

***FAIRVIEW TOWNSHIP AUTHORITY
(A COMPONENT UNIT OF FAIRVIEW TOWNSHIP)***

YEAR ENDED DECEMBER 31, 2006

FAIRVIEW TOWNSHIP AUTHORITY
(A component unit of Fairview Township)

YEAR ENDED DECEMBER 31, 2006

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Independent Auditors' Report

Members of the Authority
Fairview Township Authority
New Cumberland, Pennsylvania

We have audited the accompanying financial statements of the Fairview Township Authority, a component unit of Fairview Township, as of and for the year ended December 31, 2006, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the above-mentioned financial statements present fairly, in all material respects, the respective financial positions of the Fairview Township Authority, as of December 31, 2006, and the respective changes in financial positions and cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and do not express an opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of Fairview Township Authority. The combining financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Fairview Township Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Brown Schultz Sheridan & Fritz

June 7, 2007

FAIRVIEW TOWNSHIP AUTHORITY
(A component unit of Fairview Township)

MANAGEMENT'S DISCUSSION AND ANALYSIS
(unaudited)

DECEMBER 31, 2006

Management of the Fairview Township Authority provides this discussion and analysis of the Authority's financial condition and operating activities for the year ended December 31, 2006. We encourage readers to consider this information in conjunction with the additional information that is furnished in the accompanying Independent Auditors' Report and Audited Financial Statements.

The Fairview Township Authority is a municipal authority existing under the Pennsylvania Municipality Authorities Act of 1945, pursuant to an ordinance enacted by the Township of Fairview, York County, Pennsylvania. The Authority is a component unit of the Township of Fairview.

Financial highlights

Key financial highlights for 2006 are as follows:

Changes in net assets:

The Authority's total net assets increased by \$53,790 during 2006. The increase is primarily the result of less transfers of funds to the Township than in 2005.

Long-term debt:

The Authority's total long-term debt obligations decreased in 2006 as a result of the debt payment by the Authority.

Required financial statements

The financial statements of the Authority report information about the Authority using accounting methods similar to those used by private sector companies. These statements offer financial information about its activities. The Statement of Net Assets includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities); it provides the basis for assessing the liquidity and financial flexibility of the Authority. All current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. This statement measures the result of the Authority's operations over the past year. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Authority's cash receipts, cash payments and net changes in cash resulting from operations, investing and capital and noncapital financing activities.

FAIRVIEW TOWNSHIP AUTHORITY
(A component unit of Fairview Township)

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
(unaudited)

DECEMBER 31, 2006

Financial analysis statement of net assets

The analysis below focuses on the Authority's net assets as of December 31:

| | 2006 | 2005 |
|---|---------------|---------------|
| Assets: | | |
| Cash and restricted cash | \$ 1,398,853 | \$ 78,880 |
| Restricted investments | | 1,245,001 |
| Accrued interest receivable | 5,358 | 35,898 |
| Current portion of lease rental receivable | 665,000 | 640,000 |
| Lease rental receivable, net of current portion | 11,365,000 | 12,030,000 |
| Total assets | \$ 13,434,211 | \$ 14,029,779 |
| Liabilities: | | |
| Accounts payable | | \$ 5,274 |
| Current portion of bonds payable | \$ 665,000 | 640,000 |
| Accrued interest payable | 94,670 | 98,754 |
| Bonds payable, long-term portion | 11,365,000 | 12,030,000 |
| Total liabilities | 12,124,670 | 12,774,028 |
| Net assets | 1,309,541 | 1,255,751 |
| Total liabilities and net assets | \$ 13,434,211 | \$ 14,029,779 |

FAIRVIEW TOWNSHIP AUTHORITY
(A component unit of Fairview Township)

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
(unaudited)

