

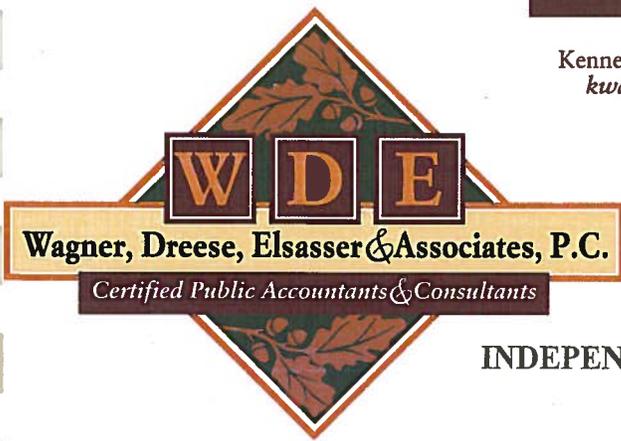
LOWER ALLEN TOWNSHIP AUTHORITY

FINANCIAL REPORT

DECEMBER 31, 2012

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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, 2012, and the related notes to the financial statements, which comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinions

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, 2012, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 and the schedule of historical pension information on page 21 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary information on pages 22 through 28 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 basic financial statements. The 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. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Wagner, Dreesse, Elsasser & Associates, P.C.

WAGNER, DREESE, ELSASSER & ASSOCIATES, P.C.

Certified Public Accountants

May 29, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

LOWER ALLEN TOWNSHIP AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012

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, 2012.

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 positions, 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 positions. Over time, increases or decreases in net positions 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 positions 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 positions at the end of the previous year total to the net positions 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, 2012

Condensed Financial Information

Condensed financial information from the balance sheets as of December 31, 2012 and 2011 and from the statements of revenues, expenses and changes in net position for the years ended December 31, 2012 and 2011 are as follows:

	December 31,	
	2012	2011
Current and other assets	\$ 8,728,413	\$ 7,365,782
Capital Assets	28,754,216	19,922,708
Total assets	<u>37,482,629</u>	<u>27,288,490</u>
Current liabilities	1,683,770	832,039
Long-term liabilities	12,283,991	7,726,440
Total liabilities	<u>13,967,761</u>	<u>8,558,479</u>
Net position:		
Net investment in capital assets	18,794,926	14,785,524
Unrestricted	4,719,942	3,944,487
Total net position	<u>\$ 23,514,868</u>	<u>\$ 18,730,011</u>
Operating revenue	\$ 3,980,508	\$ 3,381,732
Operating expenses	4,624,242	4,625,017
Operating loss	(643,734)	(1,243,285)
Non-operating income (expense)	1,045,193	(112,190)
Income (Loss) before capital contributions	401,459	(1,355,475)
Capital contributions	4,249,570	663,728
Change in net position	4,651,029	(691,747)
Net Position		
January 1	18,730,011	19,421,758
Prior period adjustment	133,828	-
January 1, as restated	<u>18,863,839</u>	<u>19,421,758</u>
December 31	<u>\$ 23,514,868</u>	<u>\$ 18,730,011</u>

LOWER ALLEN TOWNSHIP AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012

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, 2012.

Financial Highlights

Authority cash and cash equivalents increased from \$7,165,734 at the end of 2011 to \$8,287,831 at the end of 2012. Of the amount on hand at the end of 2012, approximately \$2,775,000 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, 2012 with a net position balance of \$23,514,868 of which \$18,794,926 represented the amount invested in capital assets and \$4,719,942 was unrestricted. Before depreciation and amortization, net position increased by \$5,653,651, as compared to an increase of \$361,397 in 2011. After depreciation and amortization, net position decreased \$4,651,029 compared to a decrease of \$691,747 in 2011.

Current liabilities for 2012 are \$851,731 higher than the 2011 liabilities.

Long-term liabilities increased \$4,557,551 due to the issuance of the Guaranteed Sewer Revenue Bond-Series of 2012 in the amount of \$5,000,000 offset by principal payments on the Series of 2011 Sewer Revenue Bond.

Operating revenues were \$598,776 or 17.7 % higher in 2012 than the previous year.

Operating expenses decreased by \$775 from 2011 to 2012.

