

**LOWER ALLEN TOWNSHIP AUTHORITY**

**FINANCIAL REPORT**

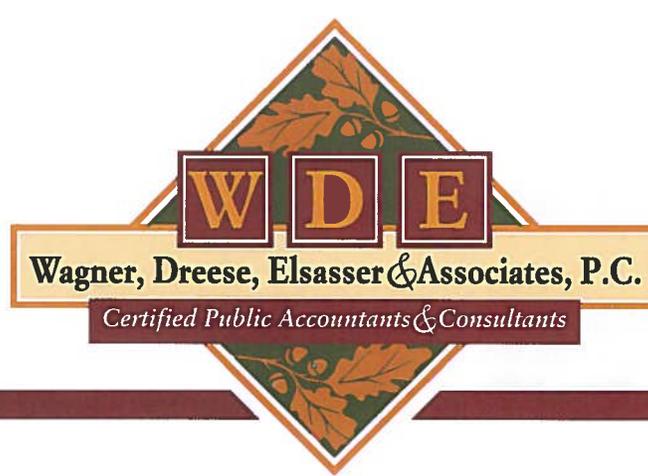
**DECEMBER 31, 2014**



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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, 2014, 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, 2014, 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 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### 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 21 through 27 is presented for the purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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, Elsasser & Associates, P.C.*

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

*Certified Public Accountants and Consultants*

Selinsgrove, PA

May 7, 2015



**MANAGEMENT'S DISCUSSION AND ANALYSIS**



**LOWER ALLEN TOWNSHIP AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2014**

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, 2014.

**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 net position, 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, 2014**

**Condensed Financial Information**

Condensed financial information from the balance sheets as of December 31, 2014 and 2013 and from the statements of revenues, expenses and changes in net position for the years ended December 31, 2014 and 2013 are as follows:

	December 31,	
	2014	2013
Current and other assets	\$ 5,268,995	\$ 5,149,960
Capital Assets	33,683,539	34,432,814
<b>Total assets</b>	<u>38,952,534</u>	<u>39,582,774</u>
Current liabilities	630,032	778,298
Long-term liabilities	11,345,000	11,830,000
<b>Total liabilities</b>	<u>11,975,032</u>	<u>12,608,298</u>
Net position:		
Net investment in capital assets	22,118,103	22,479,598
Unrestricted	4,859,399	4,494,878
<b>Total net position</b>	<u>\$ 26,977,502</u>	<u>\$ 26,974,476</u>
Operating revenue	\$ 4,650,494	\$ 4,234,981
Operating expenses	5,178,662	4,612,088
<b>Operating loss</b>	(528,168)	(377,107)
Non-operating income (expense)	268,872	623,591
<b>Income (Loss) before capital contributions</b>	(259,296)	246,484
Capital contributions	262,322	3,355,980
<b>Change in net position</b>	3,026	3,602,464
Net Position		
January 1	26,974,476	23,514,868
Prior period adjustment	-	(142,856)
January 1, as restated	26,974,476	23,372,012
December 31	<u>\$ 26,977,502</u>	<u>\$ 26,974,476</u>



**LOWER ALLEN TOWNSHIP AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2014**

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, 2014.

**Financial Highlights**

Authority cash and cash equivalents increased from \$4,788,074 at the end of 2013 to \$4,879,897 at the end of 2014.

The Authority ended the year December 31, 2014 with a net position balance of \$26,977,502 of which \$22,118,103 represented the amount invested in capital assets and \$4,859,399 was unrestricted. Before depreciation, net position increased by \$1,319,809 as compared to an increase of \$4,626,012 in 2013. After depreciation, net position increased \$3,026 compared to an increase of \$3,602,464 in 2013.

Current liabilities for 2014 are \$148,266 lower than the 2013 liabilities.

Long-term liabilities decreased \$465,000 due to principal payments.

Operating revenues were \$415,513 or 9.8 % higher in 2014 than the previous year.

Operating expenses increased by \$566,574 from 2013 to 2014.