DECEMBER 31, 2006

Statement of revenues and expenses

| | <u>2006</u> | <u>2005</u> |
|----------------------------------|---------------------|---------------------|
| Revenues: | | |
| Developer contributions | \$ 14,021 | \$ 32,047 |
| Lease rentals | 595,818 | 618,573 |
| Loss on investment | (5,000) | (60,255) |
| Transfers from Fairview Township | 14,800 | |
| Investment income | 67,066 | 96,610 |
| | <u>686,705</u> | <u>686,975</u> |
| Total revenues | | |
| Expenses: | | |
| Developer refunds | 20,030 | 27,374 |
| Engineering | | 1,883 |
| Legal and accounting | 9,492 | 6,378 |
| Financial service fees | 11,470 | 22,940 |
| Transfers to Fairview Township | 189 | 33,228 |
| Interest expense | 591,734 | 614,801 |
| | <u>632,915</u> | <u>706,604</u> |
| Total expenses | | |
| Net income (loss) | 53,790 | (19,629) |
| Net assets: | | |
| Beginning of year | <u>1,255,751</u> | <u>1,275,380</u> |
| End of year | <u>\$ 1,309,541</u> | <u>\$ 1,255,751</u> |

FAIRVIEW TOWNSHIP AUTHORITY
(A component unit of Fairview Township)

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
(unaudited)

DECEMBER 31, 2006

Significant events and projects

The Authority was established to finance projects to serve the residents of the Township of Fairview. The Authority leases the sewer system to the Township of Fairview in exchange for the pledge of revenues generated by the systems to meet the lease rental debt service payments. The system provides sewer services to various residents of the Township and, through a separate agreement, with the Lower Allen Authority.

During 2006, the Authority and Township adopted a resolution to establish sanitary sewer reserved capacity fees for approved or future approved land development and/or subdivision plans. The resolution allows developers to prepay capacity fees at the current rates for approved and/or future plans. The future capacity fees have been recorded in the Township's Sewer Revenue Fund as deferred revenues. The Authority analyzed and adopted by resolution new sanitary sewer tapping fees for the entire Township. The Authority continues to analyze current and future capacity requirements and a possible plant upgrade at the southern area treatment facility. The Authority also continues to study the requirements for future compliance with the Chesapeake Bay Initiative.

Contacting the Authority's financial offices

This financial report is designed to provide our citizens, customers and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the funds received. If you have any questions about this report or need additional information, contact the Township office at: 717-901-5200.

FAIRVIEW TOWNSHIP AUTHORITY
(A component unit of Fairview Township)

STATEMENT OF NET ASSETS – PROPRIETARY FUNDS

DECEMBER 31, 2006

| | <u>Administrative fund</u> | <u>Series of 2001</u> | <u>Totals</u> |
|---|--------------------------------|---------------------------|----------------------|
| Assets: | | | |
| Cash: | | | |
| Operating | \$ 122 | | \$ 122 |
| Restricted | | \$ 1,398,731 | 1,398,731 |
| Accrued interest receivable | | 5,358 | 5,358 |
| Current portion of lease rental receivable | | 665,000 | 665,000 |
| Lease rental receivable, net of current portion | | <u>11,365,000</u> | <u>11,365,000</u> |
| Total assets | <u>\$ 122</u> | <u>\$ 13,434,089</u> | <u>\$ 13,434,211</u> |
| Liabilities: | | | |
| Current portion of bonds payable | | \$ 665,000 | \$ 665,000 |
| Accrued interest payable | | 94,670 | 94,670 |
| Bonds payable, long-term portion | | <u>11,365,000</u> | <u>11,365,000</u> |
| Total liabilities | | 12,124,670 | 12,124,670 |
| Net assets: | | | |
| Unrestricted | \$ 122 | | 122 |
| Restricted | | <u>1,309,419</u> | <u>1,309,419</u> |
| Total liabilities and net assets | <u>\$ 122</u> | <u>\$ 13,434,089</u> | <u>\$ 13,434,211</u> |

See notes to financial statements.

FAIRVIEW TOWNSHIP AUTHORITY
(A component unit of Fairview Township)

