



LOWER ALLEN TOWNSHIP AUTHORITY
FINANCIAL REPORT
DECEMBER 31, 2011

FLOWERS & FLOWERS
Certified Public Accountants
Harrisburg, Pennsylvania

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Flowers & Flowers

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INDEPENDENT AUDITOR'S REPORT

Members of the Board
Lower Allen Township Authority
Cumberland County, Pennsylvania

We have audited the accompanying financial statements of Lower Allen Township Authority, a component unit of Lower Allen Township, as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lower Allen Township Authority, as of December 31, 2011, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 and the schedule of historical pension information on page 20 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.

Our audit was conducted for the purpose of forming opinions on the basic financial statements taken as a whole. The supplementary information on pages 21 through 27 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.



Flowers & Flowers
Certified Public Accountants

April 17, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

LOWER ALLEN TOWNSHIP AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2011

The management of the Lower Allen Township Authority offers readers of our financial statements the following narrative overview and analysis of our financial activities for the year ended December 31, 2011.

Basic Financial Statements

Our basic financial statements are prepared using proprietary fund (enterprise fund) accounting that uses the same basis of accounting as private-sector business enterprises. The Authority is operated under one enterprise fund. Under this method of accounting, an economic resources measurement focus and an accrual basis of accounting is used.

Revenue is recorded when earned and expenses are recorded when incurred. The basic financial statements include a balance sheet, a statement of revenues, expenses and changes in fund net assets, and a statement of cash flows. These are followed by notes to the financial statements and required supplementary information pertaining to the retirement plan of the Authority. The report also contains supplementary information that may be beneficial to the reader.

The balance sheet presents information on the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The statement of revenues, expenses and changes in fund net assets reports the operating revenues and expenses and non-operating revenues and expenses of the Authority for the year with the difference, the net income or loss, being combined with any capital contributions to determine the net change in assets for the year. That change combined with net assets at the end of the previous year total to the net assets at the end of the current year.

The statement of cash flows reports cash and cash equivalent activities for the year resulting from operating activities, capital and related financing activities, and investing activities. The net result of these activities added to the beginning of the year cash balance total to the cash and cash equivalent balance at the end of the current year.

LOWER ALLEN TOWNSHIP AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2011

Condensed Financial Information

Condensed financial information from the balance sheets as of December 31, 2011 and 2010 and from the statements of revenues, expenses and changes in fund net assets for the years ended December 31, 2011 and 2010 are as follows:

	December 31,	
	2011	2010
Current and other assets	\$ 7,365,782	\$ 5,064,287
Capital Assets	19,922,708	19,367,536
Total assets	27,288,490	24,431,823
Current liabilities	832,039	1,105,228
Long-term liabilities	7,726,440	3,904,837
Total liabilities	8,558,479	5,010,065
Net assets:		
Invested in capital assets, net of related debt	14,785,524	15,127,700
Unrestricted	3,944,487	4,294,058
Total net assets	\$ 18,730,011	\$ 19,421,758
Operating revenue	\$ 3,381,732	\$ 3,162,837
Operating expenses	4,625,017	4,155,481
Operating loss	(1,243,285)	(992,644)
Non-operating income (expense)	(112,190)	181,370
Loss before capital contributions	(1,355,475)	(811,274)
Capital contributions	663,728	3,770,024
Change in net assets	(691,747)	2,958,750
Net Assets		
January 1	19,421,758	16,463,008
December 31	\$ 18,730,011	\$ 19,421,758

LOWER ALLEN TOWNSHIP AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2011

The information contained in the condensed financial information table is used as the basis for the following discussion, surrounding the Authority's activities for the year ended December 31, 2011.

Financial Highlights

Authority cash and cash equivalents increased from \$4,365,159 at the end of 2010 to \$7,165,734 at the end of 2011. Of the amount on hand at the end of 2011, approximately \$2,844,000 is available for the Phase 2 Biological Nutrient Removal Upgrade Project construction contracts awarded on December 18, 2011.

The Authority ended the year December 31, 2011 with a net asset balance of \$18,730,011 of which \$14,785,524 represented the amount invested in capital assets and \$3,944,487 was unrestricted. Before depreciation and amortization, net assets increased by \$361,397, as compared to an increase of \$3,912,712 in 2010. After depreciation and amortization, net assets decreased \$691,747 or 4% compared to an 18% increase in 2010.

Current liabilities for 2011 are \$273,189 lower than the 2010 liabilities.

Long-term liabilities increased \$3,821,603 under the Guaranteed the Guaranteed Sewer Revenue Bond-Series of 2011.

Operating revenues were \$218,895 or 6.9 % higher in 2011 than the previous year.

Operating expenses increased by \$469,536 or 11.3 % from 2010 to 2011.

