

**SOUTH MIDDLETON TOWNSHIP
MUNICIPAL AUTHORITY**

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2009 AND 2008

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Greenawalt & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Since 1955

James E. Lyons
Howard R. Greenawalt
Deborah J. Kelly
Scott J. Christ
Creedon R. Hoffman

INDEPENDENT AUDITORS' REPORT

South Middleton Township
Municipal Authority
Boiling Springs, Pennsylvania

We have audited the accompanying component unit financial statements of South Middleton Township Municipal Authority as listed in the preceding table of contents as of and for the years ended December 31, 2009 and 2008. These component unit financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these component unit financial statements based on our audits.

We conducted our audits 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 component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the component unit financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall component unit financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in the notes to financial statements under the caption "Basis of Accounting", the Authority prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the net assets – modified cash basis, of South Middleton Township Municipal Authority as of December 31, 2009 and 2008, and the revenue, expenses and changes in net assets – modified cash basis, and its cash flows for the years then ended, in conformity with the basis of accounting described in the notes to financial statements under the caption "Basis of Accounting".

Our audit was conducted for the purpose of forming an opinion on the component unit financial statements taken as a whole. The supplementary information for the year ended December 31, 2009 on pages 19 through 24 are presented for purposes of additional analysis and are not a required part of the component unit financial statements of South Middleton Township Municipal Authority. Such information has been subjected to the auditing procedures applied in the audit of the component unit financial statements and, in our opinion, is fairly stated in all material respects in relation to the component unit financial statements taken as a whole.

South Middleton Township
Municipal Authority
Boiling Springs, Pennsylvania

The South Middleton Township Municipal Authority has not presented the management's discussion and analysis that the Governmental Accounting Standards Board requires to supplement, although not be a part of, the basic financial statements.


GREENAWALT & COMPANY, P.C.

June 14, 2010

Mechanicsburg, Pennsylvania

SOUTH MIDDLETON TOWNSHIP MUNICIPAL AUTHORITY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
DECEMBER 31, 2009 AND 2008

	2009	2008
<u>ASSETS</u>		
Current assets		
Cash and cash equivalents - unrestricted	\$ 469,452	\$ 924,782
Cash and cash equivalents - restricted	110,299	159,764
Total cash and cash equivalents	579,751	1,084,546
Noncurrent assets		
Investments and time deposits - restricted	4,328,816	3,690,739
Capital assets not being depreciated	76,779	561,313
Capital assets being depreciated (net of accumulated depreciation)	14,551,589	15,144,008
Deferred purchased capacity (net of accumulated amortization)	2,460,286	1,949,934
Total noncurrent assets	21,417,470	21,345,994
Total assets	\$ 21,997,221	\$ 22,430,540
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities		
Payroll tax withholdings	\$ 2,809	\$ 1,266
Escrow liabilities	91,182	129,689
Current portion of bonds payable	720,000	695,000
Total current liabilities	813,991	825,955
Noncurrent liabilities		
Noncurrent portion of bonds payable	5,625,000	6,345,000
Total liabilities	6,438,991	7,170,955
Net assets		
Invested in capital assets (net of related debt)	10,743,654	10,615,255
Restricted	4,347,933	3,720,814
Unrestricted	466,643	923,516
Total net assets	15,558,230	15,259,585
Total liabilities and net assets	\$ 21,997,221	\$ 22,430,540

The accompanying notes are an integral part of these financial statements.

SOUTH MIDDLETON TOWNSHIP MUNICIPAL AUTHORITY
STATEMENT OF REVENUE AND EXPENSES AND CHANGES IN NET ASSETS -
MODIFIED CASH BASIS
YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Operating revenue		
User fees (net)	\$ 3,722,425	\$ 3,220,649
Tapping, connection and other fees and permits	<u>307,740</u>	<u>544,179</u>
Total operating revenue	<u>4,030,165</u>	<u>3,764,828</u>
Operating expenses		
Operation and maintenance	1,811,625	1,587,539
Administration	457,146	380,332
Depreciation and amortization	<u>1,428,250</u>	<u>1,409,839</u>
Total operating expenses	<u>3,697,021</u>	<u>3,377,710</u>
Operating income	<u>333,144</u>	<u>387,118</u>
Nonoperating revenue (expenses)		
Investment income	1,043	64,534
Rental fees	16,875	18,281
Other income (expense)	-	193
Interest expense	(217,696)	(233,081)
Loss on disposition of fixed assets	<u>(55,550)</u>	<u>-</u>
Nonoperating expenses in excess of revenue	<u>(255,328)</u>	<u>(150,073)</u>
Income before other revenues, expenses, gains, losses and transfers	77,816	237,045
Capital contributions	<u>220,829</u>	<u>138,719</u>
Increase in net assets	298,645	375,764
Net assets, January 1	<u>15,259,585</u>	<u>14,883,821</u>
Net assets, December 31	<u>\$ 15,558,230</u>	<u>\$ 15,259,585</u>

