated	277,361	100%
International fixed income	Not Rated	61,287	100%

Interest Rate Risk

The Borough does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The following is a summary of the Borough's fixed income investments and their related average maturities.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (In Years)</u>			
		<u>Less Than 1</u>	<u>1 – 5</u>	<u>6 – 10</u>	<u>More Than 10</u>
Corporate bonds/fixed income securities	\$ 374,401	\$ -	\$ 82,215	\$ 203,551	\$ 88,635
U.S. Government bonds/fixed income securities	712,937	-	428,415	167,439	117,083
Domestic fixed income	277,361	277,361	-	-	-
International fixed income	61,287	61,287	-	-	-
Total	<u>\$ 1,425,986</u>	<u>\$ 338,648</u>	<u>\$ 510,630</u>	<u>\$ 370,990</u>	<u>\$ 205,718</u>

Foreign Currency Risk

The Borough invested in international equities and internal fixed income, which contains foreign currency risk. The Borough's balance at December 31, 2014 in international equities and international fixed income was \$66,557 and \$61,287, respectively.

BOROUGH OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

NOTE 3: INTERFUND RECEIVABLES AND PAYABLES

Interfund receivable and payable balances consist of the following at December 31, 2014:

	Due From Other Funds	Due to Other Funds
General Fund	\$ 3,535,534	\$ -
Capital Projects	2,160,652	323,813
Flood Relief	-	4,521,581
Lease Proceeds	-	124,545
Nonmajor Governmental Funds	18,359	283,613
Water-Sewer Fund	124,545	429,576
Electric Fund	-	415,878
Middletown Borough Industrial and Commercial Development Fund	336,158	76,242
	\$ 6,175,248	\$ 6,175,248

NOTE 4: INTERFUND OPERATING TRANSFERS

Interfund transfers are executed as a result of the requirements for the general fund to maintain a portion of the expenditures of the funds. Interfund operating transfers are as follows:

	Transfers In	Transfers Out
General Fund	\$ 6,370,545	\$ 165,000
Capital Projects Fund	800,000	1,721,268
Flood Relief	-	800,000
Lease Proceeds	4,388,475	124,545
Nonmajor Governmental Funds	1,414,628	123,543
Water-Sewer Fund	974,545	11,865,511
Electric Fund	1,722,561	1,943,655
Middletown Borough Industrial and Commercial Development Fund	1,872,768	800,000
	\$ 17,543,522	\$ 17,543,522

NOTE 5: REAL ESTATE TAXES

Real estate taxes attach as an enforceable lien on property on January 1. Taxes are billed by Dauphin County on February 1, payable under the following terms: 2% discount, February 1 based on the assessed value listed as of the prior December 31 for the real property located in the Borough through March 31; face amount, April 1 through May 31, and 10% penalty after May 31. The County bills these taxes which are collected by the tax collector and remitted to the Borough. Real estate taxes levied for 2014 are recorded as receivables, net of estimated uncollectibles. The net receivables collected during 2014 and expected to be collected within the first sixty (60) days of 2015 are recognized as revenue in 2014. Net receivables estimated to be collectible subsequent to March 1, are reflected in unavailable revenue – property taxes. Prior years' levies are recorded using these same principles and remaining receivables are annually reevaluated as to collectability.

The rate of real estate taxation in 2014 was 5.631 mills for general purposes on a total Borough assessed valuation of \$257,619,200.

BOROUGH OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

NOTE 6: NOTES / LOAN RECEIVABLE

Under the Borough's Homestead Loan Program, the Borough has entered into low interest loans or grants to owners of property within the Borough to rehabilitate and/or acquire homes. The outstanding notes receivable balance for the Rehabilitation Program Fund at December 31, 2014 was \$49,471.

On October 4, 2005, the Borough entered into an agreement with the Greater Middletown Economic Development Corporation (GMEDC), a nonprofit organization located in Middletown, to loan the GMEDC funds to purchase a property in downtown Middletown. The property is security for the loan. The Borough received state funds to loan the GMEDC. During 2014, the property was purchased by the MBICDA, in exchange for the MBICDA assuming the \$500,000 note payable to the Borough. On August 20, 2014, the MBICDA drew down \$500,000 on its line of credit (see Note 9) and repaid the note to the Borough.

On May 21, 2014 the Borough entered into a loan agreement with the Dauphin County Industrial Development Authority in the amount of \$1,500,000 (see Note 8). As of December 31, 2014, the Borough has received \$18,359 in proceeds under the loan agreement, and the outstanding loan receivable balance was \$1,481,641.

NOTE 7: CAPITAL ASSETS

A summary of the changes in capital assets activity is as follows:

Governmental Activities

	Beginning Balance, as Restated (Note 28)	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 32,838	\$ 15,400	\$ -	\$ 48,238
Construction in Progress	420,103	-	(67,000)	353,103
Total capital assets not being depreciated	452,941	15,400	(67,000)	401,341
Capital assets being depreciated:				
Buildings and pool	1,935,763	326,055	-	2,261,818
General equipment and vehicles	1,410,877	132,526	-	1,543,403
Highway equipment and vehicles	1,662,098	-	-	1,662,098
Parks and recreation building and equipment	1,223,663	-	-	1,223,663
Library equipment and furniture	87,391	-	-	87,391
Infrastructure	11,040,116	-	-	11,040,116
Total capital assets being depreciated	17,359,908	458,581	-	17,818,489
Less accumulated depreciation:				
Buildings and pool	857,995	58,173	-	916,168
General equipment and vehicles	1,161,646	84,532	-	1,246,178
Highway equipment and vehicles	1,264,166	80,843	-	1,345,009
Parks and recreation building and equipment	268,913	28,683	-	297,596
Library equipment and furniture	85,310	1,064	-	86,374
Infrastructure	8,468,012	189,479	-	8,657,491
Total accumulated depreciation	12,106,042	442,774	-	12,548,816
Total capital assets being depreciated, net	5,253,866	15,807	-	5,269,673
Total governmental activities capital assets, net	\$ 5,706,807	\$ 31,207	\$ (67,000)	\$ 5,671,014

BOROUGH OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

NOTE 7: CAPITAL ASSETS (CONTINUED)

Governmental Activities (Continued)

Depreciation expense has been allocated to the various departments as follows:

General Government Administration	\$ 40,892
Public Safety	82,093
Public Works	275,879
Parks and recreation	39,350
Library	4,560
Total Depreciation	<u>\$ 442,774</u>

Business-Type Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 639,542	\$ 154,500	\$ -	\$ 794,042
Construction in progress	-	2,176,994	-	2,176,994
Total capital assets not being depreciated:	639,542	2,331,494	-	2,971,036
Capital assets being depreciated:				
Electric distribution system and equipment	5,567,606	98,153	-	5,665,759
Water-sewer systems and equipment	43,930,946	48,801	-	43,979,747
Other Buildings and Building Improvements	-	851,720	-	851,720
Total capital assets being depreciated	49,498,552	998,674	-	50,497,226
Less accumulated depreciation:				
Electric distribution system and equipment	2,993,988	177,169	-	3,171,157
Water-sewer systems and equipment	17,550,928	1,119,693	-	18,670,621
Other Buildings and Building Improvements	-	8,472	-	8,472
Total accumulated depreciation	20,544,916	1,305,334	-	21,850,250
Total capital assets being depreciated, net	28,953,636	(306,660)	-	28,646,976
Total business-type activities capital assets, net	<u>\$ 29,593,178</u>	<u>\$ 2,024,834</u>	<u>\$ -</u>	<u>\$ 31,618,012</u>

Depreciation expense has been allocated to the various funds as follows:

Water-Sewer Fund	\$1,119,693
Electric Fund	177,169
Middletown Borough Industrial and Commercial Development Fund	8,472
Total Depreciation	<u>\$1,305,334</u>

BOROUGH OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

NOTE 8: LONG-TERM LIABILITIES

Governmental activities

Pertinent information regarding long-term debt of governmental activities at December 31, 2014 is presented below (the General Obligation Notes are payable from general fund tax revenues; the Guaranteed Revenue Note is payable from Highway Aid revenues):

General Obligation Note, Series 2006 was issued in the face amount of \$100,000 for Borough Union Pumper costs. The Note carries an interest rate of 2.00%, payments of \$644 are due monthly, which include principal and interest. The note matures in May 2021. \$ 47,581

Note payable in the face amount of \$423,496 to Commonwealth of Pennsylvania, represents the funds received by the Borough from the Pennsylvania Department of Community and Economic Development (DCED) and loaned to the developers of the Woodlayne Court Apartments for low-income residents. The Borough is to pay back to the DCED the principal and accrued interest on the 1.00% per annum loan to the Borough in the earlier of the month following: repayment in full or the 31st anniversary of the September 16, 1991 loan agreement (October 2022) whereupon equal monthly installments are to become due and payable over a ten-year term maturing in October 2032. 423,496

General Obligation Bonds, Series 2011 were issued in the face amount of \$1,151,167, to refinance the 2004 General Obligation Bonds. The Bonds bear interest at rates ranging from 2.0% to 3.1% and mature in amounts ranging from \$66,071 to \$104,190, through June 15, 2024. The transaction resulted in an economic gain of approximately \$59,674. 922,458

Guaranteed Revenue Note, Series of 2014 was issued in the face amount of \$1,500,000, to fund the cost of a streetscape improvement and utility replacement project, and to pay for the cost of issuance of the note. The note bears interest at a rate of 0.50%, and matures with annual payments of principal and interest of \$153,858. Final maturity on the note is on January 1, 2024. 1,350,726

Total long-term debt at December 31, 2014 2,744,261

Less current portion (90,715)

Long-term debt, net of current portion \$ 2,653,546

BOROUGH OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

NOTE 8: LONG-TERM LIABILITIES (CONTINUED)

Governmental activities (continued)

The following is a summary of changes in governmental activities' long-term debt for the year ended December 31, 2014:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
2006 General Obligation Note	\$ 53,189	\$ -	\$ (5,608)	\$ 47,581	\$ 6,855
2007 General Obligation Bonds	1,385,467	-	(1,385,467)	-	-
2011 General Obligation Bonds	988,529	-	(66,071)	922,458	83,860
Middletown Associates DCED Notes Payable	423,496	-	-	423,496	-
2014 Revenue Note	-	1,500,000	(149,274)	1,350,726	-
Unamortized Bond Premium and Discount (net)	8,464	-	(846)	7,618	846
Total Bonds, Notes, and Loans Payable	2,859,145	1,500,000	(1,607,266)	2,751,879	91,561
Compensated Absences	294,291	192,980	(187,640)	299,631	-
Total Governmental activities long-term liabilities	<u>\$ 3,153,436</u>	<u>\$ 1,692,980</u>	<u>\$ (1,794,906)</u>	<u>\$ 3,051,510</u>	<u>\$ 91,561</u>

For governmental funds, compensated absences are generally liquidated by the general fund.