**Revenue**

Operating revenues of \$4,650,494 for 2014 increased from the 2013 level of \$4,234,981. 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 \$70 per quarter for residential and nonresidential base fee plus \$4.00 per 1,000 gallons per quarter nonresidential consumption were approved starting on January 1, 2014. Non-operating revenues (expenses) decreased by approximately \$3,448,377. This decrease was mainly due to decreases in capital contributions of \$3,093,658, investment income of approximately \$4,684, and tapping fees of \$220,586. These decreases were offset by an increase in interest expense of approximately \$129,449.

**Expenses**

The operating expenses for 2014 were \$5,178,662 as compared to \$4,612,088 for 2013. 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, 2014

#### Expenses (Continued)

Providing wastewater treatment service is labor intensive and the experienced costs are common. The increase in operating expenses was primarily due to an increase of \$169,162 in labor and associated cost resulting from additional staff through retirement training transitions and increased employee health care costs, an increase of \$33,199 for electrical power due to additional operational BNR treatment processes and increased flow, an increase of \$40,194 for treatment chemicals primarily resulting from enhanced phosphorus removal requirements, and an increase in depreciation of \$293,235 due to current year capital asset additions. Depreciation of capital assets continues to be a large operating expense at \$1,316,783 in 2014.

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, natural gas, and insurance services to contain cost increases.

#### Capital Assets

The Authority's capital assets as of December 31, 2014 and 2013 amounted to \$33,683,539 and \$34,432,814 (net of accumulated depreciation) respectively. This investment in capital assets includes land, constructed conveyance system, structures, buildings, and equipment. 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 completed in 2014 at a final cost of \$15,093,100 (less design costs). The Authority placed \$16,749,082 of plant and pumping stations and \$9,120 of equipment in service in 2014. The Authority received \$262,322 in capital contributions in 2014.

#### Debt

The Authority's outstanding long term debt was \$11,830,000 at the end of 2014. The debt service total principal and interest payment in 2014 was \$842,320. 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. The Series of 2013 Bond was issued to replace a prior Bond issue (Series of 2011) 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, 2014

**ASSETS**

Current Assets

Cash and cash equivalents	\$ 4,879,897
Sanitary sewer rents receivable	144,995
Other receivables	9,967
<b>Total current assets</b>	<u>5,034,859</u>

Property, plant and equipment - net of accumulated depreciation	33,683,539
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Net pension asset	<u>234,136</u>
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<b>Total assets</b>	<u><u>38,952,534</u></u>
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**LIABILITIES AND NET POSITION**

Current Liabilities

Accounts payable	20,130
Accrued payroll	15,006
Accrued compensated absences	48,629
Accrued and withheld payroll taxes	7,803
Accrued interest	46,800
Escrow deposits	6,664
Current maturities of Sewer Revenue Bonds	485,000
<b>Total current liabilities</b>	<u>630,032</u>

Guaranteed Sewer Revenue Bonds-Series 2012 and 2013	11,345,000
<b>Total liabilities</b>	<u>11,975,032</u>

Net Position

Net investment in capital assets	22,118,103
Unrestricted	4,859,399
<b>Total net position</b>	<u>26,977,502</u>

<b>Total liabilities and net position</b>	<u><u>\$ 38,952,534</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, 2014

Operating Revenues	
Sewer rents	\$ 4,618,099
Miscellaneous charges	32,395
	<u>4,650,494</u>
Operating Expenses	
Collection system	221,448
Disposal system	2,483,964
Administration	1,156,467
Depreciation	1,316,783
	<u>5,178,662</u>
<b>Operating loss</b>	<b>(528,168)</b>
Nonoperating Revenues (Expenses)	
Investment income	4,013
Interest expense	(156,636)
Tapping fees	421,495
	<u>268,872</u>
<b>Income before capital contributions</b>	<b>(259,296)</b>
Capital contributions	<u>262,322</u>
<b>Change in net position</b>	<b>3,026</b>
Net Position:	
January 1, 2014	<u>26,974,476</u>
December 31, 2014	<u>\$ 26,977,502</u>

See Notes to Financial Statements.