The accompanying notes are an integral part of these financial statements.

SOUTH MIDDLETON TOWNSHIP MUNICIPAL AUTHORITY

STATEMENT OF CASH FLOWS YEARS ENDED DECEMBER 31, 2009 and 2008

	2009	2008
Operating activities		
Cash received from customers	\$ 4,030,165	\$ 3,764,828
Cash payments for goods and services	(1,443,253)	(1,142,958)
Cash payments to employees for services and benefits	(823,975)	(825,351)
Net cash provided by operating activities	1,762,937	1,796,519
Capital and related financing activities		
Purchase of capital assets and deferred capacity	(917,199)	(747,756)
Principal paid on long-term debt	(695,000)	(690,000)
Interest paid on long-term debt	(217,696)	(233,081)
Rental fees received	16,875	18,281
Other income (expense)	-	193
Net increase (decrease) in escrow deposits	(38,507)	10,977
Capital contributions received	220,829	138,719
Net cash used for capital and related financing activities	(1,630,698)	(1,502,667)
Investing activities		
Investment income	1,043	64,534
Purchase of investments	(6,194,224)	(6,260,273)
Redemption of investments	5,556,147	6,367,693
Net cash provided by (used for) investing activities	(637,034)	171,954
Net increase (decrease) in cash and cash equivalents	(504,795)	465,806
Cash and cash equivalents, beginning	1,084,546	618,740
Cash and cash equivalents, ending	\$ 579,751	\$ 1,084,546
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 333,144	\$ 387,118
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	1,428,250	1,409,839
Increase (decrease) in payroll tax withholdings	1,543	(438)
Net cash provided by operating activities	\$ 1,762,937	\$ 1,796,519

The accompanying notes are an integral part of these financial statements.

SOUTH MIDDLETON TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The South Middleton Township Municipal Authority is an operating authority organized under the laws governing authorities in the Commonwealth of Pennsylvania, and is a component unit of South Middleton Township. The Authority operates two separate proprietary funds:

Water Operations Fund – established for the purpose of acquiring, purchasing, constructing, improving, maintaining, operating, owning and leasing water works, water supply works and water distribution.

Sewer Operations Fund - established for the purpose of acquiring, purchasing, constructing, improving, maintaining, operating, owning and leasing sewers, sewer systems or parts thereof.

Reporting entity

The Governmental Accounting Standards Board establishes the criteria for determining the activities, organizations and functions of government to be included in the financial statements of the reporting entity. In evaluating the Authority as a reporting entity, management has addressed all potential component units which may or may not fall within the established criteria. The criteria used to evaluate component units for possible inclusion as part of the Authority's reporting entity are:

- The economic resources received or held by the separate organization are entirely for the direct benefit of the Authority.
- The Authority is entitled to (or has the ability to) access a majority of the economic resources received or held by the separate organization.
- The economic resources received or held by the separate organization that the Authority is entitled to (or has the ability to) access is significant to the Authority.

There are no component units that meet all of the above criteria for inclusion in this reporting entity.

Basis of accounting

The Authority presents its financial statements on a modified cash basis of accounting, recognizing certain revenues when received rather than when earned, and certain expenses when paid rather than when the obligation is incurred. Exceptions to this policy include payments for property, plant and equipment which are capitalized, with depreciation expense recorded thereon, and bond proceeds which are recorded as liabilities at the face amount with related issuance costs recorded as expenses.

The Authority accounts for operations that are financed and operated in a manner similar to private business enterprises. These enterprises are characterized by the intent that the costs of providing services to the general public on a continuing basis be financed or recovered substantially by user charges.

SOUTH MIDDLETON TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS (Cont'd.)