Revenue

Operating revenues of \$3,980,508 for 2012 increased from the 2011 level of \$3,381,732. 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 to \$55 per quarter for residential and nonresidential base fee plus \$3.60 per 1,000 gallons per quarter nonresidential consumption were approved starting on January 1, 2012. Non-operating revenues increased by approximately \$4,743,000 due to an increase of \$3,585,842 in capital contributions primarily for the Phase 2 Solids BNR Facilities Upgrade Project, an increase in tapping fees of approximately \$1,208,000 as a reflection of two large development projects and offset by a decrease in investment income of approximately \$19,000.

Expenses

The operating expenses for 2012 were \$4,624,242 as compared to \$4,625,017 for 2011. 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, 2012

Expenses (Continued)

Providing wastewater treatment service is labor intensive and the experienced costs are common. During 2012 the Authority's use of electrical power decreased by 3 percent as the result of processing lower flows. Depreciation of capital assets continues to be a large operating expense at \$996,812 in 2012.

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, 2012 and 2011 amounted to \$28,754,216 and \$19,922,708 (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. Completion of the Phase 2 Upgrade Project is expected in September 2013. The Authority placed \$615,059 of sewers, \$23,967 of plant and pumping stations and \$12,515 of equipment in service in 2012. The Authority received \$4,029,957 in capital contributions from other governmental entities in 2012.

Debt

The Authority's outstanding long term debt was \$12,745,000 at the end of 2012. 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 was available for the pending Phase 2 Biological Nutrient Removal Upgrade Project at the end of 2011. On June 5, 2012, the Authority issued a Guaranteed Sewer Revenue Bond-Series of 2012 in the amount of \$5,000,000 to complete the Phase 2 project funding. On May 15, 2013, the Authority issued a Guaranteed Sewer Revenue Bond-Series 2013 in the amount of \$7,480,000 to provide funds for the refunding of the Series of 2011 Bond.

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, 2012

ASSETS

Current Assets

Cash and cash equivalents	\$ 8,287,831
Sanitary sewer rents receivable	133,541
Other receivables	6,591
Total current assets	<u>8,427,963</u>

Property, plant and equipment - net of accumulated depreciation	28,754,216
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Bond issue costs, Series 2011, net of accumulated amortization of \$5,813	65,733
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Bond issue costs, Series 2012, net of accumulated amortization of \$2,133	66,113
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Net pension asset	<u>168,604</u>
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Total assets	<u><u>37,482,629</u></u>
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LIABILITIES AND NET POSITION

Current Liabilities

Accounts payable	52,004
Requisitions payable	944,164
Accrued payroll	79,802
Accrued compensated absences	47,278
Accrued and withheld payroll taxes	6,389
Accrued interest	63,241
Escrow deposits	40,892
Current maturities of Sewer Revenue Bonds	450,000
Total current liabilities	<u>1,683,770</u>

Guaranteed Sewer Revenue Bonds-Series 2011 and 2012	12,283,991
Total liabilities	<u>13,967,761</u>

Net Position

Net investment in capital assets	18,794,926
Unrestricted	4,719,942
Total net position	<u>23,514,868</u>

Total liabilities and net position	<u><u>\$ 37,482,629</u></u>
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See Notes to Financial Statements.

LOWER ALLEN TOWNSHIP AUTHORITY

COMBINED STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION

Year Ended December 31, 2012

Operating Revenues	
Sewer rents	\$ 3,935,270
Miscellaneous charges	45,238
	<u>3,980,508</u>
Operating Expenses	
Collection system	189,597
Disposal system	2,281,368
Administration	1,150,755
Amortization	5,710
Depreciation	996,812
	<u>4,624,242</u>
Operating loss	(643,734)
Nonoperating Revenues (Expenses)	
Gain (loss) on disposal of fixed assets	9,820
Investment income	52,731
Interest expense	(267,685)
Tapping fees	1,250,327
	<u>1,045,193</u>
Income before capital contributions	401,459
Capital contributions	<u>4,249,570</u>
Change in net position	4,651,029
Net Position:	
January 1, 2012	18,730,011
Prior period adjustment	133,828
January 1, 2012, as restated	<u>18,863,839</u>
December 31, 2012	<u>\$ 23,514,868</u>

See Notes to Financial Statements.