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS –
 PROPRIETARY FUNDS

YEAR ENDED DECEMBER 31, 2006

| | Administrative fund | Series of 2001 | Totals |
|---|------------------------|-------------------|--------------|
| Operating revenues, developer contributions | \$ 14,021 | | \$ 14,021 |
| Operating expenses: | | | |
| Developer refunds | 20,030 | | 20,030 |
| Legal and accounting | 9,492 | | 9,492 |
| Financial services fees | | \$ 11,470 | 11,470 |
| Total operating expenses | 29,522 | 11,470 | 40,992 |
| Net operating loss | (15,501) | (11,470) | (26,971) |
| Nonoperating revenues (expenses): | | | |
| Lease rental | | 595,818 | 595,818 |
| Loss on investments | | (5,000) | (5,000) |
| Investment income | | 67,066 | 67,066 |
| Interest expense | | (591,734) | (591,734) |
| Total nonoperating revenues (expenses) | | 66,150 | 66,150 |
| Change in net assets before transfers | (15,501) | 54,680 | 39,179 |
| Transfers in (out) | (5,274) | 5,274 | |
| Transfers from (to) Fairview Township | 14,800 | (189) | 14,611 |
| Change in net assets | (5,975) | 59,765 | 53,790 |
| Net assets: | | | |
| Beginning of year | 6,097 | 1,249,654 | 1,255,751 |
| End of year | \$ 122 | \$ 1,309,419 | \$ 1,309,541 |

See notes to financial statements.

FAIRVIEW TOWNSHIP AUTHORITY
(A component unit of Fairview Township)

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

YEAR ENDED DECEMBER 31, 2006

| | <u>Administrative fund</u> | <u>Series of 2001</u> | <u>Totals</u> |
|---|--------------------------------|---------------------------|--------------------|
| Cash flows from operating activities: | | | |
| Other operating revenues | \$ 14,021 | | \$ 14,021 |
| Other operating payments | <u>(29,522)</u> | <u>\$ (16,744)</u> | <u>(46,266)</u> |
| Net cash used in operating activities | <u>(15,501)</u> | <u>(16,744)</u> | <u>(32,245)</u> |
| Cash flows from noncapital financing activities: | | | |
| Transfers (to) from Fairview Township | 14,800 | (189) | 14,611 |
| Transfers in (out) | (5,274) | 5,274 | |
| Rental income received | | <u>1,235,818</u> | <u>1,235,818</u> |
| Net cash provided by noncapital financing activities | <u>9,526</u> | <u>1,240,903</u> | <u>1,250,429</u> |
| Cash flows from capital and related financing activities: | | | |
| Principal paid on bonds payable | | (640,000) | (640,000) |
| Interest paid on bonds payable | | <u>(595,818)</u> | <u>(595,818)</u> |
| Net cash used in capital and related financing activities | | <u>(1,235,818)</u> | <u>(1,235,818)</u> |
| Cash flows provided by investing activities: | | | |
| Proceeds from sale of investments | | 1,240,001 | 1,240,001 |
| Investment income | | <u>97,606</u> | <u>97,606</u> |
| Net cash provided by investing activities | | <u>1,337,607</u> | <u>1,337,607</u> |

(continued)

FAIRVIEW TOWNSHIP AUTHORITY
(A component unit of Fairview Township)

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (CONTINUED)

YEAR ENDED DECEMBER 31, 2006

| | Administrative fund | Series of 2001 | Totals |
|---|------------------------|-------------------|--------------|
| Net increase (decrease) in cash | \$ (5,975) | \$ 1,325,948 | \$ 1,319,973 |
| Cash: | | | |
| Beginning of year | 6,097 | 72,783 | 78,880 |
| End of year | \$ 122 | \$ 1,398,731 | \$ 1,398,853 |
| Reconciliation of operating loss to net cash used in operating activities: | | | |
| Operating loss | \$ (15,501) | \$ (11,470) | \$ (26,971) |
| Decrease in accounts payable | | (5,274) | (5,274) |
| Net cash used in operating activities | \$ (15,501) | \$ (16,744) | \$ (32,245) |

See notes to financial statements.

FAIRVIEW TOWNSHIP AUTHORITY
(A component unit of Fairview Township)

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2006

1. Summary of significant accounting policies:

Reporting entity:

The Fairview Township Authority was created in 1963 and was organized under the laws governing authorities within the Commonwealth of Pennsylvania (Municipality Authorities Act of 1945). The Authority has the power to construct, finance, operate, maintain and lease sewer systems. The Authority owns the sewer system and leases it to Fairview Township.

The governing body of the Authority is a Board consisting of five members appointed by the Fairview Township Board of Supervisors. The terms of the members of the Board are five years each. The terms are staggered so that the term of one member expires each year. Members of the Board may be reappointed. The Board is authorized to exercise any and all powers conferred by the Act necessary for the acquisition, construction, improvement, extension, maintenance and operation of sewer systems.

