

**LOWER ALLEN TOWNSHIP AUTHORITY**

**FINANCIAL REPORT**

**DECEMBER 31, 2013**

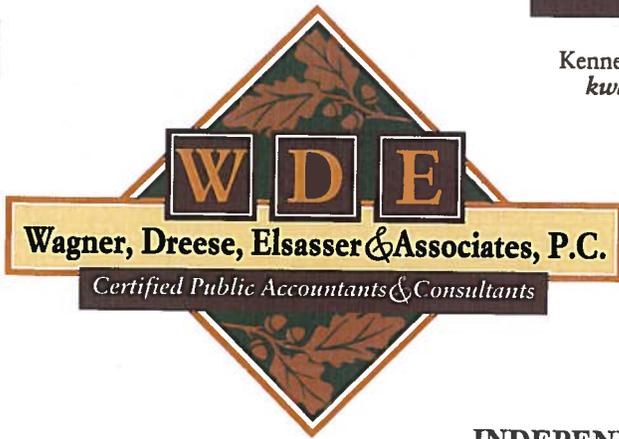
## CONTENTS

<u>INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION</u>	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-6
FINANCIAL STATEMENTS	
Combined Balance Sheet	7
Combined Statement of Revenues, Expenses, And Changes in Net Position	8
Combined Statement of Cash Flows	9-10
Notes to Financial Statements	11-20
REQUIRED SUPPLEMENTARY INFORMATION	21
<u>SUPPLEMENTARY INFORMATION</u>	
Combining Balance Sheet	22-23
Combining Statement of Revenues, Expenses, And Changes in Net Position	24
Combining Statement of Cash Flows	25-26
Schedule of Sewer Rents	27
Schedule of Operating Expenses	28
<u>INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE</u>	29

Kenneth L. Wagner, Jr., CPA  
*kwagner@wdeapc.com*

Ronald P. Dreese, CPA/PFS  
*rdreese@wdeapc.com*

Brian L. Elsasser, CPA, CVA  
*belsasser@wdeapc.com*



## 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, 2013, 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, 2013, 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, Dreese, Elsassner & Associates, P.C.*

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

Certified Public Accountants

May 6, 2014

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**LOWER ALLEN TOWNSHIP AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2013**

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, 2013.

**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 net position reports the operating revenues and expenses of the Authority for the year with the difference, operating income or loss, being combined with non-operating income and expenses and any capital contributions to determine the change in net position for the year. That change combined with net position at the end of the previous year total to the net position 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, 2013**

**Condensed Financial Information**

Condensed financial information from the balance sheets as of December 31, 2013 and 2012 and from the statements of revenues, expenses and changes in net position for the years ended December 31, 2013 and 2012 are as follows:

	<u>December 31,</u>	
	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 5,149,960	\$ 8,728,413
Capital Assets	<u>34,432,814</u>	<u>28,754,216</u>
<b>Total assets</b>	<u>39,582,774</u>	<u>37,482,629</u>
Current liabilities	778,298	1,683,770
Long-term liabilities	<u>11,830,000</u>	<u>12,283,991</u>
<b>Total liabilities</b>	<u>12,608,298</u>	<u>13,967,761</u>
Net position:		
Net investment in capital assets	22,479,598	18,794,926
Unrestricted	<u>4,494,878</u>	<u>4,719,942</u>
<b>Total net position</b>	<u>\$ 26,974,476</u>	<u>\$ 23,514,868</u>
Operating revenue	\$ 4,234,981	\$ 3,980,508
Operating expenses	<u>4,612,088</u>	<u>4,624,242</u>
<b>Operating loss</b>	(377,107)	(643,734)
Non-operating income (expense)	<u>623,591</u>	<u>1,045,193</u>
<b>Income (Loss) before capital contributions</b>	246,484	401,459
Capital contributions	<u>3,355,980</u>	<u>4,249,570</u>
<b>Change in net position</b>	3,602,464	4,651,029
Net Position		
January 1	23,514,868	18,730,011
Prior period adjustment	<u>(142,856)</u>	<u>133,828</u>
January 1, as restated	<u>23,372,012</u>	<u>18,863,839</u>
December 31	<u>\$ 26,974,476</u>	<u>\$ 23,514,868</u>

**LOWER ALLEN TOWNSHIP AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2013**

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, 2013.

**Financial Highlights**

Authority cash and cash equivalents decreased from \$8,287,831 at the end of 2012 to \$4,788,074 at the end of 2013.