Revenue

Operating revenues of \$3,381,732 for 2011 increased from the 2010 level of \$3,162,837. The increase was primarily due to the rate increase for residential and nonresidential users. The operating revenue value includes bulk service revenue from tributary municipal discharges and revenue from users receiving direct service from the Authority. User fee step rate increases of \$5 per quarter for residential and nonresidential base fee plus \$0.30 per 1,000 gallons per quarter nonresidential consumption were approved on December 1, 2011. Non-operating revenues decreased by approximately \$3,173,609 primarily due to a decrease of \$3,106,296 in capital contributions for the Phase 1 Solids Processing Facilities Upgrade Project based on completed construction, a decrease in tapping fees of approximately \$83,972 as a reflection of the housing market and offset by an increase in investment income of approximately \$16,659.

Expenses

The operating expenses for 2011 were \$4,625,017 as compared to \$4,155,481 for 2010. The largest portions of operating expenses include labor and associated costs, depreciation, electrical power, and chemicals necessary for treatment.

LOWER ALLEN TOWNSHIP AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2011

Expenses (Continued)

Providing wastewater treatment service is labor intensive and the experienced costs are common. During 2011 the Authority's use of electrical power increased by 72 percent as the result of processing higher flows following 8 flood events; one major, two moderate and five minor. Depreciation of capital assets continues to be a large operating expense and increased by \$101,574 in 2011 from addition of new asset life cycles to a total of \$1,047,985.

The Authority has and continues to pursue ways to reduce costs while maintaining a high level of service and permit compliance. In addition to competitive bidding treatment chemicals, the Authority has entered into large governmental groups for the purchase of vehicles, fuels, electricity, and insurance services to contain cost increases.

Capital Assets

The Authority's capital assets as of December 31, 2011 and 2010 amounted to \$19,922,708 and \$19,367,536 (net of accumulated depreciation) respectively. This investment in capital assets includes land, constructed conveyance system, structures, buildings, and equipment. In May 2009, the Authority awarded contracts totaling approximately \$9,200,000 for Phase 1 of the Solids Facilities Upgrade Project. The Phase 1 Project was completed in 2011. The Phase 2 Biological Nutrient Removal Upgrade Project design was completed and construction and engineering bids totaling \$14,858,668 were received in late 2011. The Authority placed \$32,018 of sewers, \$10,780,146 of plant and pumping stations and \$23,106 of equipment in service in 2011. The Authority received \$663,728 in capital contributions from other governmental entities in 2011.

Debt

The Authority's outstanding long term debt was \$8,000,000 in 2011. In June 2009, the Authority issued a Guaranteed Sewer Revenue Note in the construction draw down maximum principal amount of \$9,000,000. Proceeds were used to provide interim financing for the Treatment Plant Solids Facilities Upgrade Project. On May 20, 2011 the Authority issued a Guaranteed Sewer Revenue Bond – Series of 2011 in the amount of \$8,000,000. The bond was issued to refund the Guaranteed Sewer Revenue Note, and for the payment of costs and expenses of issuance of the bond and completion of the project. Approximately \$2,844,000 of the bond proceeds is available for the pending Phase 2 Biological Nutrient Removal Upgrade Project at the end of 2011. The Authority is currently negotiating additional financing in the amount of \$5,000,000 to complete Phase 2 of the project. Settlement is expected in May or June of 2012.

Requests for Information

This financial report is intended to provide an overview of the finances of the Authority for those with an interest in this organization. Questions concerning any information within this report may be directed in writing to the Authority office.

FINANCIAL STATEMENTS

LOWER ALLEN TOWNSHIP AUTHORITY

COMBINED BALANCE SHEET
December 31, 2011

ASSETS

Current Assets

Cash and cash equivalents	\$ 7,165,734
Sanitary sewer rents receivable	130,737
Total current assets	<u>7,296,471</u>

Property, plant and equipment - net of accumulated depreciation	19,922,708
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Debt issue costs, net of accumulated amortization of \$2,236	<u>69,311</u>
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Total assets	<u><u>27,288,490</u></u>
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LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	60,212
Requisitions payable	103,710
Accrued payroll	74,272
Accrued compensated absences	48,418
Accrued and withheld payroll taxes	613
Accrued interest	45,090
Escrow deposits	244,724
Current maturities of Guaranteed Sewer Revenue Bond	255,000
Total current liabilities	<u>832,039</u>

Guaranteed Sewer Revenue Bond	7,726,440
Total liabilities	<u>8,558,479</u>

Net Assets

Invested in capital assets, net of related debt	14,785,524
Unrestricted	3,944,487
Total net assets	<u>18,730,011</u>

Total liabilities and net assets	<u><u>\$ 27,288,490</u></u>
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See Notes to Financial Statements.