Debt service maturities for the Borough's governmental activities' long-term debt are as follows:

	Principal	Interest	Total
2015	\$ 90,715	\$ 22,402	\$ 113,117
2016	237,958	27,340	265,298
2017	241,376	24,761	266,137
2018	244,800	22,124	266,924
2019	248,231	19,373	267,604
2020-2024	1,380,340	106,235	1,486,575
2025-2029	212,738	88,598	301,336
2030-2034	88,103	32,277	120,380
	<u>\$ 2,744,261</u>	<u>\$ 343,110</u>	<u>\$ 3,087,371</u>

BOROUGH OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

NOTE 8: LONG-TERM DEBT (CONTINUED)

Business-type activities

On October 15, 2004, the Middletown Borough Authority issued Water and Sewer Revenue Bonds, Series of 2004 in the aggregate principal amount of \$11,070,000. The proceeds of the bonds were used for: (1) the current refunding of Series A of 1999 Bonds in the outstanding balance of \$2,170,000; (2) the current and advance refunding of Series B of 1999 in the outstanding balance of \$4,956,000, (3) the advanced refunding of Series B of 1999 Appreciation Bonds of \$2,220,560 plus accrued interest of \$690,481; (4) the funding of necessary reserves and other funds under the Indenture and (5) the payment of the costs associated with the issuance of the bonds. The 2004 bonds mature serially beginning in January 1, 2005 through January 1, 2027. The interest rate on the bonds was set at the date of issuance. The Borough has guaranteed the Series of 2004 Bonds. The Bonds were paid in full on December 30, 2014.

The net proceeds of \$10,950,415 were deposited in a trust escrow account and disbursed to currently refunded the Series A of 1999 and Series B of 1999 Bonds of \$7,238,983, and the balance was placed into escrow to advance refund the Series B of 1999 Appreciation Bonds as they mature. As of December 31, 2014, the face value of the Series B of 1999 Appreciation Bonds was \$6,385,000 and the balance of the escrow fund for the Series B of 1999 Appreciation Bond was \$6,072,047.

With regards to financial reporting for the refunding the debt, the loss on the advance refunding is deferred and amortized as a component of depreciation/amortization expense over the shorter of the remaining life of the 1994 Series, 1999 Series, or the 2004 Series. The deferred amount is reported as a deduction from the new debt liability. The amortization for 2014 of \$338,381 is included as a component of depreciation/amortization expense.

On September 18, 2014, the Middletown Borough Authority issued a Guaranteed Line of Credit Water and Sewer Revenue Bond, Series of 2014 in the aggregate principal amount of \$1,275,000. During 2014, the Authority drew down \$235,600 on the Bond. The proceeds of the Bond are to be used to fund a wastewater improvement project and the payment of the costs associated with the issuance of the Bond. The principal outstanding on the Bond will bear interest at a rate of LIBOR plus 150 basis points. Principal and interest payments are due September and March of each year. The Bond is set to mature on September 18, 2016. The Bond was paid in full on December 30, 2014.

BOROUGH OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

NOTE 8: LONG-TERM DEBT (CONTINUED)

Business-type activities (continued)

Pertinent information regarding outstanding long-term debt of business-type activities at December 31, 2014 is presented below (payable from water, sewer, and electric revenues):

Series of 2009 General Obligation Bonds were issued in the face amount of \$7,545,000 for various improvements to the wastewater treatment plant and the sewage system. The Bonds bear interest at rates ranging from 1.70% to 5.00%, mature in amounts ranging from \$195,000 on July 1, 2011 to \$485,000 on July 1, 2035. (See Note 18). \$ 6,750,000

Series 2011 General Obligation Bonds were issued in the face amount of \$1,113,833, to refinance the 2004 General Obligation Bonds. The Bonds bear interest at rates ranging from 2.0% to 3.1% and mature in amounts ranging from \$63,929 to \$100,810, through June 15, 2024. The transaction resulted in an economic gain of approximately \$57,739. 892,542

Total long-term debt at December 31, 2014 7,642,542

Less current portion (291,140)

Long-term debt, less current portion \$ 7,351,402

The following is a summary of changes in business-type activities' long-term debt for the year ended December 31, 2014:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities:					
2003 General Obligation Bonds					
Series A and B	\$ 7,060,000	\$ -	\$ (7,060,000)	\$ -	\$ -
2004 Water and Sewer					
Revenue Bonds	8,385,000	-	(8,385,000)	-	-
2007 General Obligation Bonds	489,532	-	(489,532)	-	-
2009 General Obligation Bonds	6,955,000	-	(205,000)	6,750,000	210,000
2011 General Obligation Bonds	956,470	-	(63,928)	892,542	81,140
2014 Line of Credit Water and Sewer Bonds	-	235,600	(235,600)	-	-
Unamortized Bond Premium and Discount (net)	<u>8,257</u>	<u>-</u>	<u>-</u>	<u>8,257</u>	<u>819</u>
Total Bonds	<u>23,854,259</u>	<u>235,600</u>	<u>(16,439,060)</u>	<u>7,650,799</u>	<u>291,959</u>
Compensated Absences	<u>193,571</u>	<u>57,965</u>	<u>(239,271)</u>	<u>12,265</u>	<u>-</u>
Business-type activities long-term liabilities	<u>\$ 24,047,830</u>	<u>\$ 293,565</u>	<u>\$ (16,678,331)</u>	<u>\$ 7,663,064</u>	<u>\$ 291,959</u>

BOROUGH OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

NOTE 8: LONG-TERM DEBT (CONTINUED)

Business-type activities (continued)

Following is a schedule of the annual requirements to amortize the outstanding long-term debt of the Borough's business-type activities as of December 31, 2014:

Year ending December 31,	General Obligation Bonds		
	Principal	Interest	Total
2015	\$ 291,140	\$ 315,818	\$ 606,958
2016	301,140	307,745	608,885
2017	308,599	299,029	607,628
2018	321,058	289,452	610,510
2019	328,517	279,188	607,705
2020-2024	1,827,088	1,203,982	3,031,070
2025-2029	1,675,000	842,688	2,517,688
2030-2034	2,105,000	394,875	2,499,875
2035	485,000	12,125	497,125
	<u>\$ 7,642,542</u>	<u>\$ 3,944,902</u>	<u>\$ 11,587,444</u>

Interest expense of \$971,178, \$43,551, and \$3,681 has been included as a direct expense in the activities of the Water-Sewer Operations, Electric Operations, and Economic Development, respectively, on the government-wide statement of activities.

NOTE 9: LINE OF CREDIT

In order to secure Pennsylvania Department of Transportation (the "PENNDOT") permits for one of the Borough's infrastructure projects, on April 24, 2014 the Borough contracted with a bank to hold a \$179,000 letter of credit with PENNDOT listed as the beneficiary. Any draws on the letter of credit by PENNDOT will be reimbursed by draws to a \$179,000 line of credit issued to the Borough. The letter of credit and line of credit expire on April 24, 2017. Interest on the outstanding borrowing on the line of credit is at 1 percent above the prime rate, which was 4.25% at December 31, 2014. There were \$0 in draws by PENNDOT on the letter of credit during 2014, \$0 in draws on the line of credit during 2014, and the outstanding principal balance on the line of credit as of December 31, 2014 was \$0. As collateral for the Borough's line of credit, the Borough deposited \$179,000 into a certificate of deposit held by the bank.

At December 31, 2014, the MBICDA and the Borough, as joint obligators, had a \$3,000,000 line of credit with a bank secured by a pledge of the Borough's taxing power and all revenues generated by the MBICDA, which expires on August 19, 2015. Interest on outstanding borrowing is due monthly at 1 percent above the LIBOR, which was 1.155% at December 31, 2014. There were \$528,500 in borrowings on the line and \$0 in repayments for the year ended December 31, 2014. The principal balance outstanding on the line as of December 31, 2014 was \$528,500.

BOROUGH OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

NOTE 10: AGREEMENT OF LEASE

On October 15, 2004, the Authority and the Borough entered into a lease of the Water and Sewer Systems, under which the Borough has agreed to make lease rental payments there under to the Trustee as security for the Series of 2004 Bonds. This lease agreement was amended on December 15, 2009 for the issuance of the Borough's Series of 2009 Bonds. The Borough operates the Water and Sewer Systems and has covenanted to impose and collect water and sewer rates and charges sufficient, together with other available funds, to provide for the payment of such lease rentals and to pay the operating costs of Water and Sewer Systems. The Borough has pledged the revenues and receipts of the Water and Sewer Systems to secure its obligations to make such lease rental payments. On December 30, 2014, the lease between the Authority and Borough was terminated due to the service concession arrangement between the Authority and Middletown Water Joint Venture LLC (see Note 27).

NOTE 11: FUND BALANCE (DEFICIT)/NET POSITION, CLASSIFICATIONS AND RESTRICTIONS

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Borough is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent.

The classifications used in the governmental fund financial statements are as follows:

Governmental Funds

General Fund

Nonspendable		
Prepaid items	\$	49,406
Assigned		
Amounts assigned to charity.		45,861
Amounts assigned for the police sinking fund.		1
Unassigned		
Amounts available for any purpose.		4,917,258

Capital Projects

Restricted		
Restriction of funds for other capital projects.		2,187,157

Flood Relief

Unassigned Deficit		(1,650,545)
--------------------	--	-------------

Lease Proceeds

Unassigned		
Amounts available for any purpose		4,264,189

BOROUGH OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

NOTE 11: FUND BALANCE (DEFICIT)/NET POSITION, CLASSIFICATIONS AND RESTRICTIONS
(CONTINUED)

Governmental Funds (Continued)

Nonmajor Governmental Funds

Nonspendable	
Rehabilitation program loans.	49,471
Infrastructure bank note receivable.	1,481,641
Restricted	
Restriction of funds for highway aid.	776,631
Restriction of funds for rehabilitation program.	13,125
Restriction of funds for fire sinking.	181,593
Unassigned Deficit	<u>(56,924)</u>
Total Governmental Funds, Fund Balance	<u>\$ 12,258,864</u>

Fiduciary Funds

Non-Uniform Pension Trust Fund

Amounts restricted for payment of Non-Uniform pension benefits.	11,945,765
---	------------

Police Pension Trust Fund

Amounts restricted for payment of Police pension benefits.	6,489,371
--	-----------

OPEB Trust Fund

Amounts restricted for payment of other postemployment benefits.	<u>8,220,719</u>
--	------------------

Total Fiduciary Funds, Net Position	<u>\$ 26,655,855</u>
-------------------------------------	----------------------

Enterprise Funds

Water - Sewer Fund

Net Investment in Capital Assets	\$ 27,837,742
----------------------------------	---------------

Unrestricted

Amounts available for any purpose.	(31,481,860)
------------------------------------	--------------

Electric Fund

Net Investment in Capital Assets	2,030,789
----------------------------------	-----------

Restricted

Amounts set aside to comply with the provisions of the "Middletown Electric Rate Stabilization Irrevocable Trust".	9,328,359
Amounts restricted for electric capital projects.	447,533

Unrestricted

Amounts available for any purpose.	4,521,894
------------------------------------	-----------

Middletown Borough Industrial Commercial Development Fund

Net Investment in Capital Assets	469,248
----------------------------------	---------

Restricted

Restricted for economic development.	410,373
--------------------------------------	---------

Unrestricted

Amounts available for any purpose.	<u>664,058</u>
------------------------------------	----------------

Total Enterprise Funds, Net Position	<u>\$ 14,228,136</u>
--------------------------------------	----------------------

BOROUGH OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

NOTE 12: DEFINED BENEFIT PENSION PLAN

Administration

The Borough has two defined benefit pension plans covering substantially all of its employees. The plans' benefit provisions and all other requirements are established by Borough ordinances and the Unions' collective bargaining agreements. The Police Pension Fund, a single-employer plan, is administered by SEI Investments. The Non-uniform Pension Plan is administered by The Standard, StanCorp Financial Group, as a single-employer plan. Both plans are reported as pension trust funds in the statement of fiduciary net position and changes therein. The plans are administered by the Borough Council, which is made up of nine elected councilors. The plans do not have separately issued financial reports.