The Authority ended the year December 31, 2013 with a net position balance of \$26,974,476 of which \$22,479,598 represented the amount invested in capital assets and \$4,494,878 was unrestricted. Before depreciation, net position increased by \$4,626,012, as compared to an increase of \$5,653,651 in 2012. After depreciation, net position increased \$3,602,464 compared to an increase of \$4,651,029 in 2012.

Current liabilities for 2013 are \$905,472 lower than the 2012 liabilities.

Long-term liabilities decreased \$453,991 due to principal payments.

Operating revenues were \$254,473 or 6.4 % higher in 2013 than the previous year.

Operating expenses decreased by \$12,154 from 2012 to 2013.

**Revenue**

Operating revenues of \$4,234,981 for 2013 increased from the 2012 level of \$3,980,508. 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 \$65 per quarter for residential and nonresidential base fee plus \$3.80 per 1,000 gallons per quarter nonresidential consumption were approved starting on January 1, 2013. Non-operating revenues decreased by approximately \$1,315,192. This decrease was mainly due to decreases in capital contributions of \$893,590, investment income of approximately \$44,034, tapping fees of \$608,246 and gain on disposal of fixed assets of \$9,820. These decreases were offset by a decrease in interest expense of approximately \$240,500.

**Expenses**

The operating expenses for 2013 were \$4,612,088 as compared to \$4,624,242 for 2012. 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, 2013**

**Expenses (Continued)**

Providing wastewater treatment service is labor intensive and the experienced costs are common. During 2013 the Authority's expenses decreased by 2 percent for labor and associated cost, 1 percent for electrical power and 25 percent for treatment chemicals. Depreciation of capital assets continues to be a large operating expenses at \$1,023,548 in 2013.

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, 2013 and 2012 amounted to \$34,432,814 and \$28,754,216 (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 Phase 2 Upgrade Project was substantially complete in July 2013. The Authority placed \$138,417 of sewers, \$528,166 of plant and pumping stations and \$51,399 of equipment in service in 2013. The Authority received \$3,555,980 in capital contributions in 2013. Of that amount, \$3,220,999 was received from other governmental entities and \$134,981 was received from developers.

**Debt**

The Authority's outstanding long term debt was \$12,295,000 at the end of 2013. The debt service total principal and interest payment in 2013 was \$892,423. 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. 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 the Guaranteed Sewer Revenue Bond-Series 2013 in the amount of \$7,480,000 to replace the Series of 2011 Bond through an interest rate reduction agreement with the Bondholder. This reissuance of debt resulted in a net savings of approximately \$1,018,000.

**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, 2013

**ASSETS**

Current Assets

Cash and cash equivalents	\$ 4,788,074
Sanitary sewer rents receivable	137,073
Other receivables	22,791
<b>Total current assets</b>	<u>4,947,938</u>

Property, plant and equipment - net of accumulated depreciation	34,432,814
--	------------

Net pension asset	<u>202,022</u>
-------------------	----------------

<b>Total assets</b>	<u><u>39,582,774</u></u>
---------------------	--------------------------

**LIABILITIES AND NET POSITION**

Current Liabilities

Accounts payable	66,216
Requisitions payable	23,437
Accrued payroll	75,007
Accrued compensated absences	50,411
Accrued and withheld payroll taxes	6,382
Accrued interest	48,639
Escrow deposits	43,206
Current maturities of Sewer Revenue Bonds	465,000
<b>Total current liabilities</b>	<u>778,298</u>

Guaranteed Sewer Revenue Bonds-Series 2012 and 2013	11,830,000
<b>Total liabilities</b>	<u>12,608,298</u>

Net Position

Net investment in capital assets	22,479,598
Unrestricted	4,494,878
<b>Total net position</b>	<u>26,974,476</u>

<b>Total liabilities and net position</b>	<u><u>\$ 39,582,774</u></u>
---	-----------------------------

See Notes to Financial Statements.