DECEMBER 31, 2009 AND 2008

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Basis of accounting (Cont'd.)

The Authority's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary Funds apply Financial Accounting Standards Board (FASB) pronouncements as contained in the FASB Accounting Standards Codification (ASC), unless those pronouncements conflict with or contradict GASB pronouncements.

Use of estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

Restricted assets

In accordance with the financial provisions of the bond indentures and agreements with M&T Bank securing the Guaranteed Water and Sewer Revenue Bonds – Series of 2003, certain assets of the Authority are accounted for in accounts established by the indentures. The purpose of these accounts is to segregate assets into restricted asset accounts for the security of the bondholders. The Authority maintains these accounts through the Bank's trust department.

Cash and cash equivalents

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

Capital assets

Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$ 500 and an estimated useful life in excess of one year. In addition, capital assets purchased with long-term debt may be capitalized regardless of the thresholds established. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

Major outlays for capital assets and improvements are capitalized as projects are constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

SOUTH MIDDLETON TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS (Cont'd.)

DECEMBER 31, 2009 AND 2008

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Capital assets (Cont'd.)

All reported capital assets are depreciated (or amortized in the case of deferred capacity costs) using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Water and sewer system, infrastructure, etc.	5 to 50
Machinery and equipment	3 to 10
Administration building and furnishings	5 to 20
Deferred purchased capacity - sewer plants	20 to 40

Revenue - user charges

Charges for water usage and sewer usage are billed quarterly by the Authority to its customers based primarily upon actual gallons used for water billings and a flat fee base for sewer billings.

Revenue - tapping and connection fees, meters, permits, etc.

Charges for tapping, connection and other related fees are billed by the Authority to the customer based on established fee schedules.

Reclassifications

Certain 2008 amounts have been reclassified to conform to the 2009 presentation.

DEPOSITS AND INVESTMENTS

All of the Authority's cash deposits are either insured or collateralized. Custodial risk is the risk that the Authority's deposits may not be recoverable to it in the event of a depository institution failure. The Authority does not have a formal policy regarding custodial credit risk for deposits. As of December 31, 2009 and 2008 the Authority has the following:

Deposit balances at December 31, 2009 with one bank in the amount of \$ 589,383 of which \$ 250,000 was insured and \$ 339,383 is collateralized with securities held by the bank's agent in a collateral pool. The Authority is exposed to custodial risk because the collateral securities held by the bank's agent are not in the Authority's name.

SOUTH MIDDLETON TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS (Cont'd.)

DECEMBER 31, 2009 AND 2008

DEPOSITS AND INVESTMENTS (Cont'd.)

Deposit balances at December 31, 2008 with one bank in the amount of \$ 1,105,208 of which \$ 250,000 was insured and \$ 855,208 was collateralized with securities held by the bank's agent in a collateral pool. The Authority was exposed to custodial risk because the collateral securities held by the bank's agent are not in the Authority's name.

Investments, which are held by the Trust department of M&T Bank, are recorded at historic cost which approximates market value. Statutes authorize the Authority to invest in the following:

U.S. Treasury Bills

Short-term obligations of the U.S. government and Federal agencies

Insured savings and checking accounts and certificates of deposit in banks, savings and loan associations and credit unions

General Obligation Bonds of the Federal government, the Commonwealth of Pennsylvania or any state agency or of any Pennsylvania political subdivision

Shares of investment companies whose investments are restricted to the above categories

Investments at December 31, 2009 and 2008 consist of Federated Institution Service's Federated Treasury Obligations Fund in the amount of \$ 4,328,816 and \$ 3,690,739, respectively. It is the policy of Federated Treasury Obligations Fund to maintain a net asset value of \$ 1 per share, but there can be no assurance that the net asset value will not vary from \$ 1 per share.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority does not have a formal investment policy for interest rate risk. The weighted average maturity of the portfolio held by Federated Treasury Obligation Fund is approximately 20 days.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Authority does not have a formal policy for credit risk. The Authority's investment in Federated Treasury Obligations Fund is rated AAAM by Standard and Poor's and Aaa by Moody's.

SOUTH MIDDLETON TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS (Cont'd.)