LOWER ALLEN TOWNSHIP AUTHORITY

COMBINED STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS

Year Ended December 31, 2011

Operating Revenues	
Sewer rents	\$ 3,372,808
Miscellaneous charges	8,924
	<u>3,381,732</u>
Operating Expenses	
Collection system	216,153
Disposal system	2,244,578
Administration	1,111,142
Amortization	5,159
Depreciation	1,047,985
	<u>4,625,017</u>
Operating loss	(1,243,285)
Nonoperating Revenues (Expenses)	
Gain (loss) on disposal of fixed assets	(8,356)
Investment income	71,794
Interest expense	(217,891)
Tapping fees	42,263
	<u>(112,190)</u>
Loss before capital contributions	(1,355,475)
Capital contributions	<u>663,728</u>
Change in net assets	(691,747)
Net Assets:	
January 1, 2011	19,421,758
December 31, 2011	<u>\$ 18,730,011</u>

See Notes to Financial Statements.

LOWER ALLEN TOWNSHIP AUTHORITY

COMBINED STATEMENT OF CASH FLOWS
Year Ended December 31, 2011

Cash Flows From Operating Activities	
Cash received from customers	\$ 3,593,275
Cash payments for goods and services	(976,178)
Cash payments to employee related expenses	(2,535,312)
Net cash provided by operating activities	<u>81,785</u>
Cash Flows From Capital and Related Financing Activities	
Purchase of property, plant and equipment	(2,057,915)
Proceeds from guaranteed sewer revenue note	686,522
Proceeds from guaranteed sewer revenue bond	8,000,000
Principal payments on sewer revenue note	(4,926,359)
Interest paid on sewer revenue note	(76,178)
Interest paid on sewer revenue bond	(174,052)
Debt issuance costs	(71,547)
Tapping fees	42,263
Contributions of capital	1,224,261
Net cash provided by capital and related financing activities	<u>2,646,995</u>
Cash Flows From Investing Activities	
Investment income	71,795
Net cash provided by investing activities	<u>71,795</u>
Net increase in cash and cash equivalents	2,800,575
Cash and Cash Equivalents:	
January 1, 2011	4,365,159
December 31, 2011	<u>\$ 7,165,734</u>

(Continued)

LOWER ALLEN TOWNSHIP AUTHORITY

COMBINED STATEMENT OF CASH FLOWS (Continued)
Year Ended December 31, 2011

Reconciliation of Operating Loss to Net	
Cash provided by Operating Activities	
Operating loss	\$ (1,243,285)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Amortization	5,159
Depreciation	1,047,985
Changes in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	(31,231)
Other receivables	12,975
(Decrease) increase in:	
Accounts payable	33,604
Escrow deposits	242,774
Accrued expenses	13,804
Net cash provided by operating activities	<u><u>\$ 81,785</u></u>

See Notes to Financial Statements.

LOWER ALLEN TOWNSHIP AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Reporting Entity: Lower Allen Township Authority (Authority), a component unit of Lower Allen Township, is a municipal authority incorporated and existing under the Municipal Authorities Act of 1945, as amended. The Authority was incorporated on June 22, 1956, pursuant to a resolution by the Board of Commissioners of Lower Allen Township (Township). The Authority is an operating authority responsible for acquiring, holding, constructing, improving, owning and leasing sewer, sewer systems or parts thereof. The Authority provides services principally to portions of Lower Allen Township and Shiremanstown Borough. In addition, under operating agreements with Upper Allen Township, Fairview Township, Hampden Township and the State Correctional Institution at Camp Hill, the Authority provides sewage treatment services for these entities.

In accordance with the requirements of Statement No. 14, The Financial Reporting Entity, of the Governmental Accounting Standards Board (GASB), the financial statements must present the Authority (the primary government) and its component units. Pursuant to this criterion, no component units were identified for inclusion in the accompanying financial statements. However, Lower Allen Township is financially accountable for the fiscal matters of the Authority, and as such the Authority is a component unit of the Township.

Basis of Presentation and Accounting: The Authority has adopted the accrual basis of accounting to account for operations that are financed and operated in a manner similar to that of a private business enterprise, where the intent is that the costs of providing services to the general public on a continuing basis be financed or recovered substantially through user charges. The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Authority applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

The accounting and reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, change in net assets, financial position and cash flows. With this measurement focus, all assets and liabilities associated with the operations of the Authority are included on the balance sheet. Net assets are segregated into invested in capital assets, restricted and unrestricted components.

Cash Equivalents: For purposes of the Statement of Cash Flows, the Authority considers time deposits, certificates of deposit, and all highly-liquid investments with original maturities of three months or less to be cash equivalents.

LOWER ALLEN TOWNSHIP AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Investments: Investments of the Authority are stated at fair value.

Inventory: Material and supplies are expensed when the liability is incurred. It is not the Authority's policy to stock items in any quantity that would materially affect the financial statements.

Property, Plant and Equipment: Property, plant, and equipment are stated at cost. Cost includes all charges necessary to place the asset in condition for use, including interest expense incurred during construction. Depreciation is provided on the straight-line method over the estimated useful lives of the various assets.

Bad Debts: The Authority places liens on the property owners who are significantly in arrears on sewer payments. Potential uncollectible accounts receivable at year-end are considered immaterial to total accounts receivable, therefore, an allowance for such losses has not been established.