LOWER ALLEN TOWNSHIP AUTHORITY

COMBINED STATEMENT OF CASH FLOWS
Year Ended December 31, 2012

Cash Flows From Operating Activities	
Cash received from customers	\$ 3,767,281
Cash payments for goods and services	(1,138,049)
Cash payments to employee related expenses	(2,516,489)
Net cash provided by operating activities	<u>112,743</u>
Cash Flows From Capital and Related Financing Activities	
Purchase of property, plant and equipment	(8,590,277)
Proceeds from sewer revenue bond	5,000,000
Principal payments on sewer revenue note	(255,000)
Interest paid on sewer revenue bonds	(419,958)
Debt issuance costs	(68,246)
Tapping fees	1,250,327
Contributions of capital	4,029,957
Proceeds from sale of fixed assets	9,820
Net cash provided by capital and related financing activities	<u>956,623</u>
Cash Flows From Investing Activities	
Investment income	52,731
Net cash provided by investing activities	<u>52,731</u>
Net increase in cash and cash equivalents	1,122,097
Cash and Cash Equivalents:	
January 1, 2012	7,165,734
December 31, 2012	<u>\$ 8,287,831</u>

(Continued)

LOWER ALLEN TOWNSHIP AUTHORITY

COMBINED STATEMENT OF CASH FLOWS (Continued)
Year Ended December 31, 2012

Reconciliation of Operating Loss to Net	
Cash provided by Operating Activities	
Operating loss	\$ (643,734)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Amortization	5,710
Depreciation	996,812
Changes in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	(2,804)
Other receivables	(6,591)
Net pension asset	(34,776)
(Decrease) increase in:	
Accounts payable	(8,208)
Escrow deposits	(203,832)
Accrued expenses	10,166
Net cash provided by operating activities	<u><u>\$ 112,743</u></u>
Noncash Investing, Capital and Financing Activities:	
Capital Contributions	<u><u>\$ 219,613</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 net investment 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: Bond issue costs are reported as deferred charges and amortized on a straight-line basis over the term of the bonds. 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)	\$ 597,935	\$ 559,299
Uninsured and collateral held by pledging financial institution, or agent not in the Authority's name	7,689,896	7,745,092
	<u>\$ 8,287,831</u>	<u>\$ 8,304,391</u>

Investments: The Authority held no investments at December 31, 2012.

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, 2011	Additions	Reductions	Balance at December 31, 2012
Property, Plant and Equipment not being depreciated:				
Land and rights of ways	\$ 224,720	\$ -	\$ -	\$ 224,720
Construction-in-progress	1,029,751	9,596,192	(419,413)	10,206,530
Total Property, Plant and Equipment not being depreciated	<u>1,254,471</u>	<u>9,596,192</u>	<u>(419,413)</u>	<u>10,431,250</u>
Property, Plant and Equipment being depreciated:				
Sewer systems	17,064,156	615,059	-	17,679,215
Plant and pumping stations	27,181,953	23,967	-	27,205,920
Equipment	1,735,673	12,515	(38,825)	1,709,363
Total Property, Plant and Equipment being depreciated	<u>45,981,782</u>	<u>651,541</u>	<u>(38,825)</u>	<u>46,594,498</u>
Less accumulated depreciation for:				
Sewer systems	13,004,052	332,788	-	13,336,840
Plant and pumping stations	12,856,566	600,578	-	13,457,144
Equipment	1,452,927	63,446	(38,825)	1,477,548
Total accumulated depreciation	<u>27,313,545</u>	<u>996,812</u>	<u>(38,825)</u>	<u>28,271,532</u>
Total Property, Plant and Equipment being depreciated-net	<u>18,668,237</u>	<u>(345,271)</u>	<u>-</u>	<u>18,322,966</u>
Net Property, Plant and Equipment	<u>\$ 19,922,708</u>	<u>\$ 9,250,921</u>	<u>\$ (419,413)</u>	<u>\$ 28,754,216</u>

LOWER ALLEN TOWNSHIP AUTHORITY
NOTES TO FINANCIAL STATEMENTS

Note 4. Long-Term Debt

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 (refunded May 20, 2011) and to provide funding for upgrades and improvement to the existing wastewater treatment plant and related facilities (Upgrade Project). The Upgrade Project is required for compliance with certain state and federal mandates. 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.

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 \$357,182 in 2012 which included amortization of the deferred amount of refunding of the Series 2009 Note in the amount of \$7,551.

LOWER ALLEN TOWNSHIP AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 4. Long-Term Debt (Continued)

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 \$11,009.