The respective plan assets may be used only for the payment of benefits to members and expenses of the plans, in accordance with the terms of the plans. The plans provide retirement, disability, and death benefits to plan members and their beneficiaries.

Administrative costs, including the investment manager, custodial trustee, and actuarial services, are charged to the plan and funded through investment earnings.

Police Pension Plan Description

Police Pension Plan Membership

At January 1, 2013 participation in the police plan is as follows:

Active plan members	12
Inactive plan members or beneficiaries currently receiving benefits	16
Inactive plan members entitled to but not yet receiving benefits	<u>0</u>
Total	<u>28</u>

Police Pension Plan Benefits

All full-time, non-probationary, police officers are eligible to participate in the plan. After 12 years of services, participants are fully vested. To be eligible for full retirement benefits, an officer must serve not less than an aggregate of 25 years and must attain the age of 50. Upon normal retirement, the monthly benefit is calculated at 50% of the average monthly compensation during the last 36 months of the participant's employment, plus a service increment equal to 1.25% of average monthly compensation for each year of service in excess of 25 years, up to a maximum service increment of \$100 per month. Upon the death of the officer, these monthly benefits will be made to the surviving spouse until their death, or to an eligible child at a rate of 50% of the amount payable to the member at the time of the member's death.

BOROUGH OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

NOTE 12: DEFINED BENEFIT PENSION PLAN (CONTINUED)

Police Pension Plan Contributions

Plan members are required to contribute 2.0% of gross wages to the police pension plan. This member requirement is reviewed and approved annually by the Borough. The Borough is required to fund the plan based upon actuarially determined minimum funding standards. The minimum funding standards were mandated by Act 205, enacted by the Pennsylvania legislature on December 18, 1984. The minimum funding requirement includes normal cost, administrative expenses, and amortization of the unfunded actuarial accrued liability. The Act also provides state aid to assist municipalities in meeting their minimum funding requirements. The state's contributions are reported as state contributions in the Borough's Police Pension Fund. Any remaining minimum funding obligations are paid from the General Fund of the Borough.

Act 205 of 1984, the Municipal Pension Plan Funding Standard and Recovery Act, initiated actuarial funding requirements for municipal pension plans. Under Act 205 provisions, a municipal budget must provide for the full payment of the minimum municipal obligation ("MMO") to each employee pension fund of the municipality. Act 189 of 1990 amended Act 205 and redefined the calculation used to determine the MMO to employee pension funds. The MMO is now defined as the total financial requirements to the pension fund, less funding adjustments and estimated contributions.

The actuarially determined contribution for the MMO to the Police Pension Trust Fund was \$312,337 which was funded by the Borough through a State Aid amount of \$92,944 and Borough contributions of \$1,746,068. The Borough also made contributions of \$29,389 and \$27,204 to make up for funding deficits in 2011 and 2012, respectively. Employee contributions to the police pension plan in 2014 totaled \$18,088.

Police Pension Plan Reporting

Net Pension Liability

The components of the net pension liability of the Borough's Police Pension Plan at December 31, 2014 were as follows:

Total Pension Liability	\$ 6,622,594
Plan Fiduciary Net Position	<u>6,489,371</u>
Net Pension Liability	133,223
Plan Fiduciary Net Position as Percentage of Total Pension Liability	97.99%

The schedule of changes in the net pension liability and related ratios, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about the plan.

Police Pension Plan Actuarial Methods and Assumptions

The net pension liability was measured as of December 31, 2014, and the total pension liability was determined by rolling forward the liabilities from an actuarial valuation as of January 1, 2013. No significant events or changes in assumptions occurred between the valuation date and the fiscal year end.

BOROUGH OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

NOTE 12: DEFINED BENEFIT PENSION PLAN (CONTINUED)

Police Pension Plan Actuarial Methods and Assumptions (Continued)

The total pension liability in the January 1, 2013 actuarial valuation was determined using the following economic assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary Increases	5.00%
Investment Rate of Return	7.75%
Postretirement Cost of Living Increase	0.00%

Mortality rates were based on the RP2000 Table for males and females. This table does not include projected mortality improvements.

The actuarial assumptions used in the January 1, 2013 valuations were reviewed by the Borough's actuaries; however a recent actuarial experience study was not performed.

Police Pension Plan Investments

Investments of the plan are reported at fair value. The fair value of certain plan assets with SEI and Royal Alliance are based upon quoted prices in an active market.

The plan is authorized to invest in legal investments under the Pennsylvania Fiduciaries Investment Act. It is the policy of the plan to invest in approximately 60% of assets in domestic equities, approximately 5.00% of assets in international equities, approximately 10.00% of assets in fixed income investments, and approximately 25% of assets to be held as cash.

Police Pension Plan	
Asset Class	Target Allocation
Domestic Equity	60.00%
International Equity	5.00%
Fixed Income	10.00%
Cash	25.00%

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 best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Police Pension Plan	
Asset Class	Long-Term Expected Real Rate of Return
Domestic Equity	7.00%
International Equity	6.00%
Fixed Income	2.50%
Cash	0.00%

BOROUGH OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

NOTE 12: DEFINED BENEFIT PENSION PLAN (CONTINUED)

Discount Rate

The discount rate used to measure the total pension liability for the police pension plan was 7.75%. 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.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the police pension plan, calculated using the discount rate of 7.75% as well as what the police pension plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75%) or one percentage point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Police Plan Net Pension (Asset) Liability	\$ 888,413	\$ 133,223	\$ (507,468)

Rate of Return

For the year ended December 31, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 4.04 percent for the police pension plan. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Non-Uniform Pension Plan Description

Non-Uniform Pension Plan Membership

At January 1, 2014 participation in the non-uniform plan is as follows:

Active plan members	18
Inactive plan members or beneficiaries currently receiving benefits	42
Inactive plan members entitled to but not yet receiving benefits	<u>28</u>
Total	<u>88</u>

Non-Uniform Pension Plan Benefits

The remainder of the Borough's personnel is covered by a separate defined benefit plan. All full-time, non-uniform employees are eligible to participate in the plan and are required to contribute to the plan, through payroll deductions, 5.0% of their gross salary. After five years of service, participants are fully vested. Normal retirement age is 60; however, there are provisions in the plan for early retirement. Upon normal retirement, an employees' monthly benefit is calculated by multiplying the years of service by the average compensation of the final five years of service times 2%. If a vested participant dies prior to his retirement, his surviving spouse, or eligible beneficiary is eligible for a monthly income equal to 50% of the benefit the participant would have received if he had retired on his date of death.

BOROUGH OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

NOTE 12: DEFINED BENEFIT PENSION PLAN (CONTINUED)

Non-Uniform Pension Plan Contributions

Plan members are required to contribute 5.0% of gross wages to the non-uniform plan. This member requirement is reviewed and approved annually by the Borough. The Borough is required to fund the plan based upon actuarially determined minimum funding standards. The minimum funding standards were mandated by Act 205, enacted by the Pennsylvania legislature on December 18, 1984. The minimum funding requirement includes normal cost, administrative expenses, and amortization of the unfunded actuarial accrued liability. The Act also provides state aid to assist municipalities in meeting their minimum funding requirements. The state's contributions are reported as state contributions in the Borough's Non-Uniform Pension Fund. Any remaining minimum funding obligations are paid from the General, Water-Sewer, and Electric Funds of the Borough.

Act 205 of 1984, the Municipal Pension Plan Funding Standard and Recovery Act, initiated actuarial funding requirements for municipal pension plans. Under Act 205 provisions, a municipal budget must provide for the full payment of the minimum municipal obligation ("MMO") to each employee pension fund of the municipality. Act 189 of 1990 amended Act 205 and redefined the calculation used to determine the MMO to employee pension funds. The MMO is now defined as the total financial requirements to the pension fund, less funding adjustments and estimated contributions.

The actuarially determined contribution for the MMO to the Non-Uniform Pension Trust Fund was \$398,710 which was funded by the Borough through a State Aid amount of \$85,199 and Borough contributions of \$2,655,517. Employee contributions to the non-uniform pension plan in 2014 totaled \$63,544.

Non-Uniform Pension Plan Reporting

Net Pension Asset

The components of the net pension asset of the Borough's non-uniform pension plan at December 31, 2014 were as follows:

Total Pension Liability	\$ 11,804,471
Plan Fiduciary Net Position	<u>11,945,765</u>
Net Pension Asset	141,294
Plan Fiduciary Net Position as Percentage of Total Pension Asset	101.20%

The schedule of changes in the net pension liability and related ratios, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about the plan.

BOROUGH OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

NOTE 12: DEFINED BENEFIT PENSION PLAN (CONTINUED)

Non-Uniform Pension Plan Actuarial Methods and Assumptions

The net pension asset was measured as of December 31, 2014, and the total pension liability was determined by rolling forward the liabilities from an actuarial valuation as of January 1, 2014. No significant events or changes in assumptions occurred between the valuation date and the fiscal year end.

The total pension liability in the January 1, 2014 actuarial valuation was determined using the following economic assumptions, applied to all periods included in the measurement:

Inflation	4.00%
Salary Increases	4.00%
Investment Rate of Return	7.00%

Mortality rates for the non-uniform pension plan were based on the 2008+ IRS Combined Static Table.

The actuarial assumptions used in the January 1, 2014 valuations were reviewed by the Borough's actuaries; however a recent actuarial experience study was not performed.

Non-Uniform Pension Plan Investments

Investments of the non-uniform pension plan are reported at fair value. The fair value of certain plan assets with The Standard are based upon quoted prices in an active market. The Stable Asset Fund with The Standard is invested in an unallocated group deposit contract and is stated at fair value.

The plan is authorized to invest in legal investments under the Pennsylvania Fiduciaries Investment Act. It is the policy of the plan to invest in approximately 50% of assets in domestic equities, approximately 15% of assets in international equities, approximately 33% of assets in fixed income investments, and approximately 2% of assets to be held as cash.