Compensated Absences: The employees of the Authority are permitted to accumulate limited amounts of earned, but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the Authority does not have a policy to pay any amounts when employees separate from service except at retirement. Employees are permitted to carry over a maximum of 15 days of unused vacation time into the next year. A liability for accumulated vacation pay benefits is recorded because it is the Authority's policy to pay employees for unused vacation at separation from service.

Long-Term Obligations: Debt issue costs are reported as deferred charges and amortized on a straight-line basis over the term of the note. Amounts deferred as a result of debt refunding are amortized as a component of interest expense over the life of the bonds.

Revenues and Expenses: Operating revenues and expenses result from the ongoing principal operations of the Authority. Operating revenues consist primarily of charges for services. Operating expenses include the costs to provide these services, administrative costs, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Capital Contributions: The Authority receives resources from other governmental entities to be used for various purposes connected with the planning, modernization, and expansion of plant facilities. These resources are reported as capital contributions. Contributions of lines from external sources are reported as capital contributions and recorded at fair market value at the time the property is contributed.

LOWER ALLEN TOWNSHIP AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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 certain contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

Note 2. Deposits and Investments

The Authority has a policy that requires deposits and investments, other than U.S. Government obligations, to be covered by Federal insurance or to be fully collateralized by the financial institution issuing the investment or acquiring the deposit. Deposits that are not insured by the Federal Deposit Insurance Corporation are collateralized using the pooled asset method. The securities pledged as collateral are held by the trust department of a financial institution or by its agents in the financial institution's name. The Authority's policy provides that to the extent practicable, investments are matched with anticipated cash flows and generally have maturities of one year or less.

Statutes authorize the Authority to invest in obligations of the U.S. Treasury, agencies and instrumentalities of the U.S. government, deposits in savings accounts, certificates of deposit, the Pennsylvania Local Governmental Trust (PLGIT) and Federated Trust.

Deposits: Deposits of the Authority are held in several financial institutions and are carried at cost. The carrying amount of deposits is displayed on the financial statements as "cash and cash equivalents", and includes petty cash of \$300.

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 517,451	\$ 517,153
Uninsured and collateral held by pledging financial institution, or agent not in the Authority's name	6,648,283	6,694,962
	\$ 7,165,734	\$ 7,212,115

Investments: The Authority held no investments at December 31, 2011.

LOWER ALLEN TOWNSHIP AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 3. Property, Plant and Equipment

Property, plant and equipment consisted of the following at December 31:

	Balance at December 31, 2010	Additions	Reductions	Balance at December 31, 2011
Property, Plant and Equipment not being depreciated:				
Land and rights of ways	\$ 224,720	\$ -	\$ -	\$ 224,720
Construction-in-progress	10,253,508	1,556,389	(10,780,146)	1,029,751
Total Property, Plant and Equipment not being depreciated	<u>10,478,228</u>	<u>1,556,389</u>	<u>(10,780,146)</u>	<u>1,254,471</u>
Property, Plant and Equipment being depreciated:				
Sewer systems	17,032,138	32,018	-	17,064,156
Plant and pumping stations	16,410,797	10,780,146	(8,990)	27,181,953
Equipment	1,833,452	23,106	(120,885)	1,735,673
Total Property, Plant and Equipment being depreciated	<u>35,276,387</u>	<u>10,835,270</u>	<u>(129,875)</u>	<u>45,981,782</u>
Less accumulated depreciation for:				
Sewer systems	12,683,680	320,372	-	13,004,052
Plant and pumping stations	12,209,432	650,407	(3,273)	12,856,566
Equipment	1,493,967	77,206	(118,246)	1,452,927
Total accumulated depreciation	<u>26,387,079</u>	<u>1,047,985</u>	<u>(121,519)</u>	<u>27,313,545</u>
Total Property, Plant and Equipment being depreciated-net	<u>8,889,308</u>	<u>9,787,285</u>	<u>(8,356)</u>	<u>18,668,237</u>
Net Property, Plant and Equipment	<u><u>\$ 19,367,536</u></u>	<u><u>\$ 11,343,674</u></u>	<u><u>\$(10,788,502)</u></u>	<u><u>\$ 19,922,708</u></u>

LOWER ALLEN TOWNSHIP AUTHORITY
NOTES TO FINANCIAL STATEMENTS

Note 4. Long-Term Debt

Guaranteed Sewer Revenue Note-Series 2009

On June 19, 2009, the Authority issued a Guaranteed Sewer Revenue Note, Series 2009, in the maximum principal amount of \$9,000,000. Loan proceeds were used to provide interim financing for the Treatment Plant Solids Facilities Upgrade Project (Upgrade Project). This project is the first of two project phases for Chesapeake Bay mandated permit compliance. The note is secured by a pledge of and lien on the revenues of the Authority and is guaranteed by Lower Allen Township with a pledge and lien on the Township's full faith credit and taxing power. The note carries a five year term with a twelve month interest only draw down period. Interest is paid quarterly, beginning September 15, 2009, at a rate of 3.69% on the outstanding principal balance. Principal payments are to be made annually on June 15 of each of the years 2011 to 2014, inclusive, or until the outstanding principal balance shall be paid. Costs of issuance are being amortized over the life of the note. On August 10, 2010 the Authority entered into the First Supplemental Loan Agreement which extended the period of advances on the loan from June 15, 2010 to June 15, 2011. Amortization expense for the note issue costs for 2011 totaled \$2,293. The Authority incurred interest costs of \$69,319 in 2011.