DECEMBER 31, 2009 AND 2008

CHANGES IN CAPITAL ASSETS AND DEFERRED CAPACITY COSTS

Capital asset activity for 2008 and 2009 was as follows:

	Balance January 1, 2008	2008 Increases	2008 Decreases	Balance December 31, 2008	2009 Increases	2009 Decreases	Balance December 31, 2009
Capital assets not being depreciated							
Land	\$ 76,779	\$ -	\$ -	\$ 76,779	\$ -	\$ -	\$ 76,779
Construction in Progress	-	484,534	-	484,534	-	(484,534)	-
	<u>76,779</u>	<u>484,534</u>	<u>-</u>	<u>561,313</u>	<u>-</u>	<u>(484,534)</u>	<u>76,779</u>
Capital assets being depreciated							
Water and sewer systems, infrastructure, etc.	32,597,058	133,725	(3,994)	32,726,789	757,294	(123,979)	33,360,104
Machinery and equipment	1,359,199	24,497	(125,004)	1,258,692	48,724	(23,133)	1,284,283
Administration building and furnishings	320,334	-	(2,258)	318,076	-	(4,799)	313,277
	<u>34,276,591</u>	<u>158,222</u>	<u>(131,256)</u>	<u>34,303,557</u>	<u>806,018</u>	<u>(151,911)</u>	<u>34,957,664</u>
Less accumulated depreciation for:							
Water and sewer systems, infrastructure, etc.	(16,772,905)	(1,236,610)	3,994	(18,005,521)	(1,265,293)	68,429	(19,202,385)
Machinery and equipment	(951,584)	(67,811)	125,004	(894,391)	(62,730)	23,133	(933,988)
Administration building and furnishings	(244,841)	(17,054)	2,258	(259,637)	(14,864)	4,799	(269,702)
	<u>(17,969,330)</u>	<u>(1,321,475)</u>	<u>131,256</u>	<u>(19,159,549)</u>	<u>(1,342,887)</u>	<u>96,361</u>	<u>(20,406,075)</u>
Total capital assets being depreciated, net	16,307,261	(1,163,253)	-	15,144,008	(536,869)	(55,550)	14,551,589
Total capital assets, net	<u>\$ 16,384,040</u>	<u>\$ (678,719)</u>	<u>\$ -</u>	<u>\$ 15,705,321</u>	<u>\$ (536,869)</u>	<u>\$ (540,084)</u>	<u>\$ 14,628,368</u>

Deferred capacity activity for 2008 and 2009 was as follows:

Deferred capacity costs - Carlisle Area sewer treatment plant	\$ 2,589,834	\$ 105,000	\$ -	\$ 2,694,834	\$ 595,715	\$ -	\$ 3,290,549
Deferred capacity costs - Mt. Holly Springs sewer treatment plant	527,292	-	-	527,292	-	-	527,292
	<u>3,117,126</u>	<u>105,000</u>	<u>-</u>	<u>3,222,126</u>	<u>595,715</u>	<u>-</u>	<u>3,817,841</u>
Less: accumulated amortization	(1,183,828)	(88,364)	-	(1,272,192)	(85,363)	-	(1,357,555)
	<u>\$ 1,933,298</u>	<u>\$ 16,636</u>	<u>\$ -</u>	<u>\$ 1,949,934</u>	<u>\$ 510,352</u>	<u>\$ -</u>	<u>\$ 2,460,286</u>

SOUTH MIDDLETON TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS (Cont'd.)

DECEMBER 31, 2009 AND 2008

LONG-TERM INDEBTEDNESS

Change in indebtedness in 2009 is summarized as follows:

	Balance, January 1, <u>2009</u>	<u>New issue</u>	<u>Refunding</u>	<u>Scheduled Redemptions</u>	Balance, December 31, <u>2009</u>
Guaranteed Water and Sewer Revenue Bonds, Series of 2003	\$ 7,040,000	\$ -	\$ -	\$ 695,000	\$ 6,345,000

Change in indebtedness in 2008 is summarized as follows:

Guaranteed Water and Sewer Revenue Bonds, Series of 2003	\$ 7,730,000	\$ -	\$ -	\$ 690,000	\$ 7,040,000
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Debt service requirements at December 31, 2009 are as follows:

<u>Year</u>	<u>Total Debt Service Requirement</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 919,283	\$ 720,000	\$ 199,283
2011	908,433	730,000	178,433
2012	915,893	760,000	155,893
2013	901,983	770,000	131,983
2014	906,463	800,000	106,463
2015 to 2017	<u>2,709,031</u>	<u>2,565,000</u>	<u>144,031</u>
	\$ 7,261,086	\$ 6,345,000	\$ 916,086

The Guaranteed Water and Sewer Revenue Bonds, Series of 2003 bear interest at annual rates ranging from 2.00% to 3.75%, depending on maturity dates. The bonds are callable on or after February 1, 2009.