Non-Uniform Pension Plan	
Asset Class	Target Allocation
Domestic Equity	50.00%
International Equity	15.00%
Fixed Income	33.00%
Cash	2.00%

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 best estimates of the arithmetic real rates of return for each major asset class are summarized in the following table:

Non-Uniform Pension Plan	
Asset Class	Long-Term Expected Real Rate of Return
Domestic Equity	6.00%
International Equity	6.00%
Fixed Income	1.00%
Cash	0.00%

BOROUGH OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

NOTE 12: DEFINED BENEFIT PENSION PLAN (CONTINUED)

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. 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.

Sensitivity of the Net Pension Asset to Changes in the Discount Rate

The following presents the net pension asset of the plan, calculated using the discount rate of 7.00%, as well as what the non-uniform pension plan's net pension (asset) liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Non-Uniform Net Pension (Asset) Liability	\$ 1,220,956	\$ (141,294)	\$ (1,288,477)

Rate of Return

For the year ended December 31, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 4.33 percent. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Employer Reporting

Funding Status and Progress

Police Pension Plan

As of January 1, 2013, the most recent actuarial valuation date, the plan was 72.8 percent funded. The actuarial accrued liability for benefits was \$6,176,352, and the market value of assets was \$4,497,538, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,678,814. The actuarial value of assets as a percentage of the actuarial accrued liability was 72.8 percent. The covered payroll was \$979,508, and the ratio of the UAAL to the covered payroll was 171.4 percent.

Non-Uniform Pension Plan

As of January 1, 2013, the most recent actuarial valuation date, the plan was 71.8 percent funded. The actuarial accrued liability for benefits was \$11,635,686 and the actuarial value of assets was \$8,356,015, resulting in an unfunded actuarial accrued liability (UAAL) of \$3,279,671. The actuarial value of assets as a percentage of the actuarial accrued liability was 71.8 percent. The covered payroll was \$1,557,088, and the ratio of the UAAL to the covered payroll was 210.6 percent.

The schedule of funding progress presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

BOROUGH OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

NOTE 12: DEFINED BENEFIT PENSION PLAN (CONTINUED)

Annual Pension Cost and Net Pension Asset

Non-uniform pension plan

For the year ended December 31, 2014, the Borough's annual determined contribution was \$398,710 of which \$85,199 was funded by the State.

Police pension plan

For the year ended December 31, 2014, the Borough's actuarially determined contribution was \$312,337 of which \$92,944 was funded by the State.

Three-year trend information

	Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension (Asset) Liability
Non-uniform pension plan:	December 31, 2014	\$ 398,710	687.4%	\$ (2,393,931)
	December 31, 2013	\$ 417,962	103.1%	\$ (51,925)
	December 31, 2012	\$ 476,417	100.0%	\$ 269,164
Police pension plan:	December 31, 2014	\$ 312,337	588.8%	\$ (1,544,417)
	December 31, 2013	\$ 336,045	100.0%	\$ (17,742)
	December 31, 2012	\$ 309,995	100.0%	\$ 169,840

	Police Pension	Non-Uniform Pension
Administrative expense	\$ 45,236	\$ 13,100
Contribution requirements – normal cost	144,962	133,639
Amortization of cost	141,342	307,003
Less: Employees' contributions	(19,203)	(55,032)
Annual pension cost	312,337	398,710
Contributions made	(1,839,012)	(2,740,716)
Increase in net pension asset	(1,526,675)	(2,342,006)
Net pension asset:		
Beginning of year	(17,742)	(51,925)
End of year	\$ (1,544,417)	\$ (2,393,931)

BOROUGH OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

NOTE 12: DEFINED BENEFIT PENSION PLAN (CONTINUED)

Actuarial Valuation Information for Funding Progress

The Borough has an actuarial valuation prepared every two years. The following methods and assumptions were used to prepare the valuations:

	Non-uniform pension plan	Police pension plan
Actuarial valuation date	January 1, 2013	January 1, 2013
Actuarial cost method	Entry age normal	Entry age normal
Asset valuation method	Five-year smoothed value with a corridor of 80% to 120% of market value	Five-year smoothed value with a corridor of 80% to 120% of market value
Actuarial Assumptions:		
Investment Rate of Return	7.50%	7.75%
Projected Salary Increases	4.50%	5.00%
Inflation	3.00%	3.00%
Mortality	1994 Group Annuity Mortality Tables	RP2000 Table
Amortization method	Level dollar closed	Level dollar closed
Remaining amortization period	13 years	14 years

NOTE 13: POST-EMPLOYMENT HEALTHCARE AND LIFE INSURANCE BENEFITS

A. Plan Descriptions

In addition to the pension benefits described in Note 12, the Borough has two single-employer, defined benefit other post-employment benefit (OPEB) plans covering substantially all of its employees. The plans do not have separately issued financial reports. The plans' benefit provisions and all other requirements are established by collective bargaining agreements and Council approval. Collective bargaining agreements, which require Council approval, are the authority under which benefit provisions are established or may be amended.

BOROUGH OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

NOTE 13: POST-EMPLOYMENT HEALTHCARE AND LIFE INSURANCE BENEFITS
(CONTINUED)

A. Plan Descriptions (Continued)

Police OPEB Plan

Benefits are payable for members who retire from the Borough after completion of 20 years of service. Eligible retirees and spouses may participate in the Borough's PPO medical plan. Additionally, the Borough reimburses retirees and spouses for Medicare Part B premiums for those who have reached Medicare age (one spouse is also being reimbursed for these premiums). Dental and vision insurance is also available. Coverage is available upon disability. The spouses may continue in the plan after death of a retiree.

The Borough provides a \$50,000 life insurance benefit for anyone whose date of retirement is on or after January 1, 2006. The officer may elect to have the actuarial equivalence of this benefit paid in cash to a 457 savings plan.

Non-uniform OPEB Plan

Benefits are payable for members who retire from the Borough after they have completed a combined 78 years of age and service. Eligible retirees may participate in the Borough's PPO medical plan. Additionally, the Borough reimburses retirees and spouses for Medicare Part B premiums for those who have reached Medicare age. Dental and vision insurance is also available. Full-time employees must have completed at least 12 years of service to qualify for disability coverage. The spouses may continue in the plan after death of a retiree; however, they must pay the full premium.

The Borough provides an \$8,000 life insurance benefit for anyone whose date of retirement is on or after January 1, 2006. The retiring employee may elect to have the actuarial equivalence of this benefit paid in cash to a 457 savings plan.

Management personnel are not members of either bargaining unit, but are eligible to receive the same benefits provided in the non-uniform employment contract.

B. Funding Policy and Annual OPEB Costs

The Borough's contribution is based on actuarially determined amounts. For the year ended December 31, 2014, the Borough contributed \$2,156,982 and \$3,309,661 to the Police OPEB Plan and the Non-uniform OPEB Plan, respectively. Plan members receiving benefits contributed \$18,496 and \$13,789, respectively, through their contributions as required by the cost sharing provisions of the plans.

Collective bargaining agreements, which require Council approval for establishment or amendments, are the authority under which obligate the Borough and others to contribute to the plans.

The Borough's annual OPEB cost (expense) for each plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

BOROUGH OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

NOTE 13: POST-EMPLOYMENT HEALTHCARE AND LIFE INSURANCE BENEFITS
(CONTINUED)

B. Funding Policy and Annual OPEB Costs (Continued)

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probably of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARC are subject to continual revisions as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over tie relative to the actuarial accrued liability for benefits.

Police OPEB Plan

The Borough pays the entire cost of medical coverage, prescription drug, dental, and vision coverage for the retiree. Pre-Medicare age spouses must pay \$75 per month towards medical coverage. Some existing retirees pay a fixed percentage of medical, dental, and vision premiums as determined at their retirement date.

Upon disability, police officers and spouses may continue medical and prescription drug at no cost to the employee until each becomes eligible for Medicare/Medicaid or Social Security disability coverage. Spouses must contribute \$75 per month.

The Borough pays the entire cost of the life insurance benefit.

Non-uniform OPEB Plan

The Borough pays the entire cost of medical, prescription drug, dental, and vision coverage for the retiree plus spouse for management employees. The Borough pays the entire cost of medical, prescription drug, and vision coverage for the retiree plus spouse for Teamster employees. Dental premiums must be paid by Teamster retirees. Some existing retirees pay a fixed percentage of medical, dental, and vision premiums as determined at their retirement date.

The Borough pays the entire cost of the life insurance benefit.

C. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of the valuation and on the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculation. The projections of benefits for financial reporting purposes do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

BOROUGH OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

NOTE 13: POST-EMPLOYMENT HEALTHCARE AND LIFE INSURANCE BENEFITS
(CONTINUED)

C. Actuarial Methods and Assumptions (Continued)

Information as of the latest actuarial valuation follows:

	Police OPEB Plan	Non-uniform OPEB Plan
Valuation date	1/1/2012	1/1/2012
Actuarial cost method	Entry age normal	Entry age normal
Actuarial assumptions		
Interest rate	7.5%	7.5%
Salary increases	5.0%	5.0%
Medical inflation	7.5% in 2012, decreasing by 0.5% per year to 5.5% in 2016. Rates gradually decrease from 5.3% in 2017 to 4.2% in 2089 and later.	7.5% in 2012, decreasing by 0.5% per year to 5.5% in 2016. Rates gradually decrease from 5.3% in 2017 to 4.2% in 2089 and later.
Amortization period	26 years	26 years
Amortization method	Level dollar, closed period	Level dollar, closed period

D. Annual OPEB Cost and Net OPEB Obligation (Asset)

The Borough's annual OPEB costs and net OPEB obligations (assets) to the plans for the year ended December 31, 2014 were as follows:

	Police OPEB Plan	Non-uniform OPEB Plan
Annual required contribution	\$ 285,756	\$ 508,015
Interest on net OPEB obligation	6,873	(1,011)
Adjustment to annual required contribution	8,478	(1,247)
Annual OPEB cost	301,107	505,757
Contribution made	(2,156,982)	(3,309,661)
Changes in Net OPEB Obligation (Asset)	(1,855,875)	(2,803,904)
Net OPEB Obligation (Asset), beginning	91,642	(13,476)
Net OPEB Obligation (Asset), ending	<u>\$ (1,764,233)</u>	<u>\$ (2,817,380)</u>

BOROUGH OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

NOTE 13: POST-EMPLOYMENT HEALTHCARE AND LIFE INSURANCE BENEFITS
(CONTINUED)

D. Annual OPEB Cost and Net OPEB Obligation (Asset) (Continued)

The Borough's annual OPEB costs, the percentage of annual OPEB costs contributed to the plans, and the net OPEB (asset) obligation for 2014 and the previous two years were as follows:

	Year	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation (Asset)
Police OPEB Plan:	2014	\$ 301,107	716.4%	\$(1,764,233)
	2013	\$ 300,410	99.3%	\$ 91,642
	2012	\$ 286,521	48.6%	\$ 89,633
Non-uniform OPEB Plan:	2014	\$ 505,757	654.4%	\$(2,817,380)
	2013	\$ 509,148	104.0%	\$ (13,476)
	2012	\$ 511,278	51.8%	\$ 6,935

E. Funded Status and Schedule of Funding Progress

The schedules of funding progress, presented as required supplementary information follows the notes to the financial statements, present multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing over time relevant to the actuarial accrued liability for benefits.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
Police 1/1/2012	\$ 918,419	\$ 3,205,261	\$ 2,286,842	28.65%	\$ 1,216,096	188.05%
Non-uniform 1/1/2012	\$ 1,473,356	\$ 5,141,974	\$ 3,668,618	28.65%	\$ 2,469,825	148.54%

NOTE 14: SEWAGE TREATMENT AGREEMENT WITH LOWER SWATARA TOWNSHIP

On October 5, 1961, the Authority and the Borough entered into a sewage treatment agreement with the Lower Swatara Township Authority and Lower Swatara Township (Township). This agreement was effective from October 5, 1961 for a period of fifty years and has been replaced by a new agreement signed April 27, 2009, with a term of twenty years.