The Authority is a component unit of Fairview Township. The Township includes the Authority as a component unit of its reporting entity determined by the criteria of Governmental Accounting Standards Board (GASB). The Township is financially accountable for the fiscal matters of the Authority. The Authority is not fiscally independent and, as such, the Authority is a component unit of Fairview Township.

Fund financial statements:

Separate fund financial statements are provided in the report for all of the proprietary funds of the Authority. Major individual enterprise funds are reported as separate columns in the fund financial statements.

In accordance with the terms of the Trust Indenture securing the bonded debt, the monies of the Authority are accounted for by various funds which are segregated for specific use and for the security of the bondholders and maintained by an independent trustee.

FAIRVIEW TOWNSHIP AUTHORITY
(A component unit of Fairview Township)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2006

1. Summary of significant accounting policies (continued):

Measurement focus, basis of accounting and financial statement presentation:

The Authority uses the accrual basis of accounting as required by generally accepted accounting principles for proprietary fund types. The Authority follows Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, of the Governmental Accounting Standards Board (GASB) for reporting and disclosure purposes. As permitted by Statement No. 20, the Authority has elected to not apply Financial Accounting Standards Board pronouncements issued after November 30, 1989 unless the GASB specifically adopts the FASB Statement or interpretation.

The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Net assets (total assets less total liabilities) are used as a practical measure of economic resources and the operating statement includes all transactions and events that increased or decreased net assets.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

Cash equivalents - For purposes of the statement of cash flows, the Authority considers all highly liquid debt investments with original maturities of three months or less to be cash equivalents.

Investments - Investments are stated at fair value.

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

FAIRVIEW TOWNSHIP AUTHORITY
(A component unit of Fairview Township)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2006

2. Deposits and investments:

Custodial credit risk, deposits and investments:

For deposits, custodial credit risk is the risk that, in the event of bank failure, the Authority's deposits may not be returned to it. For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investment or collateral security that is in the possession of an outside party. The Authority's current investment policy requires that securities be held by custodians specified in their investment program and that there are written custodian agreements and commitments documenting collateral pledges. The policy also requires depository institutions to provide collateral for all deposits according to law.

| | Ratings | Maturities | 2006 Fair value |
|--|---------|--------------------|--------------------|
| Deposits, insured by Federal Deposit Insurance Corporation | | | \$ 122 |
| Restricted deposits with M&T Investment, money market invested in United States obligations, 4.66% | Unrated | Less than one year | 1,398,731 |
| Total deposits | | | \$ 1,398,853 |

Interest rate risk:

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

FAIRVIEW TOWNSHIP AUTHORITY
(A component unit of Fairview Township)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2006

2. Deposits and investments (continued):

Credit risk:

According to the Authority's investment policy, the selection of depository institutions, repurchase investment advisors, brokers, custodians, investment advisors, local government investment pools and money market mutual funds are based on legality, performance, quality of service, creditworthiness, reputation and integrity. In addition, the investment companies used by the Authority must be rated in the highest category by a nationally recognized rating agency.

Unrealized gain (loss) on investments:

The Authority redeemed the treasury obligation in 2006 at the original cost.

| 2005 | Restricted treasury obligations |
|--------------------------------|---------------------------------------|
| Cost | \$ 1,240,000 |
| Fair value | 1,245,001 |
| Unrealized gain on investments | \$ 5,001 |

The Municipality Authorities Act authorizes the Authority to invest in the following:

1. U.S. treasury bills
2. Short-term obligations of the U.S. government and federal agencies
3. Insured savings and checking accounts and certificates of deposit 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
5. Share of mutual funds whose investments are restricted to the above categories

FAIRVIEW TOWNSHIP AUTHORITY
(A component unit of Fairview Township)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2006

3. Lease rental receivable:

The Authority issued sewer revenue bonds to provide funds to extend and upgrade the sewer collection and water systems leased to Fairview Township. The operation and maintenance of the systems are the responsibility of Fairview Township. The Authority utilizes the "financing method" to account for the lease of the facility to Fairview Township. Therefore, the Authority has net future lease rentals receivable applicable to retirement of the revenue bonds while the project assets are reported on the lessee's financial statements as part of their property, plant and equipment.