LOWER ALLEN TOWNSHIP AUTHORITY

COMBINED STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN NET POSITION  
Year Ended December 31, 2013

Operating Revenues	
Sewer rents	\$ 4,200,667
Miscellaneous charges	34,314
	<u>4,234,981</u>
Operating Expenses	
Collection system	191,947
Disposal system	2,266,214
Administration	1,130,379
Depreciation	1,023,548
	<u>4,612,088</u>
<b>Operating loss</b>	(377,107)
Nonoperating Revenues (Expenses)	
Investment income	8,697
Interest expense	(27,187)
Tapping fees	642,081
	<u>623,591</u>
<b>Income before capital contributions</b>	246,484
Capital contributions	<u>3,355,980</u>
<b>Change in net position</b>	3,602,464
Net Position:	
January 1, 2013	23,514,868
Prior period adjustment	(142,856)
January 1, 2013, as restated	<u>23,372,012</u>
December 31, 2013	<u>\$ 26,974,476</u>

See Notes to Financial Statements.

LOWER ALLEN TOWNSHIP AUTHORITY

COMBINED STATEMENT OF CASH FLOWS  
Year Ended December 31, 2013

Cash Flows From Operating Activities	
Cash received from customers	\$ 4,234,856
Cash payments for goods and services	(1,130,314)
Cash payments to employee related expenses	(2,479,101)
<b>Net cash provided by operating activities</b>	<u>625,441</u>
Cash Flows From Capital and Related Financing Activities	
Purchase of property, plant and equipment	(7,087,259)
Proceeds from sewer revenue bond	7,480,000
Principal payments on sewer revenue bonds	(7,930,000)
Interest paid on sewer revenue bonds	(442,423)
Tapping fees	642,081
Contributions of capital	3,203,706
<b>Net cash used in capital and related financing activities</b>	<u>(4,133,895)</u>
Cash Flows From Investing Activities	
Investment income	8,697
<b>Net cash provided by investing activities</b>	<u>8,697</u>
<b>Net decrease in cash and cash equivalents</b>	(3,499,757)
Cash and Cash Equivalents:	
January 1, 2013	8,287,831
December 31, 2013	<u>\$ 4,788,074</u>

(Continued)

**COMBINED STATEMENT OF CASH FLOWS (Continued)**  
**Year Ended December 31, 2013**

Reconciliation of Operating Loss to Net	
Cash provided by Operating Activities	
Operating loss	\$ (377,107)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	1,023,548
Changes in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	(3,532)
Other receivables	1,093
Net pension asset	(33,418)
(Decrease) increase in:	
Accounts payable	14,212
Escrow deposits	2,314
Accrued expenses	(1,669)
<b>Net cash provided by operating activities</b>	<u><u>\$ 625,441</u></u>
Noncash Investing, Capital and Financing Activities:	
Capital Contributions	<u><u>\$ 134,981</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 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 position, net 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 Position is 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, except any portion related to prepaid insurance costs, are recognized as an expense in the period incurred.

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 savings accounts, certificates of deposit or obligations of the U.S. Treasury, agencies and instrumentalities of the U.S. government, the Commonwealth of Pennsylvania or any state agency or any Pennsylvania political subdivision, or shares of mutual funds whose investments are restricted to the above categories.

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)	\$ 250,200	\$ 250,200
Uninsured and collateral held by pledging financial institution, or agent not in the Authority's name.	4,537,874	4,599,590
	\$ 4,788,074	\$ 4,849,790

Investments: The Authority held no investments at December 31, 2013.

**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, 2012	Additions	Reductions	Balance at December 31, 2013
Property, Plant and Equipment not being depreciated:				
Land and rights of ways	\$ 224,720	\$ -	\$ -	\$ 224,720
Construction-in-progress	10,206,530	6,499,859	(515,695)	16,190,694
Total Property, Plant and Equipment not being depreciated	<u>10,431,250</u>	<u>6,499,859</u>	<u>(515,695)</u>	<u>16,415,414</u>
Property, Plant and Equipment being depreciated:				
Sewer systems	17,679,215	138,417	-	17,817,632
Plant and pumping stations	27,205,920	528,166	-	27,734,086
Equipment	1,709,363	51,399	(53,174)	1,707,588
Total Property, Plant and Equipment being depreciated	<u>46,594,498</u>	<u>717,982</u>	<u>(53,174)</u>	<u>47,259,306</u>
Less accumulated depreciation for:				
Sewer systems	13,336,840	349,402	-	13,686,242
Plant and pumping stations	13,457,144	607,454	-	14,064,598
Equipment	1,477,548	66,692	(53,174)	1,491,066
Total accumulated depreciation	<u>28,271,532</u>	<u>1,023,548</u>	<u>(53,174)</u>	<u>29,241,906</u>
Total Property, Plant and Equipment being depreciated-net	<u>18,322,966</u>	<u>(305,566)</u>	<u>-</u>	<u>18,017,400</u>
Net Property, Plant and Equipment	<u><u>\$28,754,216</u></u>	<u><u>\$ 6,194,293</u></u>	<u><u>\$ (515,695)</u></u>	<u><u>\$34,432,814</u></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.