Year	Principal	Interest	Total
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	315,000	287,782	602,782
2018-2022	1,810,000	1,209,329	3,019,329
2023-2027	2,275,000	755,413	3,030,413
2028-2031	2,210,000	202,751	2,412,751
	<u>\$ 7,745,000</u>	<u>\$ 3,738,752</u>	<u>\$ 11,483,752</u>

Guaranteed Sewer Revenue Bond-Series 2012

The Guaranteed Sewer Revenue Bond-Series 2012 was issued for the purpose of providing funds to finance remaining costs and expenses of the Upgrade Project. The \$5,000,000 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 2013 to 2032, inclusive, or until prepaid in full. Interest is due on November 15, 2012 and thereafter semiannually on May 15 and November 15 of each year, beginning May 15, 2013, until final maturity on May 15, 2032, or until prepaid in full. The Bond bears interest at a rate of 3.10% from June 5, 2012 to May 15, 2022 and from May 16, 2022 to May 15, 2032 at a variable rate of 75% of the Wall Street Journal Prime Lending Rate (adjusted monthly) not to exceed 5% per annum. Debt issuance costs of \$68,246 were funded by the Authority and Bond proceeds in the amount of \$5,000,000 were deposited to the Construction Fund (Maintenance and Improvement Account) for costs and expenses of the Upgrade Project.

The Authority incurred interest costs of \$88,477 in 2012.

LOWER ALLEN TOWNSHIP AUTHORITY
NOTES TO FINANCIAL STATEMENTS

Note 4. Long-Term Debt (Continued)

Annual debt service requirements to maturity for the Guaranteed Sewer Revenue Bond-Series 2012 are shown below. Debt service requirements for the years 2023 to 2032 assume the maximum interest rate of 5%.

Year	Principal	Interest	Total
2013	185,000	152,133	337,133
2014	190,000	146,320	336,320
2015	195,000	140,353	335,353
2016	200,000	134,230	334,230
2017	205,000	127,952	332,952
2018-2022	1,140,000	564,947	1,704,947
2023-2027	1,335,000	558,625	1,893,625
2028-2031	1,550,000	198,750	1,748,750
	<u>\$ 5,000,000</u>	<u>\$ 2,023,310</u>	<u>\$ 7,023,310</u>

Changes in long-term debt for the year ended December 31, 2012 are as follows:

	Balance at December 31, 2011	Additions	Reductions	Balance at December 31, 2012	Due Within One Year
Guaranteed Sewer Revenue					
Bond Series of 2011	8,000,000		(255,000)	7,745,000	265,000
Less:					
Deferred Amount of Refunding-Series of 2009	(18,560)		7,551	(11,009)	-
Total Series 2011	<u>7,981,440</u>	<u>-</u>	<u>(247,449)</u>	<u>7,733,991</u>	<u>265,000</u>
Guaranteed Sewer Revenue					
Bond Series of 2012	-	5,000,000	-	5,000,000	185,000
Total	<u>\$7,981,440</u>	<u>\$ 5,000,000</u>	<u>\$ (247,449)</u>	<u>\$12,733,991</u>	<u>\$450,000</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 6.55% of annual covered payroll. Unless otherwise indicated, the plan information in this note is provided as of the latest actuarial valuation, January 1, 2013.

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

	Amount
Annual required contribution	\$ 276,287
Interest on net pension obligation (prior year)	(9,702)
Adjustment of annual required contribution	14,926
Annual pension cost	281,511
Contributions made	316,287
Increase (decrease) in net pension obligation	(34,776)
Net pension obligation (Asset) - January 1, 2012	(133,828)
Net pension obligation (Asset) - December 31, 2012	\$ (168,604)

Three-Year Trend Information

	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
Years Ending December 31:			
2010	\$ 296,226	113.30%	\$ (51,503)
2011	\$ 253,315	132.50%	\$ (133,828)
2012	\$ 281,511	112.40%	\$ (168,604)

During 2012, 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, 2013, the most recent actuarial valuation date, the plan was 78% funded. The actuarial accrued liability for benefits was \$4,294,131, and the actuarial value of assets was \$3,364,960, resulting in an unfunded actuarial accrued liability of \$929,171. The covered payroll (annual payroll of active employees covered by the plan) was \$1,566,002. The ratio of the unfunded actuarial accrued liability to the covered payroll was 59%.

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 9 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 \$53,378. The Authority did not make a discretionary contribution for the year ended December 31, 2012.

Note 7. Capitalized Interest

The Authority incurred interest costs of \$438,108 for the year ended December 31, 2012. Of that amount \$177,974 was capitalized as a cost of construction.