The Guaranteed Sewer Revenue Note-Series 2009 was refunded on May 20, 2011.

Guaranteed Sewer Revenue Bond-Series 2011

The Guaranteed Sewer Revenue Bond-Series 2011 was issued for the purpose of refunding the Guaranteed Sewer Revenue Note-Series 2009 and to provide for payment of the costs and expenses of the Upgrade Project. The \$8,000,000 bond is secured by a pledge of and lien on the revenues of the Authority and is guaranteed by Lower Allen Township with a pledge and lien on the Township's full faith credit and taxing power. Principal payments are to be made annually on May 15 of each of the years 2012 to 2031, inclusive. Interest is due on the unpaid balance at a rate of \$4.46% per annum on November 15, 2011 and on May 15 and November 15 on each of the years 2012 to 2031. The proceeds of the bond were reduced by debt issuance costs of \$71,547, \$4,926,359 to refund the principal of the Guaranteed Sewer Revenue Note-Series 2009, and by interest due on the Guaranteed Sewer Revenue Note-Series 2009 in the amount of \$33,327. The remaining funds in the amount of \$3,084,768, which included Authority funding of \$116,000, were deposited to the Construction Fund (Maintenance and Improvement Account) for costs and expenses of the Upgrade Project.

The refunding of the Series of 2009 Note resulted in a difference between the reacquisition price (amount required to repay previously issued debt in a refunding transaction) and the net carrying amount of the Note of \$23,191. This difference, or deferred amount on refunding, reported on the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2014 using the effective interest method.

LOWER ALLEN TOWNSHIP AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 4. Long-Term Debt (Continued)

The Authority completed the refunding to provide permanent financing for the Upgrade Project, obtain funds required to retire the Series of 2009 Note, and to obtain additional funding for payment of the remaining costs of the project. The refunding provides short term savings by extending the term of the debt from 5 to 20 years. The cash flow requirements on the refunded debt were \$5,410,270 from May 2011 to June 2014. The cash flow requirements on the refunding bond are \$7,393,973 from May 2011 to May 2031. The refunding resulted in an economic loss (differences between the present value of the debt service payments on the old and new debt) of \$1,772,913.

The Authority incurred interest costs of \$223,774 in 2011 which included amortization of the deferred amount of refunding of the Series 2009 Note in the amount of \$4,631.

Annual debt service requirements to maturity for the Guaranteed Sewer Revenue Bond-Series 2011 are shown below. Annual requirements exclude unamortized deferred amounts on refunding of the Series of 2009 Note in the amount of \$18,560.

Year	Principal	Interest	Total
2012	255,000	351,114	606,114
2013	265,000	339,518	604,518
2014	275,000	327,476	602,476
2015	290,000	314,876	604,876
2016	305,000	301,607	606,607
2017-2021	1,730,000	1,288,271	3,018,271
2022-2026	2,175,000	854,647	3,029,647
2027-2031	2,705,000	312,311	3,017,311
	<u>\$ 8,000,000</u>	<u>\$ 4,089,820</u>	<u>\$ 12,089,820</u>

Changes in long-term debt for the year ended December 31, 2011 are as follows:

	Balance at December 31, 2010	Additions	Reductions	Balance at December 31, 2011	Due Within One Year
Guaranteed Sewer Revenue Note Series of 2009	\$4,239,837	\$ 686,522	\$(4,926,359)	\$ -	\$ -
Guaranteed Sewer Revenue Bond Series of 2011	-	8,000,000	-	8,000,000	255,000
Less:					
Deferred Amount of Refunding-Series of 2009	-	(23,191)	4,631	(18,560)	-
Total Series 2011	<u>-</u>	<u>7,976,809</u>	<u>4,631</u>	<u>7,981,440</u>	<u>255,000</u>
Total	<u>\$4,239,837</u>	<u>\$ 8,663,331</u>	<u>\$(4,921,728)</u>	<u>\$7,981,440</u>	<u>\$255,000</u>

LOWER ALLEN TOWNSHIP AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 5. Pension Plan

The Authority maintains a single-employer noncontributory defined-benefit pension plan covering all eligible full-time employees. The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The Plan is subject to the funding and reporting requirements of the Pennsylvania Municipal Pension Plan Funding and Recovery Act (Act 205 of 1984). Act 205 requires that an actuarial valuation of the Plan be performed every other year. The authority to manage plan assets has been delegated to The Principal Financial Group. The plan issues a publicly available stand-alone report that includes financial statements and required supplementary information. The financial report may be obtained by writing to Lower Allen Township Authority.