BOROUGH OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

NOTE 14: SEWAGE TREATMENT AGREEMENT WITH LOWER SWATARA TOWNSHIP
(CONTINUED)

Pursuant to this agreement, the Borough will convey and treat the sanitary sewage from the Township from the Middletown interceptors at the Borough limits. In exchange for these services, the Borough is to receive quarterly charges for sewer and water usage based upon actual sewage flow discharged into the Middletown sewage system and actual water consumptions of the sewer users in the Township. The Borough, at any time, may ordain an increase or decrease in sewer charges within the Borough and such increase or decrease shall as well be applicable to the charges paid by the Township for the services provided by the Borough pursuant to this agreement.

Under the agreement, the Township shall reimburse the Borough for any project involving the construction, reconstruction, repair, and/or upgrading of the Borough's facilities utilized in the transportation, treatment, or disposal of residential and non-residential wastewater originating in the Township. The intent of this agreement is that all capital costs will be apportioned according to the ratio of the Township's reserved capacity to plant capacity, and all other costs will be apportioned according to the ratio of the Township's actual flows to total flows into the Borough treatment plant. On December 30, 2014, the sewage treatment agreement between the Authority, Borough, and Lower Swatara Township was terminated, due to the service concession arrangement between the Authority and Middletown Water Joint Venture LLC (see Note 27).

NOTE 15: SEWAGE TREATMENT AGREEMENT WITH ROYALTON BOROUGH

On June 10, 1997, the Authority and the Borough entered into a new sewage treatment agreement with the Royalton Borough Authority and the Borough of Royalton, thereby amending and restating their previous agreement dated May 3, 1977. This agreement is effective from June 10, 1997 through May 2, 2017; thereafter, it shall remain in full force and effect, subject to a right of termination by any party providing two years' written notice to all other parties of the agreement.

Pursuant to this Agreement, the Authority will transport, treat, and dispose of the Borough of Royalton's sewage. In exchange for these services, the Authority is to receive the following compensation from the Borough of Royalton:

- a. Payment of \$11,006 each year for 20 years through 2016. This is to reserve additional capacity of 125,000 gallons per day in the sewage treatment plant. This payment amount is based on a fee of \$126,250 plus 6% interest per annum. This portion of the Agreement was prepaid during the year ended December 31, 2007.
- b. A proportionate share, based on reserved capacity, of capital costs incurred for the expansion, reconstruction, repair, or upgrading of the Borough sewage treatment plant.
- c. A surcharge of \$500 for each separate violation of the maximum flow rates provided for in the agreement.

On December 30, 2014, the sewage treatment agreement between the Authority, Borough, and Royalton Borough was terminated, due to the service concession arrangement between the Authority and Middletown Water Joint Venture LLC (see Note 27).

BOROUGH OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

NOTE 16: WATER AGREEMENTS WITH ROYALTON BOROUGH

On June 12, 1972, the Authority and the Borough entered into a water lease agreement with the Borough of Royalton, whereby the Authority and the Borough lease to the Borough of Royalton, the reservoirs, dams, mains, waterworks and water system and all property and equipment for use in connection therewith, situated within the second ward of the Borough of Royalton. The term of the lease is for 40 years, or until Royalton Authority has paid off the last of its bonded indebtedness, whichever event occurs last. The lease requires payments of a minimum \$7,640 per year, comprised of a lease rental and minimum usage charges.

On March 5, 1990, the Authority and the Borough entered into a supplemental agreement, stating that the Borough and the Authority were deemed parties in interest to agreements dated November 5, 1983, by and between Royalton and Londonderry, providing for emergency water service for a five year period by Royalton to certain residences of Londonderry, and an agreement dated March 5, 1990, by and between Royalton and Londonderry, supplementing and extending the agreement of November 5, 1983. On December 30, 2014, the water agreements between the Authority, Borough, and Royalton Borough were terminated, due to the service concession arrangement between the Authority and Middletown Water Joint Venture LLC (see Note 27).

NOTE 17: INTERNAL SERVICE BILLINGS, PROPRIETARY FUNDS

For the year ended December 31, 2014 the Water-Sewer Fund recorded \$24,871 and the Electric (Operations) Fund recorded \$427,259 of service billings revenues billed to the Borough. These billings are also recorded in these financial statements as expenditures/expenses in the applicable Borough fund.

NOTE 18: LOAN TO BOROUGH AUTHORITY

On December 30, 2003, the Borough issued General Obligation Bonds, Series A and B of 2003, in the aggregate principal balance of \$7,150,000. The Borough placed a portion of the proceeds in reserve for the payment of these bonds and transferred \$5,877,833 as a loan to the Authority to be applied toward capital improvements to the water and sewer system facilities leased to the Borough for operation and use. The cost of capital improvements paid for by the Authority from the proceeds will be transferred to the Borough as repayments for the use of these proceeds. On December 30, 2014, the Authority transferred \$6,813,365 to pay the remaining balance of the General Obligation Bonds, Series of A and B of 2003.

On December 15, 2009, the Borough issued General Obligation Bonds, Series 2009, in the aggregate principal balance of \$7,545,000. The Borough transferred \$7,331,270 as a loan to the Authority to be applied in the planning, design, acquisition, and construction of certain capital additions, alterations, replacements, and improvements to the Wastewater Treatment Plant and related facilities and the sanitary sewage collection, transmission, and disposal facilities. On December 30, 2014, the Authority transferred \$6,899,066 to pay the remaining balance of the General Obligation Bonds, Series of 2009.

As of December 31, 2014, the balance owed to the Borough is \$864,593.

BOROUGH OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

NOTE 19: RENTAL INCOME

The Authority leases a portion of premises on Union Street for the placement of a cellular tower. The lease is a twenty-year lease through December 31, 2034, separated into 4 five-year terms. The lease can be cancelled at the end of each five-year term, with 12-months prior notification by either party. The lease payments increase ten percent each five-year term. The total lease payments received in 2014 by the Authority were \$27,868.

During 2014, the Borough and the MBICDA were assigned the right to collect lease payments on the lease. The total lease payments received by the MBICDA in 2014 were \$2,438.

The future minimum non-cancellable lease payments due to the MBICDA under this lease are:

Year Ending December 31:	
2015	\$ 29,261
2016	29,261
2017	29,261
2018	29,261
2019	29,261
Total	<u>\$ 146,305</u>

NOTE 20: EXCESS WATER AND SEWER REVENUES

Under Section 6.02 of the 2004 Agreement of Lease between the Borough and the Authority, the Borough is required to pay to the Authority, as additional rental, any excess balance, as defined in Section 5.03 of the lease agreement, retained in the Water and Sewer Revenue account at the end of each lease year or maintain the excess monies in a reserve fund for capital additions and extraordinary repairs to the Water and Sewer Systems. During 2014, no amount was received from the Borough. The remaining excess monies calculated as of December 31, 2014 amounted to zero. On December 30, 2014, the lease between the Authority and the Borough was terminated, due to the service concession arrangement between the Authority and Middletown Water Joint Venture LLC (see Note 27).

NOTE 21: CONTINGENCIES AND COMMITMENTS

The Borough provides unemployment compensation to eligible claimants through the General Fund. The Borough would be liable for unemployment compensation claims out of its general revenues. The Borough incurred \$27,942 in unemployment compensation claims during the year ended December 31, 2014.

The Borough currently employs a labor force of which approximately 75% is covered by one of two collective bargaining agreements. The non-management, non-uniform employees are covered by the Borough's agreement with Teamsters Local Union 776, which expired December 31, 2012. The Borough is negotiating a new agreement with the Teamster's Union, and currently operates under the terms of the previous agreement. The Borough's agreement with the Middletown Borough Police Officers Association expires December 31, 2016.

The Borough is involved in various employment-related lawsuits, and charges asserted by and against its employees and its bargaining units. The outcome of these matters cannot be determined at this time. Management believes that any potential losses from these matters will not have a material adverse effect on the Borough's financial position.

BOROUGH OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

NOTE 21: CONTINGENCIES AND COMMITMENTS (CONTINUED)

The Borough is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Borough maintains commercial insurance covering each of these risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses. Settled claims have not significantly exceeded this commercial coverage in any of these past three years.

On September 8, 1998, the Borough entered into a settlement agreement with Metropolitan Edison Company (Met-Ed) thereby ending the complaint Met-Ed against the Borough in October 1994 seeking termination of the supply contract and damages for certain past sales, calculated on the basis of the difference between the Borough's contracted rate of one cent per kilowatt hour (KWH) and the tariff rate applicable to Met-Ed's other wholesale customers.

The terms of the agreement stated that in exchange for a termination of the Electricity Supply Contract between Met-Ed and the Borough, effective 12:01 a.m. on January 1, 1999, Met-Ed agreed to pay the Borough \$18,000,000, payable over the ten years, though 2008.

These payments were backed by an irrevocable letter of credit provided to the Borough by Met-Ed, which was updated each year until it expired on February 22, 2008. The 2008 payment of \$1,600,000 was received during 2008.

The Borough has set up the "Middletown Electric Rate Stabilization Irrevocable Trust" (Trust) in which these payments are being deposited. The purpose of the Trust is to ensure that the settlement payments be used solely to subsidize the cost incurred by the Borough to purchase electricity transmission capacity and wholesale electricity, in order to reduce the rate of increase in prices that customers of the Borough's electric distribution system must pay for electricity. The funds placed in the Trust must be invested in accordance with Article XIII, Section 1316 of the Borough Code as amended. As of December 31, 2014, the balance of invested funds in the Trust is \$9,749,034.

On October 14, 2010, the Borough executed a contract to purchase electric power and energy from Exelon Generation Company, LLC, effective January 1, 2013 through December 31, 2015.

In October 2014, the Authority began a water system improvements project. As a result, the Authority entered into a construction contract totaling approximately \$389,871. At December 31, 2014, \$229,418 was included in accounts payable. The commitment remaining on the contract at December 31, 2014 was \$148,379.

The Borough has entered into several contracts for construction and demolition projects. The contracts' value approximated \$1,175,360, of which \$1,067,490 has been expended as of December 31, 2014.