LOWER ALLEN TOWNSHIP AUTHORITY

COMBINED STATEMENT OF CASH FLOWS  
Year Ended December 31, 2014

Cash Flows From Operating Activities	
Cash received from customers	\$ 4,606,880
Cash payments for goods and services	(1,293,485)
Cash payments to employee related expenses	(2,706,956)
<b>Net cash provided by operating activities</b>	<u>606,439</u>
Cash Flows From Capital and Related Financing Activities	
Purchase of property, plant and equipment	(372,100)
Principal payments on sewer revenue bonds	(465,000)
Interest paid on sewer revenue bonds	(377,320)
Tapping fees	421,495
Contributions of capital	274,296
<b>Net cash used in capital and related financing activities</b>	<u>(518,629)</u>
Cash Flows From Investing Activities	
Investment income	4,013
<b>Net cash provided by investing activities</b>	<u>4,013</u>
<b>Net increase in cash and cash equivalents</b>	91,823
Cash and Cash Equivalents:	
January 1, 2014	4,788,074
December 31, 2014	<u>\$ 4,879,897</u>

(Continued)



LOWER ALLEN TOWNSHIP AUTHORITY

COMBINED STATEMENT OF CASH FLOWS (Continued)  
Year Ended December 31, 2014

Reconciliation of Operating Loss to Net	
Cash provided by Operating Activities	
Operating loss	\$ (528,168)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	1,316,783
Changes in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	(7,922)
Other receivables	850
Net pension asset	(32,114)
(Decrease) increase in:	
Accounts payable	(46,086)
Escrow deposits	(36,542)
Accrued expenses	(60,362)
<b>Net cash provided by operating activities</b>	<u><u>\$ 606,439</u></u>
Noncash Investing, Capital and Financing Activities:	
Capital Contributions	<u><u>\$ -</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 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.	4,629,697	4,718,694
	\$ 4,879,897	\$ 4,968,894

Investments: The Authority held no investments at December 31, 2014.



**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, 2013	Additions	Reductions	Balance at December 31, 2014
Property, Plant and Equipment not being depreciated:				
Land and rights of ways	\$ 224,720	\$ -	\$ -	\$ 224,720
Construction-in-progress	16,190,694	558,388	(16,749,082)	-
Total Property, Plant and Equipment not being depreciated	<u>16,415,414</u>	<u>558,388</u>	<u>(16,749,082)</u>	<u>224,720</u>
Property, Plant and Equipment being depreciated:				
Sewer systems	17,817,632	-	-	17,817,632
Plant and pumping stations	27,734,086	16,749,082	-	44,483,168
Equipment	1,707,588	9,120	(7,390)	1,709,318
Total Property, Plant and Equipment being depreciated	<u>47,259,306</u>	<u>16,758,202</u>	<u>(7,390)</u>	<u>64,010,118</u>
Less accumulated depreciation for:				
Sewer systems	13,686,242	352,694	-	14,038,936
Plant and pumping stations	14,064,598	896,522	-	14,961,120
Equipment	1,491,066	67,567	(7,390)	1,551,243
Total accumulated depreciation	<u>29,241,906</u>	<u>1,316,783</u>	<u>(7,390)</u>	<u>30,551,299</u>
Total Property, Plant and Equipment being depreciated-net	<u>18,017,400</u>	<u>15,441,419</u>	<u>-</u>	<u>33,458,819</u>
Net Property, Plant and Equipment	<u>\$34,432,814</u>	<u>\$15,999,807</u>	<u>\$(16,749,082)</u>	<u>\$33,683,539</u>



LOWER ALLEN TOWNSHIP AUTHORITY

NOTES TO FINANCIAL STATEMENTS

**Note 4. Long-Term Debt**

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 related to the Series of 2012 Bond of \$145,461 in 2014.

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
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	220,000	114,700	334,700
2020-2024	1,215,000	592,055	1,807,055
2025-2029	1,415,000	421,125	1,836,125
2030-2032	960,000	73,000	1,033,000
	<u>\$ 4,625,000</u>	<u>\$ 1,724,857</u>	<u>\$ 6,349,857</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.



**LOWER ALLEN TOWNSHIP AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

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

Guaranteed Sewer Revenue Bond-Series 2013-continued

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.

The Authority incurred interest costs related to the Series of 2013 Bond of \$230,020 in 2014.