On May 15, 2013, the Series of 2011 Bond was reissued through an agreement between the Authority and the Bond holder. The Series of 2011 Bond was replaced by the Guaranteed Sewer Revenue Bond-Series of 2013 in order to provide for a lower interest rate.

The Authority incurred interest costs related to the Series of 2011 Bond of \$128,627 in 2013.

##### 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.

**LOWER ALLEN TOWNSHIP AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**Note 4. Long-Term Debt (Continued)**

The Authority incurred interest costs related to the Series of 2012 Bond of \$151,376 in 2013.

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
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	215,000	121,442	336,442
2019-2023	1,175,000	581,505	1,756,505
2024-2028	1,375,000	490,875	1,865,875
2029-2032	1,260,000	128,500	1,388,500
	<u>\$ 4,815,000</u>	<u>\$ 1,871,177</u>	<u>\$ 6,686,177</u>

Guaranteed Sewer Revenue Bond-Series 2013

The Guaranteed Sewer Revenue Bond-Series of 2013 was issued to replace the Series of 2011 Bond through an interest rate reduction agreement between the Authority and the Bondholder. The \$7,480,000 bond is secured by a pledge 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 and taxing power. The Bond was issued to provide funding for upgrades and improvements to the existing wastewater treatment plant and related facilities (Upgrade Project). Principal payments are to be made annually on May 15 of each of the years 2014 to 2031 inclusive, or until paid in full. Interest is due on May 15, 2014 and thereafter semiannually on November 15 and May 15 of each year, until final maturity on May 15, 2031, or until paid in full. The Bond bears interest at a rate of 3.150%. Debt issuance costs in the amount of \$28,751 were funded by the Authority.

The cash flow requirements of the old debt (Series of 2011) were \$11,483,707 from November 15, 2013 to May 15, 2031. The cash flow requirements of the reissued debt (Series of 2013) from November 15, 2013 to May 15, 2031 are \$10,436,296. The difference between the cash flow requirements of the old and reissued debt less debt issuance costs resulted in a net savings of \$1,018,660.

**LOWER ALLEN TOWNSHIP AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 4. Long-Term Debt (Continued)**

The Authority incurred interest costs related to the Series of 2013 Bond of \$147,818 in 2013.

Annual debt service requirements to maturity for the Guaranteed Sewer Revenue Bond-Series 2013 are shown below:

Year	Principal	Interest	Total
2014	275,000	231,289	506,289
2015	290,000	222,390	512,390
2016	305,000	213,019	518,019
2017	315,000	203,254	518,254
2018	330,000	193,095	523,095
2019-2023	1,895,000	795,769	2,690,769
2024-2028	2,375,000	460,294	2,835,294
2029-2031	1,695,000	81,664	1,776,664
	<u>\$ 7,480,000</u>	<u>\$ 2,400,774</u>	<u>\$ 9,880,774</u>

Changes in long-term debt for the year ended December 31, 2013 are as follows:

	Balance at December 31, 2012	Additions	Reductions	Balance at December 31, 2013	Due Within One Year
Guaranteed Sewer Revenue Bond Series of 2011	7,745,000		(7,745,000)	-	-
Less: Deferred Amount of Refunding-Series of 2009	(11,009)		11,009	-	-
Total Series 2011	<u>7,733,991</u>	<u>-</u>	<u>(7,733,991)</u>	<u>-</u>	<u>-</u>
Guaranteed Sewer Revenue Bond Series of 2012	<u>5,000,000</u>	<u>-</u>	<u>(185,000)</u>	<u>4,815,000</u>	<u>190,000</u>
Guaranteed Sewer Revenue Bond Series of 2013	<u>-</u>	<u>7,480,000</u>	<u>-</u>	<u>7,480,000</u>	<u>275,000</u>
Total	<u>\$12,733,991</u>	<u>\$ 7,480,000</u>	<u>\$(7,918,991)</u>	<u>\$12,295,000</u>	<u>\$465,000</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, 2013.

