

FAIRVIEW TOWNSHIP AUTHORITY
(a component unit of Fairview Township)

YEAR ENDED DECEMBER 31, 2011

FAIRVIEW TOWNSHIP AUTHORITY
(a component unit of Fairview Township)

YEAR ENDED DECEMBER 31, 2011

CONTENTS

| | Page |
|--|-------|
| Independent auditors' report | 1-2 |
| Management's discussion and analysis (unaudited) | 3-6 |
| Basic financial statements: | |
| Statement of net assets - proprietary funds | 7 |
| Statement of revenues, expenses and changes in net assets - proprietary funds | 8 |
| Statement of cash flows - proprietary funds | 9 |
| Notes to financial statements | 10-14 |
| Supplemental information: | |
| Combining statement of revenues, expenses and changes in net assets - Series of 2001 | 15 |
| Independent auditors' report on compliance with bond trust indentures | 16 |



Independent Auditors' Report

Members of the Authority
Fairview Township Authority
New Cumberland, Pennsylvania

We have audited the accompanying financial statements of the business-type activities and each major fund of the Fairview Township Authority, a component unit of Fairview Township, as of and for the year ended December 31, 2011, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the above-mentioned financial statements present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Fairview Township Authority, as of December 31, 2011, and the respective changes in financial position and cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a required 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 response 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 assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fairview Township Authority's financial statements as a whole. The combining financial statement listed in the table of contents is presented for purposes of additional analysis and are not a required part of the financial statements. The combining financial statement is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Brown Schulte Steindorff & Fritz

March 6, 2012

FAIRVIEW TOWNSHIP AUTHORITY
(a component unit of Fairview Township)

MANAGEMENT'S DISCUSSION AND ANALYSIS
(unaudited)

DECEMBER 31, 2011

Management of the Fairview Township Authority provides this discussion and analysis of the Authority's financial condition and operating activities for the year ended December 31, 2011. We encourage readers to consider this information in conjunction with the additional information that is furnished in the accompanying independent auditors' report and audited financial statements.

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

Financial highlights

Key financial highlights for 2011 are as follows:

Changes in net assets and long-term debt:

The Authority's total net assets decreased by \$1,424,305 during 2011 as a result of Fairview Township refinancing and paying off the lease rental debt it owed to the Authority. The Authority in turn, paid off the balance of the 2001 Bonds.

Required financial statements

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

FAIRVIEW TOWNSHIP AUTHORITY
(a component unit of Fairview Township)

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

DECEMBER 31, 2011

Financial analysis statement of net assets

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

| | <u>2011</u> | <u>2010</u> |
|---|----------------------|-----------------------------|
| Assets: | | |
| Cash and restricted cash | \$ 131 | \$ 1,499,032 |
| Accrued interest receivable | | 12 |
| Current portion of lease rental receivable | | 780,000 |
| Lease rental receivable, net of current portion | | <u>8,420,000</u> |
| Total assets | <u><u>\$ 131</u></u> | <u><u>\$ 10,699,044</u></u> |
| Liabilities: | | |
| Current portion of bonds payable | | \$ 780,000 |
| Accrued interest payable | | 74,608 |
| Bonds payable, long-term portion | | <u>8,420,000</u> |
| Total liabilities | | 9,274,608 |
| Net assets | <u><u>\$ 131</u></u> | <u><u>1,424,436</u></u> |
| Total liabilities and net assets | <u><u>\$ 131</u></u> | <u><u>\$ 10,699,044</u></u> |

FAIRVIEW TOWNSHIP AUTHORITY
(a component unit of Fairview Township)

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

DECEMBER 31, 2011

Statement of revenues and expenses

| | 2011 | 2010 |
|----------------------------------|-------------|--------------|
| Revenues and transfers in: | | |
| Lease rentals, interest portion | \$ 452,167 | \$ 485,010 |
| Investment income (loss) | 167 | (853) |
| Total revenues and transfers in | 452,334 | 484,157 |
| Expenses and transfers out: | | |
| Transfers to Fairview Township | 1,499,080 | 35 |
| Bank fees | | 25 |
| Interest expense | 377,559 | 479,230 |
| Total expenses and transfers out | 1,876,639 | 479,290 |
| Change in net assets | (1,424,305) | 4,867 |
| Net assets: | | |
| Beginning of year | 1,424,436 | 1,419,569 |
| End of year | \$ 131 | \$ 1,424,436 |