On August 1, 2001, the Authority and the Township entered into a lease agreement of the sewer system, under which the Township has agreed to make lease rental payments thereunder to the Trustee as security for the Series of 2001 Bonds. The Township operates the sewer system and has covenanted to impose and collect sewer rentals and other charges to provide for the payment of such lease rentals and to pay the operating costs of the sewer system. The Township has pledged the revenues and receipts of the sewer system to secure its obligations to make such lease rental payments. As of December 31, 2006, the present value of the future minimum lease rentals is \$12,030,000.

Minimum rentals under the 2001 bond issues, including interest of \$4,966,825, are as follows:

| Lease years ending | Rental payment |
|-----------------------|-------------------|
| 2007 | \$ 1,236,177 |
| 2008 | 1,234,245 |
| 2009 | 1,235,610 |
| 2010 | 1,240,010 |
| 2011 | 1,232,167 |
| 2012-2016 | 5,660,143 |
| 2017-2021 | 5,158,473 |
| | \$ 16,996,825 |

Under the 2001 bond indenture, minimum lease rentals will be reduced by excess trustee funds invested in the 2001 Debt Service Fund as determined by the terms of the indenture. During 2006, the 2001 Debt Service Fund transferred \$189 to the Township's Sewer Reserve Fund for future debt service requirements. The Township has guaranteed the 2001 bond issue with its full faith, credit and taxing power.

FAIRVIEW TOWNSHIP AUTHORITY
(A component unit of Fairview Township)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2006

4. Refunding of bonds:

On August 15, 2001, the Authority issued Guaranteed Sewer Revenue Bonds, Series of 2001 for \$15,560,000. The bond proceeds, together with other Authority funds, were used to current refund the 1991 bonds, principal of \$9,205,000, which includes bonds outstanding of \$3,875,000 and previously advanced refunded of \$5,330,000, and the 1994 bonds, principal of \$11,615,000. The Authority recognized an economic gain of approximately \$576,329 (differences between the present values of the debt service payments on the current refunded and new debt). The Guaranteed Sewer Revenue Bonds, Series of 2001, were issued for the purpose of: (1) payment of all costs and expenses of retirement of the outstanding 1991 and 1994 Bonds; (2) the payment of all costs and expenses of issuance of the bonds and (3) the establishment of necessary reserves and other funds as provided for in the indenture.

5. Sewer revenue bonds payable:

The 2001 bonds are secured under the related Trust Indenture by the assignment and pledge of lease rentals as stated previously in Note 3.

Scheduled maturities and interest rates of the 2001 bonds are as follows:

| <u>Date of maturity</u> | <u>Interest rate</u> | <u>Amount</u> | <u>Date of maturity</u> | <u>Interest rate</u> | <u>Amount</u> |
|-------------------------|----------------------|---------------|-------------------------|----------------------|---------------|
| 2007 | 4.05 % | \$ 665,000 | 2015 | 4.90 % | \$ 820,000 |
| 2008 | 4.15 | 690,000 | 2016 | 5.00 | 860,000 |
| 2009 | 4.25 | 720,000 | 2017 | 5.00 | 905,000 |
| 2010 | 4.35 | 755,000 | 2018 | 5.05 | 945,000 |
| 2011 | 4.45 | 780,000 | 2019 | 5.10 | 995,000 |
| 2012 | 4.60 | 715,000 | 2020 | 5.15 | 1,055,000 |
| 2013 | 4.70 | 745,000 | 2021 | 5.15 | 595,000 |
| 2014 | 4.80 | 785,000 | | | |

FAIRVIEW TOWNSHIP AUTHORITY
(A component unit of Fairview Township)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2006

5. Sewer revenue bonds payable (continued):

Total debt service requirements are:

| <u>Year</u> | <u>Amount</u> |
|-------------|-----------------------------|
| 2007 | \$ 1,236,177 |
| 2008 | 1,234,245 |
| 2009 | 1,235,610 |
| 2010 | 1,240,010 |
| 2011 | 1,232,167 |
| 2012-2016 | 5,660,143 |
| 2017-2021 | <u>5,158,473</u> |
| | <u><u>\$ 16,996,825</u></u> |

6. Intermunicipal agreement:

The Authority and the Township have an agreement with the Lower Allen Township Municipal Authority for treatment of the Township's sewage originating near the common municipal boundary and transported by the Authority's collection system to the Lower Allen Township Municipal Authority treatment plant.