BOROUGH OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

NOTE 22: CAPITAL LEASES

Governmental Activities

In 2012, the Borough entered into a capital lease to finance the purchase of two Chevrolet Caprice Police cars. The terms of the lease include three years with annual payments beginning September 2012 and going through September 2015. The assets (recorded as General Equipment and Vehicles) acquired through the capital leases are as follows:

ASSETS:	
Leasehold Assets	\$ 100,092
Less: Accumulated Depreciation	(45,374)
Total	<u>\$ 54,718</u>

Future minimum lease payments under the agreements together with present value of the net minimum lease payments are as follows:

<u>Years Ending December 31:</u>	
2015	<u>\$ 26,861</u>
Total Minimum Lease Payments	26,861
Less: Amount Representing Interest	<u>(1,265)</u>
Total Present Value of Net Minimum Lease Payments	25,596
Less: Amount Due Within One Year Long-Term Portion	<u>(25,596)</u>
	<u>\$ -</u>

NOTE 23: FLOOD RECOVERIES

As a result of the September 2011 flood damages, the Borough incurred \$938,993 in expenditures under the Hazard Mitigation Grant Program during 2014. The Borough received grant payments under the program of \$2,386,376 during 2014.

NOTE 24: LEGAL COMPLIANCE

Fund Balance Deficits

For the year ended December 31, 2014, the following funds had a deficit unassigned fund balance:

Governmental Funds:	
Flood Relief	\$ 1,650,545
General Debt Service	55,996
Fire Debt Service	48,450
Business Type Funds:	
Water-Sewer	3,768,663

Budget Appropriations

In the current year, General Fund expenditures exceeded appropriations by \$4,465,073. The excess expenditures were the result of the Borough using funding from Service Concession Arrangement (see Note 27) to make additional pension and OPEB contributions, which are recorded as expenditures in the governmental fund statements.

BOROUGH OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

NOTE 25: RELATED PARTY TRANSACTIONS

The Borough has paid for expenses on behalf of and contributed funds to the Middletown Public Library (the "Library"), a related organization, with these expenses to be partially reimbursed by the Library. During the year ended December 31, 2014, the Borough paid for \$65,653 worth of expenses for and contributions to the Library. Of the \$65,653, \$65,000 is considered a contribution to the Library and \$653 is to be reimbursed by the Library. This amount has been recorded as an accounts receivable in the General Fund. The amount due to the Borough from the Library as of December 31, 2014 is 37,127.

NOTE 26: UNREDEEMED COUPONS AND BONDS

The Series of 2004 current interest bonds are registered; therefore, the interest is automatically sent to the registered bondholders semiannually, so there is no unclaimed bond interest being held. In accordance with the 2004 Trust Indenture, any monies held by the Trustee for the redemption of bonds remaining unclaimed by the bondholders for five years after the date of maturity or the date fixed for redemption, shall, upon request of the Authority, be paid to the Authority. Such bondholders would then be limited to a claim against the Authority for their share of the funds.

NOTE 27: SERVICE CONCESSION ARRANGEMENT

On December 30, 2014, the Authority completed a service concession arrangement to allow Middletown Water Joint Venture LLC to manage, operate, and collect water and sewer charges from the Borough's water and sewer system for 50 years. The Middletown Joint Venture LLC assumed all obligations under the service concession arrangement. The Authority received an upfront payment of \$43,209,666, which was recorded as a deferred inflow that will be amortized on the straight-line method and recognized as revenue over the term of the agreement. The Authority will receive annual installment payments, which were recorded as a deferred inflow and discounted at six percent. The annual installment payments will be recognized as revenue over the term of the agreement. The Authority will also recognize the following over the remaining term of the agreement:

Year	Payment	Discount	Net Present Value
2015	\$ -	\$ -	\$ -
2016	725,000	41,038	683,962
2017	725,000	79,753	645,247
2018	725,000	116,276	608,724
2019	725,000	150,732	574,268
2020-2024	3,245,000	1,071,961	2,173,039
2025-2029	2,990,000	1,496,622	1,493,378
2030-2034	2,950,000	1,850,752	1,099,248
2035-2039	2,950,000	2,128,578	821,422
2040-2044	2,950,000	2,336,186	613,814
2045-2049	2,950,000	2,491,322	458,678
2050-2054	2,950,000	2,607,249	342,751
2055-2059	2,950,000	2,693,877	256,123
2060-2064	2,950,000	2,758,609	191,391
	<u>\$ 29,785,000</u>	<u>\$ 19,822,955</u>	<u>\$ 9,962,045</u>

BOROUGH OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

NOTE 27: SERVICE CONCESSION ARRANGEMENT (CONTINUED)

The service concession arrangement was completed for the primary purpose of leveraging Authority assets and generating cash resources. The water and sewer system assets are reported on the Authority's statement of net position (deficit) and will be depreciated over their useful lives. The following is a summary of changes in the deferred inflows of resources, service concession arrangement, net of discount for the year ended December 31, 2014:

	<u>Beginning Balance</u>	<u>Additions, net of discount</u>	<u>Amortization</u>	<u>Ending Balance</u>
Deferred inflows of resources, service concession arrangement, net of discount	<u>\$ -</u>	<u>\$53,171,711</u>	<u>\$ -</u>	<u>\$53,171,711</u>

NOTE 28: RESTATEMENT OF NET POSITION

The following amounts have been restated for the calendar year ending December 31, 2014:

<u>Governmental Activities</u>	
Net Position, Beginning of Year as Previously Stated	\$ 11,196,700
Change in the Valuation of Capital Assets	<u>(613,000)</u>
Net Position, Beginning of Year as Restated	<u>\$ 10,583,700</u>

NOTE 29: SUBSEQUENT EVENTS

In January 2015, the Authority awarded a construction company a contract to replace the existing water and sanitary sewer facilities in the Borough. A potential dispute exists between the Authority and the construction company over approximately \$49,000 in change orders and corrective work. As of December 18, 2015, the possibility of litigation and the outcome is not determinable.

On May 29, 2015, the Borough amended its agreement with Exelon Generation Company, LLC to extend the terms of its electric power purchasing agreement through December 31, 2016.

On August 14, 2015, the MBICDA repaid the \$528,500 balance of its line of credit (see Note 9).

On December 30, 2015, the MBICDA sold a property for \$400,000 to a developer, and issued a \$1.5 million loan to the developer for the purchase and renovation of the property.

Required Supplementary Information

BOROUGH OF MIDDLETOWN

SCHEDULE OF EMPLOYER CONTRIBUTIONS AND FUNDING PROGRESS FOR POLICE PENSION

Schedule of Employer Contributions		
Year Ended December 31	Annual Required Contribution	Percentage Contributed *
2009	241,587	100.0%
2010	237,608	100.0%
2011	300,172	100.0%
2012	309,995	100.0%
2013	336,045	100.0%
2014	312,337	588.8%

* Includes general municipal pension system State aide

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2005	\$ 3,315,532	\$ 3,790,705	\$ 475,173	87.46%	\$ 963,001	49.34%
1/1/2007	3,753,302	4,293,415	540,113	87.42%	1,116,854	48.36%
1/1/2009	4,180,346	5,047,922	867,576	82.81%	1,048,293	82.76%
1/1/2011	4,160,871	5,580,634	1,419,763	74.56%	1,169,840	121.36%
1/1/2013	4,497,538	6,176,352	1,678,814	72.82%	979,508	171.39%

BOROUGH OF MIDDLETOWN

SCHEDULE OF EMPLOYER CONTRIBUTIONS AND FUNDING PROGRESS FOR NON-UNIFORM PENSION

Schedule of Employer Contributions		
Year Ended December 31	Annual Required Contribution	Percentage Contributed *
2009	74,366	100.0%
2010	84,559	100.0%
2011	381,750	100.0%
2012	476,417	100.0%
2013	417,962	103.1%
2014	398,710	687.4%

* Includes general municipal pension system State aide

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2005	\$ 8,745,271	\$ 7,664,865	\$ (1,080,406)	114.10%	\$ 2,002,319	-53.96%
1/1/2007	9,460,033	8,827,115	(632,918)	107.17%	2,190,338	-28.90%
1/1/2009	7,684,218	10,094,681	2,410,463	76.12%	2,356,782	102.28%
1/1/2011	8,285,342	11,198,544	2,913,202	73.99%	2,354,008	123.75%
1/1/2013	8,356,015	11,635,686	3,279,671	71.81%	1,557,088	210.63%

BOROUGH OF MIDDLETOWN
POLICE PENSION PLAN
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS - LAST 10 YEARS

Total Pension Liability	Police Pension Plan 2014
Service Cost	\$ 155,966
Interest	489,721
Changes of benefit terms	-
Differences between expected and actual experience	-
Benefit payments, including refunds of member contributions	(434,811)
Net change in total pension liability	210,876
Total pension liability - beginning	6,411,718
Total pension liability - ending (a)	<u>\$ 6,622,594</u>
Plan Fiduciary Net Position	
Contributions - employer	\$ 1,895,605
Contributions - employee	18,088
Net investment income	174,442
Benefit payments, including refunds of member contributions	(434,811)
Administrative expense	(11,811)
Other	-
Net change in plan fiduciary net position	1,641,513
Plan's fiduciary net position - beginning	4,847,858
Plan's fiduciary net position - ending (b)	<u>\$ 6,489,371</u>
Borough's net pension liability - ending (a) - (b)	<u>\$ 133,223</u>
Plan fiduciary net position as a percentage of the total pension liability	97.99%
Covered employee payroll	\$ 812,815
Borough's net pension liability as a percentage of covered-employee payroll	16.39%

The Borough adopted GASB Statement No. 67 on a prospective basis in 2014; therefore only one year is presented in the above schedule.

BOROUGH OF MIDDLETOWN
NON-UNIFORM PENSION PLAN
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS - LAST 10 YEARS

Total Pension Liability	Non-Uniform Pension Plan 2014
Service Cost	\$ 133,234
Interest	801,569
Changes of benefit terms	-
Differences between expected and actual experience	-
Benefit payments, including refunds of member contributions	(782,861)
Net change in total pension liability	151,942
Total pension liability - beginning	11,652,529
Total pension liability - ending (a)	<u>\$ 11,804,471</u>
 Plan Fiduciary Net Position	
Contributions - employer	\$ 2,740,716
Contributions - employee	63,544
Net investment income	454,439
Benefit payments, including refunds of member contributions	(782,861)
Administrative expense	(1,976)
Other	-
Net change in plan fiduciary net position	2,473,862
Plan's fiduciary net position - beginning	9,471,903
Plan's fiduciary net position - ending (b)	<u>\$ 11,945,765</u>
 Borough's net pension liability (asset) - ending (a) - (b)	<u>\$ (141,294)</u>
 Plan fiduciary net position as a percentage of the total pension liability (asset)	101.20%
 Covered employee payroll	\$ 1,025,163
 Borough's net pension liability as a percentage of covered-employee payroll	-13.78%

The Borough adopted GASB Statement No. 67 on a prospective basis in 2014; therefore only one year is presented in the above schedule.