Note 8. Related Party Transactions

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

LOWER ALLEN TOWNSHIP AUTHORITY
NOTES TO FINANCIAL STATEMENTS

Note 9. Major Customers

Sales to one customers comprised 27.27% of the net sewer rental revenue for the year ended December 31, 2012.

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. Prior Period Adjustment

During 2012, the Authority determined that it should have recognized an asset (net pension asset) in its previously issued financial statements. The net pension asset represents the excess of the Authority's contributions to the defined benefit pension plan over the annual pension cost as determined by the biennial actuarial valuation of the plan. Net position at December 31, 2011 has been restated to reflect prior year's excess contributions in the amount of \$133,828. During 2012, pension expense was reported based on the annual pension cost and the net pension asset was adjusted to reflect differences between the actual contribution made and the annual pension cost.

Note 12. Commitments

The Authority has awarded various contracts for the treatment plant Upgrade Project. The commitment under these contracts at December 31, 2012 is approximately \$5,533,000. On September 18, 2012, the Authority awarded a contract for Windsor Park Pump Station project in the amount of \$428,450. The Authority is committed to the full amount of the contract at December 31 2012.

Note 13. Subsequent Events

On May 15, 2013, the Authority approved a Second Supplemental Resolution providing for the issuance of a Guaranteed Sewer Revenue Bond-Series 2013 in the amount of \$7,480,000. The bond was issued to provide funds for the refunding of the Guaranteed Sewer Revenue Bond-Series of 2011. The Bond will bear interest at the rate of 3.15% and shall mature in the same manner as provided in the Series of 2011 Bond. The 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.

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)
1/1/08	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%
1/1/12	N/A	N/A	N/A	N/A	N/A	N/A
1/1/13	\$3,364,960	\$4,294,131	\$929,171	78.00%	\$1,566,002	59%

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

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Sewer System Operating Account	Maintenance and Improvement Account
\$ 1,163,913	\$ 7,123,918
133,541	-
6,591	-
-	4,547,579
<u>1,304,045</u>	<u>11,671,497</u>
28,754,216	-
65,733	-
66,113	-
168,604	-
<u>30,358,711</u>	<u>11,671,497</u>
52,004	-
4,547,579	-
944,164	-
79,802	-
47,278	-
6,389	-
63,241	-
40,892	-
450,000	-
<u>6,231,349</u>	-
12,283,991	-
<u>18,515,340</u>	-
16,020,225	2,774,701
(4,176,854)	8,896,796
<u>11,843,371</u>	<u>11,671,497</u>
<u>\$ 30,358,711</u>	<u>\$ 11,671,497</u>

LOWER ALLEN TOWNSHIP AUTHORITY

**COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
Year Ended December 31, 2012**

	Total	Sewer System Operating Account	Maintenance and Improvement Account
Operating Revenues			
Sewer rents	\$ 3,935,270	\$ 3,935,270	\$ -
Miscellaneous charges	45,238	45,238	-
	<u>3,980,508</u>	<u>3,980,508</u>	<u>-</u>
Operating Expenses			
Collection system	189,597	189,597	-
Disposal system	2,281,368	2,281,368	-
Adminstration	1,150,755	1,150,755	-
Amortization	5,710	5,710	-
Depreciation	996,812	996,812	-
	<u>4,624,242</u>	<u>4,624,242</u>	<u>-</u>
Net operating loss	(643,734)	(643,734)	-
Nonoperating Revenues (Expenses)			
Gain (loss) on disposal of fixed assets	9,820	9,820	-
Investment income	52,731	912	51,819
Interest expense	(267,685)	(267,685)	-
Tapping fees	1,250,327	-	1,250,327
Operating transfers in (out)	-	(571,589)	571,589
	<u>1,045,193</u>	<u>(828,542)</u>	<u>1,873,735</u>
Income (Loss) before capital contributions	401,459	(1,472,276)	1,873,735
Capital contributions	<u>4,249,570</u>	<u>4,249,570</u>	<u>-</u>
Change in net position	4,651,029	2,777,294	1,873,735
Net Position:			
January 1, 2012	18,730,011	8,932,249	9,797,762
Prior period adjustment	133,828	133,828	-
January 1, 2012, as restated	<u>18,863,839</u>	<u>9,066,077</u>	<u>9,797,762</u>
December 31, 2012	<u>\$ 23,514,868</u>	<u>\$ 11,843,371</u>	<u>\$ 11,671,497</u>