The original agreement was executed on December 28, 1976. Under the agreement, the municipalities pay their pro rata shares of operating and administrative costs of the treatment plant. All expenses related to this agreement are paid from the Township's Sewer Fund.

7. Escrows payable:

The Authority requires developers to obtain letters of credit or deposit funds pursuant to an escrow agreement to provide assurance that projects will be completed according to approved specifications and on a timely basis. Should one or more of these instruments expire and a default occur, it may be necessary for the Authority to take over the defaulted project. Escrow balances as of December 31, 2006 were zero.

FAIRVIEW TOWNSHIP AUTHORITY
(A component unit of Fairview Township)

COMBINING STATEMENT OF NET ASSETS – SERIES OF 2001

DECEMBER 31, 2006
(See independent auditors' report)

| | Clearing fund | Debt service fund | Debt service reserve fund | Series of 2001 total |
|--|------------------|-------------------------|------------------------------------|----------------------------|
| Assets: | | | | |
| Restricted cash | \$ 2 | \$ 1,699 | \$ 1,397,030 | \$ 1,398,731 |
| Accrued interest receivable | | | 5,358 | 5,358 |
| Current portion of lease rental receivable | | 665,000 | | 665,000 |
| Lease rental receivable, net of current portion | | 11,365,000 | | 11,365,000 |
| Total assets | \$ 2 | \$ 12,031,699 | \$ 1,402,388 | \$ 13,434,089 |
| Liabilities: | | | | |
| Current portion of bonds payable | | \$ 665,000 | | \$ 665,000 |
| Accrued interest payable | | | \$ 94,670 | 94,670 |
| Bonds payable, long-term portion | | 11,365,000 | | 11,365,000 |
| Total liabilities | | 12,030,000 | 94,670 | 12,124,670 |
| Net assets | \$ 2 | 1,699 | 1,307,718 | 1,309,419 |
| Total liabilities and net assets | \$ 2 | \$ 12,031,699 | \$ 1,402,388 | \$ 13,434,089 |

FAIRVIEW TOWNSHIP AUTHORITY
(A component unit of Fairview Township)

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS –
SERIES OF 2001

YEAR ENDED DECEMBER 31, 2006
(See independent auditors' report)

| | Clearing fund | Debt service fund | Debt service reserve fund | Series of 2001 total |
|--|------------------|-------------------------|------------------------------------|----------------------------|
| Operating revenues | \$ - | | \$ - | \$ - |
| Operating expenses, financial services fees | | | 11,470 | 11,470 |
| Net operating loss | | | (11,470) | (11,470) |
| Nonoperating revenues (expenses): | | | | |
| Lease rental | | | 595,818 | 595,818 |
| Loss on investments | | | (5,000) | (5,000) |
| Investment income | 10 | \$ 1,547 | 65,509 | 67,066 |
| Interest expense | | | (591,734) | (591,734) |
| Total nonoperating revenues (expenses) | 10 | 1,547 | 64,593 | 66,150 |
| Change in net assets before transfers | 10 | 1,547 | 53,123 | 54,680 |
| Transfers in (out) | 5,018 | 256 | | 5,274 |
| Transfers to Fairview Township | | (189) | | (189) |
| Change in net assets | 5,028 | 1,614 | 53,123 | 59,765 |
| Net assets: | | | | |
| January 1, 2006 | (5,026) | 85 | 1,254,595 | 1,249,654 |
| December 31, 2006 | <u>\$ 2</u> | <u>\$ 1,699</u> | <u>\$ 1,307,718</u> | <u>\$ 1,309,419</u> |

Independent Auditors' Report on Compliance with Bond Trust Indentures

Members of the Authority Board
Fairview Township Authority
New Cumberland, Pennsylvania

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the Fairview Township Authority, a component unit of Fairview Township, as of and for the year ended December 31, 2006, and have issued our report thereon dated June 7, 2007.

In connection with our audit, nothing came to our attention that caused us to believe that the Authority failed to comply with the terms, covenants, provisions or conditions of the Bond Trust Indenture for the Series of 2001 Bond Issue with M&T Investment Group, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the Members of the Board, the management of Fairview Township Authority, a component unit of Fairview Township, and M&T Investment Group and is not intended to be and should not be used by anyone other than these specified parties.

Brown Schultz Sheridan & Fritz

June 7, 2007