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

	Amount
Annual required contribution	\$ 264,689
Interest on net pension obligation (prior year)	(12,223)
Adjustment of annual required contribution	18,805
Annual pension cost	271,271
Contributions made	304,689
Increase (decrease) in net pension obligation	(33,418)
Net pension obligation (Asset) - January 1, 2013	(168,604)
Net pension obligation (Asset) - December 31, 2013	<u>\$ (202,022)</u>

**Three-Year Trend Information**

	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
Years Ending December 31:			
2011	\$ 253,315	132.50%	\$ (133,828)
2012	\$ 281,511	112.40%	\$ (168,604)
2013	\$ 271,271	112.30%	\$ (202,022)

During 2013, 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.

On October 3, 2013, the plan was amended to freeze entry into the plan to employees hired or rehired after October 3, 2013. All employees who are active participants in the plan on October 3, 2013 shall continue to participate in the plan.

**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, 2013, the participants deferred compensation in the amount of \$53,821. The Authority did not make a discretionary contribution for the year ended December 31, 2013.

On October 3, 2013, the plan was amended to provide for an Employer Discretionary Contribution for each person who is hired or rehired on or after October 3, 2013. The Discretionary Contribution is based on a percentage of salary or wages determined by years of service.

**Note 7. Capitalized Interest**

The Authority incurred interest costs of \$427,821 for the year ended December 31, 2013. Of that amount \$400,634 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 customer comprised 17.97% of the net sewer rental revenue for the year ended December 31, 2013.

#### **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 2013, the Authority implemented GASB Statement No. 65- Items Previously Reported as Assets and Liabilities. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also requires that debt issue costs be recognized as an expense in the period incurred. GASB Statement No. 65 is effective for financial statements of periods beginning after December 15, 2012. Previous standards required that Bond issue costs be recorded as an asset and amortized over the life of the related debt. Net Position at December 31, 2012 has been restated to remove the unamortized portion of issue costs from the Series of 2009 Note, and 2011 and 2012 Bonds in the amount of \$142,856. Bond issue costs incurred in future years will be expensed in the period incurred.

#### **Note 12. Commitments**

The Authority has awarded various contracts for the treatment plant Upgrade Project. The commitment under these contracts at December 31, 2013 is approximately \$333,000.

**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**

**LOWER ALLEN TOWNSHIP AUTHORITY**

**COMBINING BALANCE SHEET  
December 31, 2013**

<b>ASSETS</b>	<u>Total</u>	<u>Eliminations</u>
Current Assets		
Cash and cash equivalents	\$ 4,788,074	\$ -
Sanitary sewer rents receivable	137,073	-
Other receivables	22,791	
Due from other funds	-	(5,178,135)
<b>Total current assets</b>	<u>4,947,938</u>	<u>(5,178,135)</u>
Property, plant and equipment - net of accumulated depreciation	34,432,814	-
Net pension asset	<u>202,022</u>	<u>-</u>
<b>Total assets</b>	<u><u>39,582,774</u></u>	<u><u>(5,178,135)</u></u>
 <b>LIABILITIES AND NET POSITION</b>		
Current Liabilities		
Accounts payable	66,216	-
Due to other funds	-	(5,178,135)
Requisitions payable	23,437	-
Accrued payroll	75,007	-
Accrued compensated absences	50,411	-
Accrued and withheld payroll taxes	6,382	-
Accrued interest	48,639	-
Escrow deposits	43,206	-
Current maturities of Sewer Revenue Bonds	465,000	-
<b>Total current liabilities</b>	<u>778,298</u>	<u>(5,178,135)</u>
Sewer Revenue Bonds-Series 2012 and 2013	11,830,000	-
<b>Total liabilities</b>	<u>12,608,298</u>	<u>(5,178,135)</u>
Net Position		
Net investment in capital assets	22,479,598	-
Unrestricted	4,494,878	-
<b>Total net position</b>	<u>26,974,476</u>	<u>-</u>
<b>Total liabilities and net position</b>	<u><u>\$ 39,582,774</u></u>	<u><u>\$ (5,178,135)</u></u>

Sewer System Operating Account	Maintenance and Improvement Account
\$ 973,572	\$ 3,814,502
137,073	-
22,791	-
-	5,178,135
<u>1,133,436</u>	<u>8,992,637</u>
34,432,814	-
202,022	-
<u>35,768,272</u>	<u>8,992,637</u>
66,216	-
5,178,135	-
23,437	-
75,007	-
50,411	-
6,382	-
48,639	-
43,206	-
465,000	-
<u>5,956,433</u>	-
11,830,000	-
<u>17,786,433</u>	-
22,137,814	341,784
(4,155,975)	8,650,853
<u>17,981,839</u>	<u>8,992,637</u>
<u>\$ 35,768,272</u>	<u>\$ 8,992,637</u>