Employer contributions, which are based on the plan's biennial actuarial valuation, shall meet or exceed the minimum funding standards of Act 205. This funding policy provides for actuarially determined contributions, which are expressed as a percentage of annual compensation of covered employees. The current rate is 6.77% of annual covered payroll. Unless otherwise indicated, the plan information in this note is provided as of the latest actuarial valuation, January 1, 2011.

The Authority's annual pension cost and net pension obligation are as follows:

	Amount
Annual required contribution	\$ 251,304
Interest on net pension obligation (prior year)	(3,733)
Adjustment of annual required contribution	5,744
Annual pension cost	253,315
Contributions made	335,640
Increase (decrease) in net pension obligation	(82,325)
Net pension obligation - January 1, 2011	(51,503)
Net pension obligation - December 31, 2011	\$ (133,828)

Three-Year Trend Information

Years Ending December 31:	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2009	\$ 197,486	99.80%	\$ (11,970)
2010	\$ 296,226	113.30%	\$ (51,503)
2011	\$ 253,315	132.50%	\$ (133,828)

During 2011, the Authority contributed \$40,000 in excess of the required employer contribution.

LOWER ALLEN TOWNSHIP AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 5. Pension Plan (Continued)

As of January 1, 2011, the most recent actuarial valuation date, the plan was 68% funded. The actuarial accrued liability for benefits was \$3,857,196, and the actuarial value of assets was \$2,618,729, resulting in an unfunded actuarial accrued liability of \$1,238,467. The covered payroll (annual payroll of active employees covered by the plan) was \$1,530,921. The ratio of the unfunded actuarial accrued liability to the covered payroll was 81%.

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

The required contribution was determined using the entry age normal method. Significant actuarial assumptions used in this valuation included: (1) a rate of return on the investments of present and future assets of 7.25% per year and (2) projected salary increases of 4.75% per year for the participant between their current ages and retirement age. The actuarial value of assets is based on fair market value. Unfunded actuarial liabilities are amortized using the Level Dollar method over a closed period. The remaining amortization period is 11 years.

Note 6. Deferred Compensation Plan

The Authority maintains a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all full time Authority employees who have attained the age of twenty-one and have completed two years of service, permits them to defer a portion of their salary until future years. Participation in the plan is optional and participants elect how their deferrals are invested. Vesting in the plan is immediate and allows for discretionary employer contributions. The deferred compensation is not available to employees until death or separation from service. For the year ended December 31, 2011, the participants deferred compensation in the amount of \$53,155. The Authority did not make a discretionary contribution for the year ended December 31, 2011.

Note 7. Capitalized Interest

The Authority incurred interest costs of \$288,461 for the year ended December 31, 2011. Of that amount \$75,201 was capitalized as a cost of construction.

LOWER ALLEN TOWNSHIP AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 8. Related Party Transactions

Certain expenditures incurred on behalf of the Authority are paid by the Township. These expenditures are subsequently reimbursed.

Note 9. Major Customers

Sales to one customers comprised 22.55% of the net sewer rental revenue for the year ended December 31, 2011.

Note 10. Risk Management

The Authority 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 Authority maintains commercial insurance covering each of these risks of loss. Management believes such coverage is sufficient to prevent any significant uninsured losses to the Authority. Settled claims have not exceeded coverage in any of the last three years and there have been no significant reductions in coverage compared to prior years.

Note 11. Commitments

On December 1, 2011, the Authority awarded various contracts totaling approximately \$14,858,000 for the Treatment Plant Solids Facilities Upgrade Project Phase II (Waste Water Treatment Plant BNR Upgrade). The Authority is committed to the full amount of these contracts at December 31, 2011.

Note 12. Subsequent Events

The Authority expects to adopt a First Supplemental Resolution in June of 2012 providing for the issuance of a Guaranteed Sewer Revenue Bond-Series of 2012 Bond in the amount of \$5,000,000. The bond will be issued for the purpose of providing funds to be used for and toward payment of a portion of remaining costs of completion of the plant Upgrade Project. Principal payments are to be paid in annual installments beginning May 15, 2013 through the year 2032. The bond bears interest at the rate of 3.10% from the date of settlement to and including May 15, 2022 and at a variable rate equal to 75% of the Wall Street Journal Prime Lending Rate, not to exceed 5% per annum, from May 16, 2022 to May 15, 2032. The bond will require semiannual interest payments beginning November 15, 2012. The bond will be secured by a pledge of and lien on the revenues of the Authority and will be guaranteed by Lower Allen Township with a pledge and lien on the Township's full faith credit and taxing power.