BOROUGH OF MIDDLETOWN

SCHEDULE OF EMPLOYER CONTRIBUTIONS - LAST 10 YEARS

Police Pension Plan

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Actuarially determined contribution	\$ 312,337	\$ 336,045	\$ 309,995	\$ 300,172	\$ 237,608	\$ 241,587	\$ 213,820	\$ 209,460	\$ 201,690	\$ 194,866
Contributions in relation to the actuarially determined contribution	<u>1,839,012</u>	<u>340,067</u>	<u>313,718</u>	<u>301,962</u>	<u>237,608</u>	<u>241,587</u>	<u>213,820</u>	<u>209,460</u>	<u>201,690</u>	<u>194,870</u>
Contribution deficiency (excess)	<u>\$ (1,526,675)</u>	<u>\$ (4,022)</u>	<u>\$ (3,723)</u>	<u>\$ (1,790)</u>	<u>\$ -</u>	<u>\$ (4)</u>				
Covered-employee payroll	\$ 812,815	\$ 979,508	\$ 1,186,189	\$ 1,169,840	\$ 1,169,842	\$ 1,048,293	\$ 1,172,713	\$ 1,116,854	\$ 1,156,586	\$ 963,001
Contributions as a percentage of covered-employee payroll	226.25%	34.72%	26.45%	25.81%	20.31%	23.05%	18.23%	18.75%	17.44%	20.24%

Non-uniform Pension Plan

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Actuarially determined contribution	\$ 398,710	\$ 417,962	\$ 476,417	\$ 381,750	\$ 84,559	\$ 74,366	\$ 42,249	\$ 37,111	\$ -	\$ -
Contributions in relation to the actuarially determined contribution	<u>2,740,716</u>	<u>420,612</u>	<u>476,417</u>	<u>381,750</u>	<u>84,560</u>	<u>74,370</u>	<u>42,250</u>	<u>-</u>	<u>160</u>	<u>80</u>
Contribution deficiency (excess)	<u>\$ (2,342,006)</u>	<u>\$ (2,650)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1)</u>	<u>\$ (4)</u>	<u>\$ (1)</u>	<u>\$ 37,111</u>	<u>\$ (160)</u>	<u>\$ (80)</u>
Covered-employee payroll	\$ 1,025,163	\$ 1,557,088	\$ 2,520,120	\$ 2,354,008	\$ 2,364,683	\$ 2,356,782	\$ 2,249,761	\$ 2,190,338	\$ 2,199,928	\$ 2,002,319
Contributions as a percentage of covered-employee payroll	267.34%	27.01%	18.90%	16.22%	3.58%	3.16%	1.88%	0.00%	0.01%	0.00%

Notes to the Schedule

	<u>Police Pension Plan</u>	<u>Non-Uniform Pension Plan</u>
Valuation Date	January 1, 2013	January 1, 2013

Actuarially determined contributions are calculated as of December 31, two to four years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

	<u>Police Pension Plan</u>	<u>Non-Uniform Pension Plan</u>
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level Dollar	Level Dollar
Remaining amortization period	14 Years	13 Years
Asset valuation method	Five Year smoothed value with a corridor of 80% to 120% of market value	Five Year smoothed value with a corridor of 80% to 120% of market value
Inflation	3.00 percent	3.00 percent
Salary increases	5.00 percent	4.50 percent
Investment Rate of Return	7.75 percent	7.50 percent
Retirement Age	Age 53 and 25 years of service	Age 60
Mortality	RP2000 Table	1994 Group Annuity Mortality Table

BOROUGH OF MIDDLETOWN

SCHEDULE OF INVESTMENT RETURNS - LAST 10 FISCAL YEARS

<u>Police Pension Plan</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	4.04%

<u>Non-Uniform Pension Plan</u>	
Annual money-weighted rate of return, net of investment expense	4.33%

Note to the Schedule

The Borough adopted GASB Statement No. 67 on a prospective basis in 2014; therefore only one year is presented in the above schedule.

BOROUGH OF MIDDLETOWN

SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Schedule of Funding Progress- Police OPEB Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2006	\$ -	\$ 2,623,905	\$ 2,623,905	0.0%	\$ 796,910	329.3%
1/1/2009	-	2,813,794	2,813,794	0.0%	1,048,293	268.4%
1/1/2012	918,419	3,205,261	2,286,842	28.7%	1,216,096	188.0%

Schedule of Funding Progress- Non-Uniform OPEB Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2006	\$ -	\$ 3,733,863	\$ 3,733,863	0.0%	\$ 1,975,876	189.0%
1/1/2009	-	4,136,586	4,136,586	0.0%	2,249,444	183.9%
1/1/2012	1,473,356	5,141,974	3,668,618	28.7%	2,469,825	148.5%

BOROUGH OF MIDDLETOWN
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		Positive (Negative)
Revenues				
Taxes	\$ 2,366,000	\$ 2,366,000	\$ 2,403,638	\$ 37,638
Licenses and Permits	147,250	147,250	96,759	(50,491)
Fines and Forfeitures	57,200	57,200	46,635	(10,565)
Interest and Rents	500	500	53	(447)
Intergovernmental	205,249	205,249	421,809	216,560
Charges for Services	905,689	905,689	1,043,719	138,030
Miscellaneous Income	-	-	30,683	30,683
Total Revenues	<u>3,681,888</u>	<u>3,681,888</u>	<u>4,043,296</u>	<u>361,408</u>
Expenditures				
Current:				
General Government - Administration	474,909	474,909	751,453	(276,544)
Public Safety	2,743,305	2,743,305	6,149,330	(3,406,025)
Public Works	1,514,034	1,514,034	2,027,550	(513,516)
Parks and Recreation	124,315	124,315	368,364	(244,049)
Library	-	-	24,939	(24,939)
Total Expenditures	<u>4,856,563</u>	<u>4,856,563</u>	<u>9,321,636</u>	<u>(4,465,073)</u>
Excess of Revenues Under Expenditures	<u>(1,174,675)</u>	<u>(1,174,675)</u>	<u>(5,278,340)</u>	<u>(4,103,665)</u>
Other Financing Sources (Uses)				
Transfers in	2,092,891	2,092,891	6,370,545	4,277,654
Transfers out	(918,216)	(918,216)	(165,000)	753,216
Sale of Capital Equipment	-	-	-	-
Total Other Financing Sources	<u>1,174,675</u>	<u>1,174,675</u>	<u>6,205,545</u>	<u>5,030,870</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 927,205</u>	<u>\$ 927,205</u>

Other Supplementary Information

BOROUGH OF MIDDLETOWN
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2014

	Special Revenue Funds					Debt Service Fund			Total Nonmajor Governmental Funds
	Highway Aid	Rehabilitation Program	Fire Operations Fund	Fire Sinking Fund	Total Special Revenue Funds	General Debt Service	Fire Debt Service	Total Debt Service Funds	
ASSETS									
Cash and Cash Equivalents									
Operating	\$ 945,717	\$ 99,406	\$ 47,522	\$ 181,593	\$ 1,274,238	\$ -	\$ -	\$ -	\$ 1,274,238
Due From Other Funds	18,359	-	-	-	18,359	-	-	-	18,359
Taxes Receivable	-	-	1,793	716	2,509	-	-	-	2,509
Due From Other Governments	-	-	-	-	-	-	-	-	-
Loan Proceeds Receivable	1,481,641	-	-	-	1,481,641	-	-	-	1,481,641
Notes Receivable	-	49,471	-	-	49,471	-	-	-	49,471
Total Assets	\$ 2,445,717	\$ 148,877	\$ 49,315	\$ 182,309	\$ 2,826,218	\$ -	\$ -	\$ -	\$ 2,826,218
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES									
Liabilities:									
Accounts Payable	\$ 33,587	\$ -	\$ -	\$ -	\$ 33,587	\$ -	\$ -	\$ -	\$ 33,587
Due To Other Funds	153,858	25,309	-	-	179,167	55,996	48,450	104,446	283,613
Unearned Revenue	-	60,972	-	-	60,972	-	-	-	60,972
Total Liabilities	187,445	86,281	-	-	273,726	55,996	48,450	104,446	378,172
Deferred Inflows Of Resources									
Unavailable Revenue - Property Taxes	-	-	1,793	716	2,509	-	-	-	2,509
Total Deferred Inflows Of Resources	-	-	1,793	716	2,509	-	-	-	2,509
Fund Balances (Deficit):									
Nonspendable	1,481,641	49,471	-	-	1,531,112	-	-	-	1,531,112
Restricted For:									
Highway Aid	776,631	-	-	-	776,631	-	-	-	776,631
Rehabilitation Program	-	13,125	-	-	13,125	-	-	-	13,125
Fire Sinking	-	-	-	181,593	181,593	-	-	-	181,593
Unassigned	-	-	47,522	-	47,522	(55,996)	(48,450)	(104,446)	(56,924)
Total Fund Balances (Deficit)	2,258,272	62,596	47,522	181,593	2,549,983	(55,996)	(48,450)	(104,446)	2,445,537
Total Liabilities, Deferred Inflows of Resources, and Fund Balances (Deficit)	\$ 2,445,717	\$ 148,877	\$ 49,315	\$ 182,309	\$ 2,826,218	\$ -	\$ -	\$ -	\$ 2,826,218

BOROUGH OF MIDDLETOWN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (DEFICIT) - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Special Revenue Funds					Debt Service Fund			Total Nonmajor Governmental Funds
	Highway Aid	Rehabilitation Program	Fire Operations Fund	Fire Sinking Fund	Total Special Revenue Funds	General Debt Service	Fire Debt Service	Total Debt Service Funds	
REVENUES									
Taxes	\$ -	\$ -	\$ 4,925	\$ 1,969	\$ 6,894	\$ -	\$ -	\$ -	\$ 6,894
Interest and Rents	130	77	-	16	223	-	-	-	223
Intergovernmental	173,308	-	-	-	173,308	-	-	-	173,308
Homestead Program Interest	-	758	-	-	758	-	-	-	758
Miscellaneous Income	-	-	-	6,415	6,415	-	-	-	6,415
Total Revenues	173,438	835	4,925	8,400	187,598	-	-	-	187,598
EXPENDITURES									
Current:									
Public Works	33,374	-	-	-	33,374	-	-	-	33,374
Public Safety	-	-	-	-	-	-	-	-	-
Debt Service:									
Principal	149,274	-	-	5,608	154,882	926,740	524,798	1,451,538	1,606,420
Interest	4,583	-	-	981	5,564	61,199	22,954	84,153	89,717
Total Expenditures	187,231	-	-	6,589	193,820	987,939	547,752	1,535,691	1,729,511
Excess of Revenues Over (Under) Expenditures	(13,793)	835	4,925	1,811	(6,222)	(987,939)	(547,752)	(1,535,691)	(1,541,913)
Other Financing Sources (Uses)									
Loan Proceeds	1,500,000	-	-	-	1,500,000	-	-	-	1,500,000
Transfers In	-	-	-	-	-	817,092	597,536	1,414,628	1,414,628
Transfers Out	-	(25,309)	-	(98,234)	(123,543)	-	-	-	(123,543)
Total Other Financing Sources (Uses)	1,500,000	(25,309)	-	(98,234)	1,376,457	817,092	597,536	1,414,628	2,791,085
Net Change in Fund Balances	1,486,207	(24,474)	4,925	(96,423)	1,370,235	(170,847)	49,784	(121,063)	1,249,172
Fund Balances - January 1, 2014	772,065	87,070	42,597	278,016	1,179,748	114,851	(98,234)	16,617	1,196,365
Fund Balances (Deficit) - December 31, 2014	\$ 2,258,272	\$ 62,596	\$ 47,522	\$ 181,593	\$ 2,549,983	\$ (55,996)	\$ (48,450)	\$ (104,446)	\$ 2,445,537