**LOWER ALLEN TOWNSHIP AUTHORITY**

**COMBINING STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN NET POSITION**

**Year Ended December 31, 2013**

	Total	Sewer System Operating Account	Maintenance and Improvement Account
<b>Operating Revenues</b>			
Sewer rents	\$ 4,200,667	\$ 4,200,667	\$ -
Miscellaneous charges	34,314	34,314	-
	<u>4,234,981</u>	<u>4,234,981</u>	<u>-</u>
<b>Operating Expenses</b>			
Collection system	191,947	191,947	-
Disposal system	2,266,214	2,266,214	-
Adminstration	1,130,379	1,130,379	-
Depreciation	1,023,548	1,023,548	-
	<u>4,612,088</u>	<u>4,612,088</u>	<u>-</u>
<b>Net operating loss</b>	(377,107)	(377,107)	-
<b>Nonoperating Revenues (Expenses)</b>			
Investment income	8,697	708	7,989
Interest expense	(27,187)	(27,187)	-
Tapping fees	642,081	-	642,081
Operating transfers in (out)	-	3,328,930	(3,328,930)
	<u>623,591</u>	<u>3,302,451</u>	<u>(2,678,860)</u>
<b>Income (Loss) before capital contributions</b>	246,484	2,925,344	(2,678,860)
<b>Capital contributions</b>	<u>3,355,980</u>	<u>3,355,980</u>	<u>-</u>
<b>Change in net position</b>	3,602,464	6,281,324	(2,678,860)
<b>Net Position:</b>			
January 1, 2013	23,514,868	11,843,371	11,671,497
Prior period adjustment	(142,856)	(142,856)	-
January 1, 2013, as restated	<u>23,372,012</u>	<u>11,700,515</u>	<u>11,671,497</u>
December 31, 2013	<u>26,974,476</u>	<u>\$ 17,981,839</u>	<u>\$ 8,992,637</u>

**LOWER ALLEN TOWNSHIP AUTHORITY**

**COMBINING STATEMENT OF CASH FLOWS**  
**Year Ended December 31, 2013**

	Total	Sewer System Operating Account	Maintenance and Improvement Account
<b>Cash Flows From Operating Activities</b>			
Cash received from customers	\$ 4,234,856	\$ 4,234,856	\$ -
Cash payments for goods and services	(1,130,314)	(1,130,314)	-
Cash payments to employee related expenses	(2,479,101)	(2,479,101)	-
<b>Net cash provided by operating activities</b>	<u>625,441</u>	<u>625,441</u>	<u>-</u>
<b>Cash Flows From Capital and Related Financing Activities</b>			
Internal activity fund transfers	-	3,959,486	(3,959,486)
Purchases of property, plant and equipment	(7,087,259)	(7,087,259)	-
Proceeds from sewer revenue bond	7,480,000	7,480,000	-
Principal payments on sewer revenue bonds	(7,930,000)	(7,930,000)	-
Interest paid on sewer revenue bonds	(442,423)	(442,423)	-
Tapping fees	642,081	-	642,081
Contributions of capital	3,203,706	3,203,706	-
<b>Net cash used in capital and related financing activities</b>	<u>(4,133,895)</u>	<u>(816,490)</u>	<u>(3,317,405)</u>
<b>Cash Flows From Investing Activities</b>			
Investment income	8,697	708	7,989
<b>Net cash provided by investing activities</b>	<u>8,697</u>	<u>708</u>	<u>7,989</u>
<b>Net decrease in cash and cash equivalents</b>	(3,499,757)	(190,341)	(3,309,416)
<b>Cash and Cash Equivalents:</b>			
January 1, 2013	8,287,831	1,163,913	7,123,918
December 31, 2013	<u>\$ 4,788,074</u>	<u>\$ 973,572</u>	<u>\$ 3,814,502</u>

(Continued)