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

Year	Principal	Interest	Total
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	345,000	182,464	527,464
2020-2024	1,985,000	734,659	2,719,659
2025-2029	2,480,000	383,828	2,863,828
2030-2031	1,155,000	36,776	1,191,776
	<u>\$ 7,205,000</u>	<u>\$ 2,169,485</u>	<u>\$ 9,374,485</u>

Changes in long-term debt for the year ended December 31, 2014 are as follows:

	Balance at December 31, 2013	Additions	Reductions	Balance at December 31, 2014	Due Within One Year
Guaranteed Sewer Revenue Bond Series of 2012	4,815,000	-	(190,000)	4,625,000	195,000
Guaranteed Sewer Revenue Bond Series of 2013	7,480,000	-	(275,000)	7,205,000	290,000
Total	<u>\$12,295,000</u>	<u>\$ -</u>	<u>\$ (465,000)</u>	<u>\$11,830,000</u>	<u>\$485,000</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 6.36% of annual covered payroll. Unless otherwise indicated, the plan information in this note is provided as of the latest actuarial valuation, January 1, 2015.

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

	Amount
Annual required contribution	\$ 250,019
Interest on net pension obligation (prior year)	(14,647)
Adjustment of annual required contribution	22,533
Annual pension cost	257,905
Contributions made	290,019
Increase (decrease) in net pension obligation	(32,114)
Net pension obligation (Asset) - January 1, 2014	(202,022)
Net pension obligation (Asset) - December 31, 2014	\$ (234,136)

**Three-Year Trend Information**

	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
Years Ending December 31:			
2012	\$ 281,511	112.40%	\$ (168,604)
2013	\$ 271,271	112.30%	\$ (202,022)
2014	\$ 257,905	112.50%	\$ (234,136)

During 2014, 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, 2015, the most recent actuarial valuation date, the plan was 92% funded. The actuarial accrued liability for benefits was \$4,684,963, and the actuarial value of assets was \$4,291,139, resulting in an unfunded actuarial accrued liability of \$393,824. The covered payroll (annual payroll of active employees covered by the plan) was \$1,502,254. The ratio of the unfunded actuarial accrued liability to the covered payroll was 26%.

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 7 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. The Plan was amended in 2013 to provide for an employer discretionary contribution for each person who is hired or rehired on or after October 3, 2013. The discretionary contribution for employees hired or rehired after October 3, 2013 is based on a percentage of salary or wages determined by years of service. For the year ended December 31, 2014, the participants deferred compensation in the amount of \$53,857. The Authority did not make a discretionary contribution for the year ended December 31, 2014.

#### **Note 7. Capitalized Interest**

The Authority incurred interest costs of \$375,481 for the year ended December 31, 2014. Of that amount \$218,846 was capitalized as a cost of construction.



**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
1/1/10	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%
1/1/14	N/A	N/A	N/A	N/A	N/A	N/A
1/1/15	\$4,291,139	\$4,684,963	\$393,824	92.00%	\$1,502,254	26%

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.



**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 16.05% of the net sewer rental revenue for the year ended December 31, 2014.

**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.



**REQUIRED SUPPLEMENTARY INFORMATION**



**SUPPLEMENTARY INFORMATION**



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**LOWER ALLEN TOWNSHIP AUTHORITY**

**COMBINING BALANCE SHEET**

**December 31, 2014**

<b>ASSETS</b>	<b>Total</b>	<b>Eliminations</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 4,879,897	\$ -
Sanitary sewer rents receivable	144,995	-
Other receivables	9,967	-
Due from other funds	-	(5,588,105)
<b>Total current assets</b>	5,034,859	(5,588,105)
Property, plant and equipment - net of accumulated depreciation	33,683,539	-
Net pension asset	234,136	-
<b>Total assets</b>	38,952,534	(5,588,105)
<b>LIABILITIES AND NET POSITION</b>		
<b>Current Liabilities</b>		
Accounts payable	20,130	-
Due to other funds	-	(5,588,105)
Accrued payroll	15,006	-
Accrued compensated absences	48,629	-
Accrued and withheld payroll taxes	7,803	-
Accrued interest	46,800	-
Escrow deposits	6,664	-
Current maturities of Sewer Revenue Bonds	485,000	-
<b>Total current liabilities</b>	630,032	(5,588,105)
Sewer Revenue Bonds-Series 2012 and 2013	11,345,000	-
<b>Total liabilities</b>	11,975,032	(5,588,105)
<b>Net Position</b>		
Net investment in capital assets	22,118,103	-
Unrestricted	4,859,399	-
<b>Total net position</b>	26,977,502	-
<b>Total liabilities and net position</b>	\$ 38,952,534	\$ (5,588,105)