REQUIRED SUPPLEMENTARY INFORMATION

LOWER ALLEN TOWNSHIP AUTHORITY

**REQUIRED SUPPLEMENTARY INFORMATION
DEFINED-BENEFIT PENSION
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 Percent of Covered Payroll (b-a)/c)
1/1/06	N/A	N/A	N/A	N/A	N/A	N/A
1/1/07	\$2,133,993	\$2,988,280	\$854,287	71.00%	\$1,398,693	61%
1/1/08	N/A	N/A	N/A	N/A	N/A	N/A
1/1/09	\$1,992,143	\$3,528,178	\$1,536,035	56.00%	\$1,392,965	110%
1/1/10	N/A	N/A	N/A	N/A	N/A	N/A
1/1/11	\$2,618,729	\$3,857,196	\$1,238,467	68.00%	\$1,530,921	81%

N/A: The Authority has actuarial valuations prepared every two years. Trend information is presented only for years in which information is available.

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. These changes usually affect trends in contribution requirements and in the ratios that use the accrued liability as a factor.

SUPPLEMENTARY INFORMATION

LOWER ALLEN TOWNSHIP AUTHORITY

**COMBINING BALANCE SHEET
December 31, 2011**

ASSETS	Total	Eliminations
Current Assets		
Cash and cash equivalents	\$ 7,165,734	\$ -
Sanitary sewer rents receivable	130,737	-
Due from other funds	-	(3,320,387)
Total current assets	7,296,471	(3,320,387)
Property, plant and equipment - net of accumulated depreciation	19,922,708	-
Debt issue costs, net of accumulated amortization of \$2,236	69,311	-
Total assets	27,288,490	(3,320,387)
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	60,212	-
Due to other funds	-	(3,320,387)
Requisitions payable	103,710	-
Accrued payroll	74,272	-
Accrued compensated absences	48,418	-
Accrued and withheld payroll taxes	613	-
Accrued interest	45,090	-
Escrow deposits	244,724	-
Current maturities of Guaranteed Sewer Revenue Bond	255,000	-
Total current liabilities	832,039	(3,320,387)
Guaranteed Sewer Revenue Bond	7,726,440	-
Total liabilities	8,558,479	(3,320,387)
Net Assets		
Invested in capital assets, net of related debt	14,785,524	-
Unrestricted	3,944,487	-
Total net assets	18,730,011	-
Total liabilities and net assets	\$ 27,288,490	\$ (3,320,387)

Sewer System Operating Account	Maintenance and Improvement Account
\$ 688,359	\$ 6,477,375
130,737	-
-	3,320,387
<u>819,096</u>	<u>9,797,762</u>
19,922,708	-
69,311	-
<u>20,811,115</u>	<u>9,797,762</u>
60,212	-
3,320,387	-
103,710	-
74,272	-
48,418	-
613	-
45,090	-
244,724	-
255,000	-
<u>4,152,426</u>	<u>-</u>
7,726,440	-
<u>11,878,866</u>	<u>-</u>
11,941,268	2,844,256
(3,009,019)	6,953,506
<u>8,932,249</u>	<u>9,797,762</u>
<u>\$ 20,811,115</u>	<u>\$ 9,797,762</u>

LOWER ALLEN TOWNSHIP AUTHORITY

**COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS
Year Ended December 31, 2011**

	Total	Sewer System Operating Account	Maintenance and Improvement Account
Operating Revenues			
Sewer rents	\$ 3,372,808	\$ 3,372,808	\$ -
Miscellaneous charges	8,924	8,924	-
	<u>3,381,732</u>	<u>3,381,732</u>	<u>-</u>
Operating Expenses			
Collection system	216,153	216,153	-
Disposal system	2,244,578	2,244,578	-
Adminstration	1,111,142	1,111,142	-
Amortization	5,159	5,159	-
Depreciation	1,047,985	1,047,985	-
	<u>4,625,017</u>	<u>4,625,017</u>	<u>-</u>
Net operating loss	(1,243,285)	(1,243,285)	-
Nonoperating Revenues (Expenses)			
Gain (loss) on disposal of fixed assets	(8,356)	(8,356)	-
Investment income	71,794	973	70,821
Interest expense	(217,891)	(217,891)	-
Tapping fees	42,263	-	42,263
Operating transfers in (out)	-	(2,724,406)	2,724,406
	<u>(112,190)</u>	<u>(2,949,680)</u>	<u>2,837,490</u>
Loss before capital contributions	(1,355,475)	(4,192,965)	2,837,490
Capital contributions	<u>663,728</u>	<u>663,728</u>	<u>-</u>
Change in net assets	(691,747)	(3,529,237)	2,837,490
Net Assets:			
January 1, 2011	19,421,758	12,461,486	6,960,272
December 31, 2011	<u>\$ 18,730,011</u>	<u>\$ 8,932,249</u>	<u>\$ 9,797,762</u>