MIDDLETOWN BOROUGH
COMBINING STATEMENT OF NET POSITION
ENTERPRISE FUND - WATER- SEWER FUND
YEAR ENDED DECEMBER 31, 2014

	Business Type Activities - Enterprise Fund			
	Water-Sewer	Middletown Borough Authority	Elimination Entries	Total
ASSETS				
Current Assets:				
Unrestricted:				
Cash and Cash Equivalents	\$ 1,580,310	\$ 7,506,346	\$ -	\$ 9,086,656
Due from Other Funds	909,138	-	(784,593)	124,545
Accounts Receivables	1,156,036	24,559	-	1,180,595
Due from Other Governments	-	45,549	-	45,549
Total Current Assets	3,645,484	7,576,454	(784,593)	10,437,345
Noncurrent Assets:				
Restricted:				
Cash and Cash Equivalents	6,899,066	8,843	-	6,907,909
Service Concession Arrangement Receivable, net of discount of \$19,822,955	-	9,962,045	-	9,962,045
Net Pension Asset	1,389,532	-	-	1,389,532
Net Other Post-Retirement Benefit Asset	1,527,277	-	-	1,527,277
Capital Assets Not Being Depreciated	-	2,379,550	-	2,379,550
Capital Assets Net of Accumulated Depreciation	-	25,309,126	-	25,309,126
Total Noncurrent Assets	9,815,875	37,659,564	-	47,475,439
Total Assets	13,461,359	45,236,018	(784,593)	57,912,784
LIABILITIES				
Current Liabilities:				
Accounts Payable	100,132	964,473	-	1,064,605
Accrued Salaries	132,167	-	-	132,167
Accrued Interest Payable	-	-	-	-
Developer Escrows	-	8,843	-	8,843
Due to Other Funds	13,418	1,200,751	(784,593)	429,576
Current Portion of Bonds Payable	210,000	-	-	210,000
Total Current Liabilities	455,717	2,174,067	(784,593)	1,845,191
Long-Term Liabilities:				
Compensated Absences	-	-	-	-
Long-Term Portion of Bonds Payable	6,540,000	-	-	6,540,000
Total Noncurrent Liabilities	6,540,000	-	-	6,540,000
Total Liabilities	6,995,717	2,174,067	(784,593)	8,385,191
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflows of Resources, Service Concession Arrangement, net of discount of \$19,822,955	-	53,171,711	-	53,171,711
Total Deferred Inflows of Resources	-	53,171,711	-	53,171,711
NET POSITION				
Net Investment in Capital Assets	149,066	27,688,676	-	27,837,742
Unrestricted Net Position	6,316,576	(37,798,436)	-	(31,481,860)
Total Net Position	\$ 6,465,642	\$ (10,109,760)	\$ -	\$ (3,644,118)

MIDDLETOWN BOROUGH
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
ENTERPRISE FUND- WATER-SEWER FUND
FOR THE YEAR ENDED DECEMBER 31, 2014

	Business Type Activities - Enterprise Fund			
	Water-Sewer	Middletown Borough Authority	Elimination Entries	Total
Operating Revenues				
Service Billings	\$ 5,851,333	\$ -	\$ -	\$ 5,851,333
Total Operating Revenues	5,851,333	-	-	5,851,333
Operating Expenses				
Wastewater Collection	242,008	69,380	-	311,388
Water Distribution	201,527	-	-	201,527
Water Pumping	427,389	-	-	427,389
Wastewater Treatment	1,132,051	-	-	1,132,051
General and Administration	798,975	-	-	798,975
Depreciation/Amortization Expenses	1,458,074	-	-	1,458,074
Total Operating Expenses	4,260,024	69,380	-	4,329,404
Operating Income (Loss)	1,591,309	(69,380)	-	1,521,929
Nonoperating Revenues (Expenses)				
Lease Rental	(327,649)	327,649	-	-
Other Rental Income	-	27,868	-	27,868
Intergovernmental Revenue	-	45,549	-	45,549
Investment Income	193	18	-	211
Interest Expense	(642,511)	(328,667)	-	(971,178)
Miscellaneous Income	26,389	15	-	26,404
Service Concession Arrangement Closing Costs	-	(1,293,845)	-	(1,293,845)
Bond Issuance Costs	-	(52,000)	-	(52,000)
Unreimbursed Settlement Costs	-	(56,814)	-	(56,814)
Total Nonoperating Revenues (Expenses)	(943,578)	(1,330,227)	-	(2,273,805)
Loss Before Transfers	647,731	(1,399,607)	-	(751,876)
Transfer In	27,084,580	28,640,176	(54,750,211)	974,545
Transfer Out	(27,790,176)	(38,825,546)	54,750,211	(11,865,511)
Changes In Net Position	(57,865)	(11,584,977)	-	(11,642,842)
Total Net Position - Beginning of Year	6,523,507	1,475,217	-	7,998,724
Total Net Position - End of Year	\$ 6,465,642	\$ (10,109,760)	\$ -	\$ (3,644,118)

MIDDLETOWN BOROUGH
COMBINING STATEMENT OF NET POSITION
ENTERPRISE FUND - ELECTRIC FUND
YEAR ENDED DECEMBER 31, 2014

Business Type Activities - Enterprise Fund

	Operations	Electric Deposit	Electric Capital Improvements	Electric Trust	Electric Debt Service	Elimination Entries	Total
ASSETS							
Current Assets:							
Unrestricted:							
Cash and Cash Equivalents	\$ 2,343,528	\$ 36,692	\$ 314,142	\$ 1,242	\$ 282,004	\$ -	\$ 2,977,608
Accounts Receivables	815,417	-	-	-	-	-	815,417
Prepaid Expenses	6,931	-	-	-	-	-	6,931
Due from Other Funds	421,917	-	-	-	-	(421,917)	-
Total Current Assets	<u>3,587,793</u>	<u>36,692</u>	<u>314,142</u>	<u>1,242</u>	<u>282,004</u>	<u>(421,917)</u>	<u>3,799,956</u>
Noncurrent Assets:							
Restricted:							
Cash and Cash Equivalents	-	107,193	447,533	9,749,034	-	-	10,303,760
Net Pension Asset	557,704	-	-	-	-	-	557,704
Net Other Post-Retirement Benefit Asset	765,392	-	-	-	-	-	765,392
Capital Assets Not Being Depreciated	436,986	-	-	-	-	-	436,986
Capital Assets Net of Accumulated Depreciation	2,494,602	-	-	-	-	-	2,494,602
Total Noncurrent Assets	<u>4,254,684</u>	<u>107,193</u>	<u>447,533</u>	<u>9,749,034</u>	<u>-</u>	<u>-</u>	<u>14,558,444</u>
Total Assets	<u>7,842,477</u>	<u>143,885</u>	<u>761,675</u>	<u>9,750,276</u>	<u>282,004</u>	<u>(421,917)</u>	<u>18,358,400</u>
LIABILITIES							
Current Liabilities:							
Accounts Payable and Accrued Expenses	584,370	-	-	-	-	-	584,370
Accrued Salaries	9,320	-	-	-	-	-	9,320
Due to Other Funds	415,878	-	-	421,917	-	(421,917)	415,878
Current Portion of Bonds Payable	-	-	-	-	81,959	-	81,959
Total Current Liabilities	<u>1,009,568</u>	<u>-</u>	<u>-</u>	<u>421,917</u>	<u>81,959</u>	<u>(421,917)</u>	<u>1,091,527</u>
Long-Term Liabilities:							
Compensated Absences	12,265	-	-	-	-	-	12,265
Electric Deposits	-	107,193	-	-	-	-	107,193
Long-Term Portion of Bonds Payable	-	-	-	-	818,840	-	818,840
Total Noncurrent Liabilities	<u>12,265</u>	<u>107,193</u>	<u>-</u>	<u>-</u>	<u>818,840</u>	<u>-</u>	<u>938,298</u>
Total Liabilities	<u>1,021,833</u>	<u>107,193</u>	<u>-</u>	<u>421,917</u>	<u>900,799</u>	<u>(421,917)</u>	<u>2,029,825</u>
NET POSITION							
Net Investment in Capital Assets	2,931,588	-	-	-	(900,799)	-	2,030,789
Restricted Net Position	-	-	447,533	9,328,359	-	-	9,775,892
Unrestricted Net Position	3,889,056	36,692	314,142	-	282,004	-	4,521,894
Total Net Position	<u>\$ 6,820,644</u>	<u>\$ 36,692</u>	<u>\$ 761,675</u>	<u>\$ 9,328,359</u>	<u>\$ (618,795)</u>	<u>\$ -</u>	<u>\$ 16,328,575</u>

MIDDLETOWN BOROUGH
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
ENTERPRISE FUND- ELECTRIC FUND
FOR THE YEAR ENDED DECEMBER 31, 2014

	Business Type Activities - Enterprise Fund						Total
	Operations	Electric Deposit	Electric Capital Improvements	Electric Trust	Electric Debt Service	Elimination Entries	
Operating Revenues							
Service Billings	\$ 8,108,247	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,108,247
Total Operating Revenues	8,108,247	-	-	-	-	-	8,108,247
Operating Expenses							
Electric Transmission and Distribution	6,388,465	-	-	-	-	-	6,388,465
General and Administrative	626,478	-	-	-	-	-	626,478
Depreciation Expense	177,169	-	-	-	-	-	177,169
Total Operating Expenses	7,192,112	-	-	-	-	-	7,192,112
Operating Income (Loss)	916,135	-	-	-	-	-	916,135
Nonoperating Revenues (Expenses)							
Investment Income	747	386	496	3,659	37	-	5,325
Miscellaneous Income	7,650	-	-	-	-	-	7,650
Interest Expense	-	-	(144)	-	(43,695)	-	(43,839)
Total Nonoperating Revenues (Expenses)	8,397	386	352	3,659	(43,658)	-	(30,864)
Income (Loss) Before Transfers	924,532	386	352	3,659	(43,658)	-	885,271
Transfers In	2,143,288	-	-	-	467,511	(888,238)	1,722,561
Transfers Out	(1,943,655)	-	-	(888,238)	-	888,238	(1,943,655)
Total Transfers In (Out)	199,633	-	-	(888,238)	467,511	-	(221,094)
Changes In Net Position	1,124,165	386	352	(884,579)	423,853	-	664,177
Total Net Position - Beginning of Year	5,696,479	36,306	761,323	10,212,938	(1,042,648)	-	15,664,398
Total Net Position - End of Year	\$ 6,820,644	\$ 36,692	\$ 761,675	\$ 9,328,359	\$ (618,795)	\$ -	\$ 16,328,575