Sewer System Operating Account	Maintenance and Improvement Account
\$ 1,162,131	\$ 3,717,766
144,995	-
9,967	-
-	5,588,105
1,317,093	9,305,871
33,683,539	-
234,136	-
35,234,768	9,305,871
20,130	-
5,588,105	-
15,006	-
48,629	-
7,803	-
46,800	-
6,664	-
485,000	-
6,218,137	-
11,345,000	-
17,563,137	-
21,853,539	264,564
(4,181,908)	9,041,307
17,671,631	9,305,871
\$ 35,234,768	\$ 9,305,871



LOWER ALLEN TOWNSHIP AUTHORITY

**COMBINING STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN NET POSITION  
Year Ended December 31, 2014**

	Total	Sewer System Operating Account	Maintenance and Improvement Account
<b>Operating Revenues</b>			
Sewer rents	\$ 4,618,099	\$ 4,618,099	\$ -
Miscellaneous charges	32,395	32,395	-
	<u>4,650,494</u>	<u>4,650,494</u>	<u>-</u>
<b>Operating Expenses</b>			
Collection system	221,448	221,448	-
Disposal system	2,483,964	2,483,964	-
Adminstration	1,156,467	1,156,467	-
Depreciation	1,316,783	1,316,783	-
	<u>5,178,662</u>	<u>5,178,662</u>	<u>-</u>
<b>Net operating loss</b>	(528,168)	(528,168)	-
<b>Nonoperating Revenues (Expenses)</b>			
Investment income	4,013	269	3,744
Interest expense	(156,636)	(156,636)	-
Tapping fees	421,495	-	421,495
Operating transfers in (out)	-	112,005	(112,005)
	<u>268,872</u>	<u>(44,362)</u>	<u>313,234</u>
<b>Income (Loss) before capital contributions</b>	(259,296)	(572,530)	313,234
<b>Capital contributions</b>	<u>262,322</u>	<u>262,322</u>	<u>-</u>
<b>Change in net position</b>	3,026	(310,208)	313,234
<b>Net Position:</b>			
January 1, 2014	26,974,476	17,981,839	8,992,637
December 31, 2014	<u>\$ 26,977,502</u>	<u>\$ 17,671,631</u>	<u>\$ 9,305,871</u>



**LOWER ALLEN TOWNSHIP AUTHORITY**

**COMBINING STATEMENT OF CASH FLOWS**  
**Year Ended December 31, 2014**

	Total	Sewer System Operating Account	Maintenance and Improvement Account
<b>Cash Flows From Operating Activities</b>			
Cash received from customers	\$ 4,606,880	\$ 4,606,880	\$ -
Cash payments for goods and services	(1,293,485)	(1,293,485)	-
Cash payments to employee related expenses	(2,706,956)	(2,706,956)	-
<b>Net cash provided by operating activities</b>	<u>606,439</u>	<u>606,439</u>	<u>-</u>
<b>Cash Flows From Capital and Related Financing Activities</b>			
Internal activity fund transfers	-	521,975	(521,975)
Purchases of property, plant and equipment	(372,100)	(372,100)	-
Principal payments on sewer revenue bonds	(465,000)	(465,000)	-
Interest paid on sewer revenue bonds	(377,320)	(377,320)	-
Tapping fees	421,495	-	421,495
Contributions of capital	274,296	274,296	-
<b>Net cash used in capital and related financing activities</b>	<u>(518,629)</u>	<u>(418,149)</u>	<u>(100,480)</u>
<b>Cash Flows From Investing Activities</b>			
Investment income	4,013	269	3,744
<b>Net cash provided by investing activities</b>	<u>4,013</u>	<u>269</u>	<u>3,744</u>
<b>Net increase in cash and cash equivalents</b>	91,823	188,559	(96,736)
<b>Cash and Cash Equivalents:</b>			
January 1, 2014	4,788,074	973,572	3,814,502
December 31, 2014	<u>\$ 4,879,897</u>	<u>\$ 1,162,131</u>	<u>\$ 3,717,766</u>

(Continued)