Significant events and projects

The Authority was established to finance projects to serve the residents of Fairview Township. The Authority leased the sewer system to Fairview Township through 2011 in exchange for the pledge of revenues generated by the system to meet the lease rental debt service payments. In 2011, the Township issued 2011 General Obligation Bonds to pay off the lease rental debt owed to the Authority under the lease rental debt agreement. The Authority in turn paid off the balance of the 2001 Bonds and is in the process of transferring all titles and deeds to the sewer system to the Township. The Authority will remain inactive until its possible use in the future for additional financing of Township projects.

FAIRVIEW TOWNSHIP AUTHORITY
(a component unit of Fairview Township)

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

DECEMBER 31, 2011

Contacting the Authority's financial offices

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

FAIRVIEW TOWNSHIP AUTHORITY
(a component unit of Fairview Township)

STATEMENT OF NET ASSETS – PROPRIETARY FUNDS

DECEMBER 31, 2011

| | <u>Administrative fund</u> | <u>Series of 2001</u> | <u>Totals</u> |
|---------------------------------|--------------------------------|---------------------------|---------------|
| Current assets, cash, operating | <u>\$ 131</u> | <u>\$ -</u> | <u>\$ 131</u> |
| Net assets, unrestricted | <u>\$ 131</u> | <u>\$ -</u> | <u>\$ 131</u> |

See notes to financial statements.

FAIRVIEW TOWNSHIP AUTHORITY
(a component unit of Fairview Township)

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

YEAR ENDED DECEMBER 31, 2011

| | Administrative fund | Series of 2001 | Totals |
|---------------------------------------|------------------------|-------------------|-------------|
| Nonoperating revenues (expenses): | | | |
| Lease rental, interest portion | | \$ 452,167 | \$ 452,167 |
| Investment income | | 167 | 167 |
| Interest expense | | (377,559) | (377,559) |
| Total nonoperating revenues | | 74,775 | 74,775 |
| Change in net assets before transfers | | 74,775 | 74,775 |
| Transfers to Fairview Township | | (1,499,080) | (1,499,080) |
| Change in net assets | | (1,424,305) | (1,424,305) |
| Net assets: | | | |
| Beginning of year | \$ 131 | 1,424,305 | 1,424,436 |
| End of year | \$ 131 | \$ - | \$ 131 |

See notes to financial statements.

FAIRVIEW TOWNSHIP AUTHORITY
(a component unit of Fairview Township)

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

YEAR ENDED DECEMBER 31, 2011

| | Administrative fund | Series of 2001 | Totals |
|---|------------------------|-------------------|-------------|
| Cash flows from noncapital financing activities: | | | |
| Transfers to Fairview Township | | \$ (193) | \$ (193) |
| Rental income received | | 1,232,167 | 1,232,167 |
| Net cash provided by noncapital financing activities | | 1,231,974 | 1,231,974 |
| Cash flows from capital and related financing activities: | | | |
| Principal paid on bonds payable | | (9,200,000) | (9,200,000) |
| Proceeds to refinance 2001 bonds | | 6,921,113 | 6,921,113 |
| Interest paid on bonds payable | | (452,167) | (452,167) |
| Net cash used in capital and related financing activities | | (2,731,054) | (2,731,054) |
| Cash flows provided by investing activities, investment income | | 179 | 179 |
| Net decrease in cash | | (1,498,901) | (1,498,901) |
| Cash: | | | |
| Beginning of year | \$ 131 | 1,498,901 | 1,499,032 |
| End of year | \$ 131 | \$ - | \$ 131 |

See notes to financial statements.

FAIRVIEW TOWNSHIP AUTHORITY
(a component unit of Fairview Township)

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

1. Summary of significant accounting policies:

Reporting entity:

The Fairview Township Authority (the Authority) was created in 1963 and was organized under the laws governing authorities within the Commonwealth of Pennsylvania (Municipality Authorities Act of 1945). The Authority had the power to construct, finance, operate, maintain and lease sewer systems through 2011 when Fairview Township (the Township) paid off the balance of the lease rental debt and terminated the lease agreement. The Authority is in the process of transferring all titles and deeds for the sewer system to Fairview Township.