SOUTH MIDDLETON TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS (Cont'd.)

DECEMBER 31, 2009 AND 2008

PENSION PLAN

The Authority maintains a single-employer defined benefit pension plan which is not part of the Authority's reporting unit under GASB 34. All pension fund assets are administered by the Principal Financial Group. The following is a summary of the employee eligibility requirements and benefits under the plan:

- a. Covered employees - all full time (over 1,000 hours) employees after one year of service
- b. Eligibility for normal retirement - attainment of age 65
- c. Monthly pension benefit - 1.4% of average pay multiplied by accrual service (maximum of 30 years)
- d. Vesting - 20% after 3 years of service, plus 20% per each year thereafter, up to 100%
- e. Required employee contributions - employee contributions are not required

f. Payroll information:	<u>2009</u>		<u>2008</u>
Covered	\$ 580,978		\$ 558,395
Total	583,728		561,170

- g. Contributions - The Authority contributed \$ 46,408 and \$ 56,559 to the plan during 2009 and 2008, respectively. Annual contributions are based upon the Plan's Minimum Municipal Obligation, which is based on the Plan's biennial actuarial valuation. Employees are not required to contribute to the Plan.
- h. Net pension obligation (asset) - the plan has a net pension obligation (asset) ("NPO") at December 31 calculated as follows:

	<u>2009</u>		<u>2008</u>
Annual required contribution (ARC)	\$ 39,085		\$ 28,786
Interest on NPO	(6,073)		(4,149)
Adjustment to the ARC	<u>9,174</u>		<u>6,267</u>
Annual pension cost (APC)	42,186		30,904
Actual contributions paid	<u>(46,408)</u>		<u>(56,559)</u>
Change in NPO	(4,222)		(25,655)
NPO (asset) - beginning	<u>(80,978)</u>		<u>(55,323)</u>
 NPO (asset) - ending	 <u>\$ (85,200)</u>		 <u>\$ (80,978)</u>

SOUTH MIDDLETON TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS (Cont'd.)

DECEMBER 31, 2009 AND 2008

PENSION PLAN (Cont'd.)

<u>Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (asset)</u>
2007	\$ 27,769	108.41 %	\$ (55,323)
2008	30,904	183.02	(80,978)
2009	42,186	110.01	(85,200)

i. Supplementary information

Valuation - January 1, 2009 (latest available)

Actuarial cost method - Entry age normal method

Amortization method - Level dollar over a closed period

Actuarial asset valuation method - Market value for unallocated separate accounts; contract value for unallocated insurance contracts

Actuarial assumptions:

	<u>2009</u>	<u>2008</u>
Investment rate of return	7.5%	7.5%
Projected salary increases	4.5%	4.5%

j. Plan membership

As of January 1, the pension plan's membership consisted of:

	<u>2009</u>	<u>2008</u>
Active employees	11	10
Retirees and beneficiaries currently receiving benefits	1 (1)	1 (1)
Terminated employees entitled to benefits but not yet receiving them	<u>3</u>	<u>3</u>
Total	<u>15</u>	<u>14</u>

(1) Not included are those participants for whom an annuity has been purchased.

SOUTH MIDDLETON TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS (Cont'd.)

DECEMBER 31, 2009 AND 2008

PENSION PLAN (Cont'd.)

k. Schedule of employer contributions for the past six years

<u>Plan Year Ended</u>	<u>Annual Required Contribution</u>	<u>Actual Contribution</u>	<u>Percentage Contributed</u>
2003	\$ 29,215	\$ 30,786	105.38 %
2004	35,454	35,453	100.00
2005	38,047	38,047	100.00
2006	25,942	34,512	133.00
2007	25,740	30,103	117.00
2008	28,786	56,559	196.48
2009	39,085	46,408	118.74

l. Schedule of funding (through January 1, 2009 - latest date available)