**LOWER ALLEN TOWNSHIP AUTHORITY**

**COMBINING STATEMENT OF CASH FLOWS (continued)  
Year Ended December 31, 2013**

	Total	Sewer System Operating Account	Maintenance and Improvement Account
Reconciliation of Operating Loss to Net Cash provided by Operating Activities			
Operating loss	\$ (377,107)	\$ (377,107)	\$ -
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	1,023,548	1,023,548	-
Changes in assets and liabilities:			
(Increase) decrease in:			
Accounts receivable	(3,532)	(3,532)	-
Other receivables	1,093	1,093	-
Net pension asset	(33,418)	(33,418)	-
(Decrease) increase in:			
Accounts payable	14,212	14,212	-
Escrow deposits	2,314	2,314	-
Accrued expenses	(1,669)	(1,669)	-
<b>Net cash provided by operating activities</b>	<b>\$ 625,441</b>	<b>\$ 625,441</b>	<b>\$ -</b>

LOWER ALLEN TOWNSHIP AUTHORITY

SCHEDULE OF SEWER RENTS  
Year Ended December 31, 2013

Lower Allen Township	\$ 2,728,433
Borough of Shiremanstown	212,998
State Correctional Institution	352,263
Upper Allen Township	754,754
Fairview Township	150,222
Hampden Township	1,997
<b>Total sewer rents revenue</b>	<u>\$ 4,200,667</u>

**LOWER ALLEN TOWNSHIP AUTHORITY**

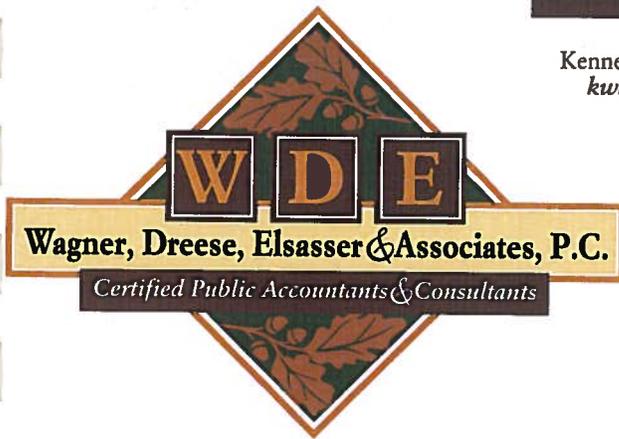
**SCHEDULE OF OPERATING EXPENSES  
Year Ended December 31, 2013**

Collection System	
Salaries and wages	\$ 113,023
Payroll taxes	9,199
Material and supplies	4,167
Fuel, light and water	17,371
General expenses	1,875
Maintenance and repairs	8,867
Engineering	26,695
Vehicle operating expenses	10,750
<b>Total collection system</b>	<u>191,947</u>
 Disposal System	
Salaries and wages	1,356,106
Payroll taxes	109,210
Materials and supplies	52,807
Fuel, light and water	419,044
Chemicals for sewage treatment	151,209
General expense	54,767
Maintenance and repairs	79,619
Sludge disposal	31,212
Vehicle operating expenses	12,240
<b>Total disposal system</b>	<u>2,266,214</u>
 Adminstration	
Salaries and wages	106,988
Payroll taxes	10,091
Purchased services	46,075
Authority salaries	18,300
Office supplies and postage	3,534
Data processing	700
General expense	22,771
Employee benefits and compensated absences	754,515
Insurance	90,001
Auditing and accounting expense	27,000
Legal expense	38,985
Communication expense	10,013
Equipment rental	1,406
<b>Total administration</b>	<u>1,130,379</u>
 Depreciation	1,023,548
<b>Total operating expenses</b>	<u><u>\$ 4,612,088</u></u>

Kenneth L. Wagner, Jr., CPA  
*kwagner@wdeapc.com*

Ronald P. Dreese, CPA/PFS  
*rdreese@wdeapc.com*

Brian L. Elsasser, CPA, CVA  
*belsasser@wdeapc.com*



## 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, 2013, and the related combined statements of revenues, expenses and changes in net position and cash flows for the year then ended, and have issued our report thereon dated May 6, 2014.

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, the First Supplemental Resolution dated June 5, 2012, and the Second Supplemental Resolution dated May 2, 2013 securing the Guaranteed Sewer Revenue Bonds—Series of 2011, 2012 and 2013 insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Authority's noncompliance with the above referenced terms, covenants, provisions, or conditions of the resolutions, insofar as they relate to accounting matters.

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.

*Wagner, Dreese, Elsasser & Associates, P.C.*

WAGNER, DREESE, ELSASSER & ASSOCIATES, P.C.  
Certified Public Accountants  
May 6, 2014