LOWER ALLEN TOWNSHIP AUTHORITY

COMBINING STATEMENT OF CASH FLOWS
Year Ended December 31, 2011

	Total	Sewer System Operating Account	Maintenance and Improvement Account
Cash Flows From Operating Activities			
Cash received from customers	\$ 3,593,275	\$ 3,593,275	\$ -
Cash payments for goods and services	(976,178)	(976,178)	-
Cash payments to employee related expenses	(2,535,312)	(2,535,312)	-
Net cash provided by operating activities	<u>81,785</u>	<u>81,785</u>	<u>-</u>
Cash Flows From Capital and Related Financing Activities			
Internal activity fund transfers	-	(2,809,033)	2,809,033
Purchases of property, plant and equipment	(2,057,915)	(2,057,915)	-
Proceeds from guaranteed sewer revenue note	686,522	686,522	-
Proceeds from guaranteed sewer revenue bond	8,000,000	8,000,000	-
Principal payments on sewer revenue note	(4,926,359)	(4,926,359)	-
Interest paid on sewer revenue note	(76,178)	(76,178)	-
Interest paid on sewer revenue bond	(174,052)	(174,052)	-
Debt issuance costs	(71,547)	(71,547)	-
Tapping fees	42,263	-	42,263
Contributions of capital	1,224,261	1,224,261	-
Net cash provided by (used in) capital and related financing activities	<u>2,646,995</u>	<u>(204,301)</u>	<u>2,851,296</u>
Cash Flows From Investing Activities			
Investment income	71,795	974	70,821
Net cash provided by investing activities	<u>71,795</u>	<u>974</u>	<u>70,821</u>
Net increase (decrease) in cash and cash equivalents	<u>2,800,575</u>	<u>(121,542)</u>	<u>2,922,117</u>
Cash and Cash Equivalents:			
January 1, 2011	4,365,159	809,901	3,555,258
December 31, 2011	<u>\$ 7,165,734</u>	<u>\$ 688,359</u>	<u>\$ 6,477,375</u>

LOWER ALLEN TOWNSHIP AUTHORITY

**COMBINING STATEMENT OF CASH FLOWS (continued)
Year Ended December 31, 2011**

	<u>Total</u>	<u>Sewer System Operating Account</u>	<u>Maintenance and Improvement Account</u>
Reconciliation of Operating Loss to Net			
Cash provided by Operating Activities			
Operating loss	\$ (1,243,285)	\$ (1,243,285)	\$ -
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Amortization	5,159	5,159	-
Depreciation	1,047,985	1,047,985	-
Changes in assets and liabilities:			
(Increase) decrease in:			
Accounts receivable	(31,231)	(31,231)	-
Other receivables	12,975	12,975	-
(Decrease) increase in:			
Accounts payable	33,604	33,604	-
Escrow deposits	242,774	242,774	-
Accrued expenses	13,804	13,804	-
Net cash provided by operating activities	<u><u>\$ 81,785</u></u>	<u><u>\$ 81,785</u></u>	<u><u>\$ -</u></u>

LOWER ALLEN TOWNSHIP AUTHORITY

**SCHEDULE OF SEWER RENTS
Year Ended December 31, 2011**

Lower Allen Township	\$ 2,070,985
Borough of Shiremanstown	166,223
State Correctional Institution	284,266
Upper Allen Township	760,495
Fairview Township	83,338
Hampden Township	7,501
Total sewer rents revenue	<u><u>\$ 3,372,808</u></u>

LOWER ALLEN TOWNSHIP AUTHORITY

**SCHEDULE OF OPERATING EXPENSES
Year Ended December 31, 2011**

Collection System	
Salaries and wages	\$ 130,194
Payroll taxes	10,431
Material and supplies	28,682
Fuel, light and water	15,828
General expenses	4,787
Maintenance and repairs	10,756
Vehicle operating expenses	15,475
Total collection system	216,153
Disposal System	
Salaries and wages	1,394,973
Payroll taxes	111,716
Materials and supplies	46,235
Fuel, light and water	445,609
Chemicals for sewage treatment	140,817
General expense	45,031
Maintenance and repairs	33,704
Engineering	3,955
Sludge disposal	1,357
Vehicle operating expenses	21,181
Total disposal system	2,244,578
Adminstration	
Salaries and wages	104,032
Payroll taxes	9,755
Purchased services	46,075
Authority salaries	18,300
Office supplies and postage	3,437
Data processing	1,030
General expense	10,302
Employee benefits and compensated absences	769,715
Insurance	76,603
Auditing and accounting expense	33,750
Legal expense	22,349
Communication expense	14,413
Equipment rental	1,381
Total administration	1,111,142
Amortization	5,159
Depreciation	1,047,985
Total operating expenses	\$ 4,625,017



Flowers & Flowers
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

Members of the Board
Lower Allen Township Authority
Cumberland County, Pennsylvania

We have audited in accordance with auditing standards generally accepted in the United States of America, the combined balance sheet of the Lower Allen Township Authority, as of December 31, 2011, and the related combined statements of revenues, expenses and changes in net assets and cash flows for the year then ended, and have issued our report thereon dated April 17, 2012.

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 Resolution dated May 20, 2011 securing the Guaranteed Sewer Revenue Bond— Series of 2011 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 Board members and management of Lower Allen Township Authority and Orrstown Bank, and is not intended to be and should not be used by anyone other than these specified parties.

Flowers & Flowers
Certified Public Accountants

April 17, 2012