LOWER ALLEN TOWNSHIP AUTHORITY

COMBINING STATEMENT OF CASH FLOWS
Year Ended December 31, 2012

	Total	Sewer System Operating Account	Maintenance and Improvement Account
Cash Flows From Operating Activities			
Cash received from customers	\$ 3,767,281	\$ 3,767,281	\$ -
Cash payments for goods and services	(1,138,049)	(1,138,049)	-
Cash payments to employee related expenses	(2,516,489)	(2,516,489)	-
Net cash provided by operating activities	<u>112,743</u>	<u>112,743</u>	<u>-</u>
Cash Flows From Capital and Related Financing Activities			
Internal activity fund transfers	-	655,603	(655,603)
Purchases of property, plant and equipment	(8,590,277)	(8,590,277)	-
Proceeds from sewer revenue bond	5,000,000	5,000,000	-
Principal payments on sewer revenue bond	(255,000)	(255,000)	-
Interest paid on sewer revenue bonds	(419,958)	(419,958)	-
Debt issuance costs	(68,246)	(68,246)	-
Tapping fees	1,250,327	-	1,250,327
Contributions of capital	4,029,957	4,029,957	-
Proceeds from sale of fixed assets	9,820	9,820	-
Net cash provided by capital and related financing activities	<u>956,623</u>	<u>361,899</u>	<u>594,724</u>
Cash Flows From Investing Activities			
Investment income	52,731	912	51,819
Net cash provided by investing activities	<u>52,731</u>	<u>912</u>	<u>51,819</u>
Net increase in cash and cash equivalents	1,122,097	475,554	646,543
Cash and Cash Equivalents:			
January 1, 2012	7,165,734	688,359	6,477,375
December 31, 2012	<u>\$ 8,287,831</u>	<u>\$ 1,163,913</u>	<u>\$ 7,123,918</u>

(Continued)

LOWER ALLEN TOWNSHIP AUTHORITY

COMBINING STATEMENT OF CASH FLOWS (continued)
Year Ended December 31, 2012

	<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	\$ (643,734)	\$ (643,734)	\$ -
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Amortization	5,710	5,710	-
Depreciation	996,812	996,812	-
Changes in assets and liabilities:			
(Increase) decrease in:			
Accounts receivable	(2,804)	(2,804)	-
Other receivables	(6,591)	(6,591)	-
Net pension asset	(34,776)	(34,776)	-
(Decrease) increase in:			
Accounts payable	(8,208)	(8,208)	-
Escrow deposits	(203,832)	(203,832)	-
Accrued expenses	10,166	10,166	-
Net cash provided by operating activities	<u>\$ 112,743</u>	<u>\$ 112,743</u>	<u>\$ -</u>

LOWER ALLEN TOWNSHIP AUTHORITY

SCHEDULE OF SEWER RENTS
Year Ended December 31, 2012

Lower Allen Township	\$ 2,365,689
Borough of Shiremanstown	181,282
State Correctional Institution	214,078
Upper Allen Township	1,073,306
Fairview Township	98,313
Hampden Township	2,602
Total sewer rents revenue	<u>\$ 3,935,270</u>

LOWER ALLEN TOWNSHIP AUTHORITY

SCHEDULE OF OPERATING EXPENSES
Year Ended December 31, 2012

Collection System	
Salaries and wages	\$ 113,408
Payroll taxes	9,112
Material and supplies	13,763
Fuel, light and water	13,761
General expenses	15,382
Maintenance and repairs	5,811
Vehicle operating expenses	18,360
Total collection system	<u>189,597</u>
Disposal System	
Salaries and wages	1,356,610
Payroll taxes	109,353
Materials and supplies	31,277
Fuel, light and water	427,438
Chemicals for sewage treatment	163,880
General expense	61,145
Maintenance and repairs	65,339
Engineering	1,215
Sludge disposal	49,260
Vehicle operating expenses	15,851
Total disposal system	<u>2,281,368</u>
Adminstration	
Salaries and wages	106,092
Payroll taxes	9,965
Purchased services	46,075
Authority salaries	18,000
Office supplies and postage	4,269
Data processing	1,150
General expense	10,638
Employee benefits and compensated absences	804,115
Insurance	82,972
Auditing and accounting expense	26,950
Legal expense	24,298
Communication expense	14,825
Equipment rental	1,406
Total administration	<u>1,150,755</u>
Amortization	5,710
Depreciation	996,812
Total operating expenses	<u>\$ 4,624,242</u>