LOWER ALLEN TOWNSHIP AUTHORITY

COMBINING STATEMENT OF CASH FLOWS (continued)  
Year Ended December 31, 2014

	Total	Sewer System Operating Account	Maintenance and Improvement Account
Reconciliation of Operating Loss to Net Cash provided by Operating Activities			
Operating loss	\$ (528,168)	\$ (528,168)	\$ -
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	1,316,783	1,316,783	-
Changes in assets and liabilities:			
(Increase) decrease in:			
Accounts receivable	(7,922)	(7,922)	-
Other receivables	850	850	-
Net pension asset	(32,114)	(32,114)	-
(Decrease) increase in:			
Accounts payable	(46,086)	(46,086)	-
Escrow deposits	(36,542)	(36,542)	-
Accrued expenses	(60,362)	(60,362)	-
<b>Net cash provided by operating activities</b>	<u>\$ 606,439</u>	<u>\$ 606,439</u>	<u>\$ -</u>



LOWER ALLEN TOWNSHIP AUTHORITY

SCHEDULE OF SEWER RENTS  
Year Ended December 31, 2014

Lower Allen Township	\$ 3,194,999
Borough of Shiremanstown	227,107
State Correctional Institution	340,915
Upper Allen Township	741,125
Fairview Township	113,953
<b>Total sewer rents revenue</b>	<u><u>\$ 4,618,099</u></u>

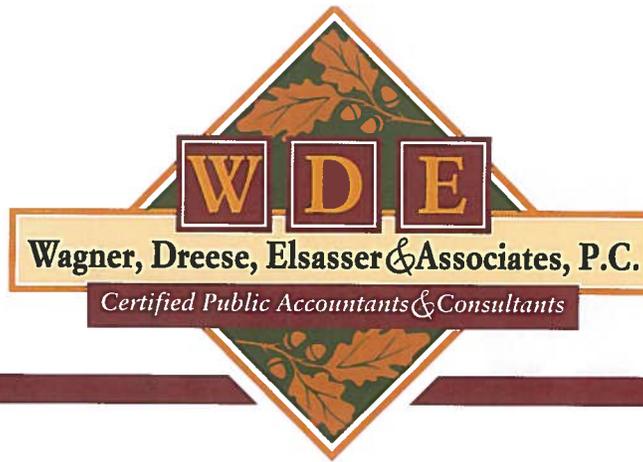


**LOWER ALLEN TOWNSHIP AUTHORITY**

**SCHEDULE OF OPERATING EXPENSES  
Year Ended December 31, 2014**

Collection System	
Salaries and wages	\$ 128,846
Payroll taxes	10,204
Material and supplies	7,941
Fuel, light and water	18,956
General expenses	1,056
Maintenance and repairs	12,603
Engineering	30,796
Vehicle operating expenses	11,046
<b>Total collection system</b>	<u>221,448</u>
Disposal System	
Salaries and wages	1,450,199
Payroll taxes	115,956
Materials and supplies	45,435
Fuel, light and water	459,085
Chemicals for sewage treatment	191,403
General expense	77,960
Maintenance and repairs	84,759
Sludge disposal	47,183
Vehicle operating expenses	11,984
<b>Total disposal system</b>	<u>2,483,964</u>
Adminstration	
Salaries and wages	112,594
Payroll taxes	10,444
Purchased services	46,075
Authority salaries	18,300
Office supplies and postage	2,373
Data processing	4,745
General expense	6,547
Employee benefits and compensated absences	800,051
Insurance	83,117
Auditing and accounting expense	32,375
Legal expense	27,379
Communication expense	11,061
Equipment rental	1,406
<b>Total administration</b>	<u>1,156,467</u>
Depreciation	1,316,783
<b>Total operating expenses</b>	<u>\$ 5,178,662</u>





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(570) 742-2613

304 EAST SECOND STREET  
BLOOMSBURG, PA 17815  
(570) 387-0747

## 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, 2014, and the related combined statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 7, 2015.

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 5, 2011, the First Supplemental Resolution dated May 17, 2012, and the Second Supplemental Resolution dated May 2, 2013 securing the Guaranteed Sewer Revenue Bonds— Series of 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 and Consultants*  
Selingsrove, PA  
May 7, 2015