<u>Actuarial Valuation at January 1</u>	<u>(1) Actuarial Value of Assets</u>	<u>(2) Actuarial Accrued Liability (AAL)</u>	<u>(3) Unfunded AAL (UAAAL) (2)-(1)</u>	<u>(4) Funded Ratio (1)/(2)</u>	<u>(5) Annual Covered Payroll</u>	<u>(6) UAAL As a % of Payroll [(2)-(1)]/5</u>
1999	\$ 360,608	\$ 387,043	\$ 26,435	93.17	\$ 313,492	8.43 %
2001	456,723	488,965	32,242	93.41	341,762	9.43
2003	570,636	647,185	76,549	88.17	393,989	19.43
2005	764,446	698,619	(65,827)	109.42	441,901	(14.90)
2007	969,928	856,757	(113,171)	113.00	437,451	(26.00)
2009	846,569	1,081,997	235,428	78.00	558,390	42.00

m. Significant factors affecting schedules

The following changes affect the comparability of costs since the January 1, 1999 plan year:

<u>Actuarial Valuation Date</u>	<u>Reason(s)</u>	<u>Change in Actuarial Accrued Liability</u>
01/01/99	Assumption change	\$ 19,639
01/01/05	Assumption change	(67,364)
01/01/07	Assumption change	25,192
01/01/09 (latest date available)	Assumption change	(105,932)

SOUTH MIDDLETON TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS (Cont'd.)

DECEMBER 31, 2009 AND 2008

COMPENSATED ABSENCES

Authority employees are entitled to receive vacation pay and sick pay based in part on the employees' length of service.

Sick pay accumulates at the rate of one day per month of employment. Employees who separate from service are not entitled to receive any compensation for unused sick leave. Unused sick pay accumulated through December 31, 2009 approximated \$ 194,554.

Vacation pay is earned based on the employees' length of service up to a maximum of five weeks per year. No more than two weeks of unused vacation pay may be carried over from one year to the next. Employees who separate from service are not entitled to receive any compensation for unused vacation. Unused vacation pay at December 31, 2009 approximated \$ 13,734.

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 coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Authority. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

INTER-MUNICIPAL AGREEMENTS

The Authority has entered into five inter-municipal agreements dealing with the treatment of sewage, the intention of which is to avoid duplication of facilities. A description of the agreements is as follows:

(a) Monroe Township

The Authority operates a regional sewage plant which services part of Monroe Township. In accordance with provisions of the agreement, Monroe Township is billed for its share of the actual net operating and maintenance expenses of the sewage treatment facilities. Monroe Township is also paying \$ 14,577 annually toward its initial capital contribution obligation. At December 31, 2009 Monroe Township still owed the Authority \$ 113,684 for the initial contribution. Treatment charges paid during 2009 and 2008 pursuant to this agreement, net of reimbursements amounted to \$ 160,219 and \$ 160,957, respectively.

SOUTH MIDDLETON TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS (Cont'd.)

DECEMBER 31, 2009 AND 2008

INTER-MUNICIPAL AGREEMENTS (Cont'd.)

(b) Carlisle Borough/Middlesex Township

The Authority has reserved capacity in the Carlisle Regional Sewage Treatment Plant. Under terms of the agreements, the Authority is obligated to pay treatment charges to Carlisle Borough based on the actual operating expenses pro-rated by the Authority's share of flows compared to the total treatment plant flows. Treatment charges paid during 2009 and 2008 approximated \$ 198,308 and \$ 145,699, respectively.

(c) Borough of Mount Holly Springs

The Authority has reserved capacity in the Mount Holly Springs Regional Sewage Treatment Plant. Under terms of the agreement, the Authority is obligated to pay treatment charges to the Borough of Mount Holly Springs based on the actual operating expenses pro-rated by the Authority's share of flows compared to the total treatment plant flows. Treatment charges paid, net of reimbursements during 2009 and 2008 amounted to \$ 85,378 and \$ 73,390, respectively.

(d) North Middleton Township

The Authority has agreed to transport and treat sewage emanating from a section of North Middleton Township through its Carlisle area collection system and reserve capacity in the Carlisle Treatment Plant in exchange for a capital contribution. Carlisle Borough bills North Middleton Township directly for its share of treatment charges.

(e) Dickinson Township

In 2008, the Authority agreed to transport and treat sewage emanating from a section of Dickinson Township through its Carlisle area collection system and reserve capacity in the Carlisle Treatment Plant. Dickinson Township will be billed using a combination of fixed rate and pro-rata flow share formula. No treatment charges were billed in 2009 or 2008.