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

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

Fund financial statements:

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

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

FAIRVIEW TOWNSHIP AUTHORITY
(a component unit of Fairview Township)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2011

1. Summary of significant accounting policies (continued):

Measurement focus, basis of accounting and financial statement presentation:

The Authority uses the accrual basis of accounting as required by generally accepted accounting principles for proprietary fund types.

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

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

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

Investments - Investments are stated at cost which approximates fair value.

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

Subsequent events:

Management has evaluated subsequent events through March 6, 2012, which is the date the financial statements were available to be issued.

FAIRVIEW TOWNSHIP AUTHORITY
(a component unit of Fairview Township)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2011

2. Deposits and investments:

Custodial credit risk, deposits:

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

| | <u>Ratings</u> | <u>Maturities</u> | <u>Fair value</u> |
|--|----------------|-------------------|-------------------|
| Deposits, insured by Federal Deposit Insurance Corporation | | | \$ 131 |
| Total deposits | | | \$ 131 |

Interest rate risk:

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

Credit risk:

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

FAIRVIEW TOWNSHIP AUTHORITY
(a component unit of Fairview Township)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2011

2. Deposits and investments (continued):

Credit risk (continued):

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

1. U.S. treasury bills
2. Obligations of the U.S. government and federal agencies
3. Insured savings and checking accounts and certificates of deposit in banks, savings and loan associations and credit unions
4. General obligation bonds of the federal government, the Commonwealth of Pennsylvania or any state agency or of any Pennsylvania political subdivision
5. Shares of mutual funds whose investments are restricted to the above categories

3. Lease rental receivable:

The Authority issued sewer revenue bonds to provide funds to extend and upgrade the sewer collection and water systems leased to Fairview Township. The Authority utilized the "financing method" to account for the lease of the facility to Fairview Township. The lease rental debt was paid in full by the Township during 2011 thus terminating the lease with the Authority.

Under the 2001 bond indenture, minimum lease rentals were reduced by excess trustee funds invested in the 2001 Debt Service Fund as determined by the terms of the indenture. During 2011, the 2001 Debt Reserve Service and Clearing Funds transferred \$1,499,080 to the Township's Sewer Reserve Fund for debt service requirements.

4. Intermunicipal agreement:

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

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

FAIRVIEW TOWNSHIP AUTHORITY
(a component unit of Fairview Township)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2011

5. Escrows payable:

The Authority required developers to obtain letters of credit or deposit funds pursuant to an escrow agreement to provide assurance that projects will be completed according to approved specifications and on a timely basis. Escrow balances as of December 31, 2011 were zero.

FAIRVIEW TOWNSHIP AUTHORITY
(a component unit of Fairview Township)

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

YEAR ENDED DECEMBER 31, 2011

| | Clearing fund | Debt service fund | Debt service reserve fund | Series of 2001 total |
|---|------------------|-------------------------|------------------------------------|----------------------------|
| Nonoperating revenues (expenses): | | | | |
| Lease rental, interest portion | \$ 226,083 | \$ 226,084 | | \$ 452,167 |
| Investment income | | 50 | \$ 117 | 167 |
| Interest expense | | (377,559) | | (377,559) |
| Total nonoperating revenues (expenses) | <u>226,083</u> | <u>(151,425)</u> | <u>117</u> | <u>74,775</u> |
| Change in net assets before transfers | 226,083 | (151,425) | 117 | 74,775 |
| Transfers in (out) | (226,083) | 226,083 | | - |
| Transfers to Fairview Township | | (74,659) | (1,424,421) | (1,499,080) |
| Change in net assets | - | (1) | (1,424,304) | (1,424,305) |
| Net assets: | | | | |
| January 1, 2011 | <u>-</u> | <u>1</u> | <u>1,424,304</u> | <u>1,424,305</u> |
| December 31, 2011 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |



Independent Auditors' Report on Compliance with Bond Trust Indentures

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the Fairview Township Authority, a component unit of Fairview Township, as of and for the year ended December 31, 2011, and have issued our report thereon dated March 6, 2012.

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

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

Brown Schultz Sheridan & Fritz

March 6, 2012