The Authority has also entered into three inter-municipal agreements dealing with the purchases and/or sales of water with neighboring municipalities and water companies. Under these agreements, the Authority purchases water for consumption by township residents from both the Borough of Carlisle and the Borough of Mount Holly Springs, and also agrees to provide water to three entities as described in the following paragraphs.

SOUTH MIDDLETON TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS (Cont'd.)

DECEMBER 31, 2009 AND 2008

INTER-MUNICIPAL AGREEMENTS (Cont'd.)

The Authority has entered into agreements to provide Middlesex Township with reserve capacity of up to 1,500,000 gallons of water per day in exchange for capital payments from Middlesex Township Municipal Authority (MTMA). All future costs and expenses associated with capital improvements, repairs and/or extraordinary repairs with respect to the water supply system, storage tanks and transmission mains of the South Middletown water facilities will be shared based upon allocated gallons. As part of these agreements, the Authority also agreed to sell water to MTMA based on a formula. Such water sales receipts totaled \$ 151,857 and \$ 156,991 in 2009 and 2008, respectively.

The Authority has entered into an agreement to provide North Middleton Authority and/or North Middleton Township up to 25,000 gallons of water per day in exchange for a tapping fee payment of \$ 43,056. Middlesex Township Municipal Authority is also a party to this agreement. The fee for the water sales is based on a formula. Such water sales receipts totaled \$ 1,608 and \$ 1,700 in 2009 and 2008, respectively.

The Authority has entered into an agreement with Dickinson Township Municipal Authority to provide not more than 25,000 gallons of water a day. The fee for the water sales is based on a formula. Such water sales receipts totaled \$ 1,322 and \$ 4,691 in 2009 and 2008, respectively.

MAJOR CUSTOMERS

Certain customers account for a substantial amount of the Authority's gross operating revenues. Total revenues received in the Township Revenue Account from those customers whose purchases exceeded 5% of total sales in 2009 are as follows:

	2009		2008	
	Water	Sewer	Water	Sewer
P.P.G. Industries, Inc.	\$ 182,485	\$ 41,626	\$ 184,765	\$ 38,755
Land O Lakes	324,892	13,923	225,351	11,511
Middlesex Township	151,857	-	156,991	-
Monroe Township	-	160,219	-	160,957
Carlisle Regional Medical Center	30,143	174,652	18,154	122,994

COMMITMENTS AND CONTINGENCIES

The Authority is subject to claims and lawsuits which arise primarily in the ordinary course of business. It is management's opinion that any such actions would not have a material adverse effect on the financial position of the Authority.

SOUTH MIDDLETON TOWNSHIP MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS (Cont'd.)

DECEMBER 31, 2009 AND 2008

COMMITMENTS AND CONTINGENCIES (Cont'd.)

The Authority received written notification from the Borough of Carlisle regarding the renewal of its NPDES Permit. As part of the permit renewal, Carlisle is subject to the New Chesapeake Bay Clean-up Strategy Initiative, which changes the discharge limits of nitrogen and phosphorous allowed from the wastewater treatment facility. To comply with the new requirements, the Borough completed the design phase of the required sewer plant upgrades and received bids for the project on February 3, 2010. The Borough also received notification that it has been awarded a \$ 5,000,000 grant from the Commonwealth of Pennsylvania toward the project. The total project, including engineering, inspection and administrative costs, is estimated to be \$ 17,850,000. The Authority's share of the total project cost is currently estimated to be \$ 1,831,000. A payment of \$ 257,821 was deposited into an escrow account in April 2010 toward the Authority's obligation for this project.

The Authority has been monitoring the phosphorous and nitrogen levels at its own treatment plant, and received official notification in April 2010 of new DEP requirements which will be required by 2014. In anticipation of probable mandatory plant upgrades, the Authority had initiated a planning project to study the possible effects of expected mandates on its sewage treatment facilities.

SUBSEQUENT EVENTS

The Authority has evaluated subsequent events through June 14, 2010, the date which the financial statements were available to be issued. It is management's opinion that there are no subsequent events which require additional disclosure in the notes to financial statements.

SUPPLEMENTARY INFORMATION

SOUTH MIDDLETON TOWNSHIP MUNICIPAL AUTHORITY
SCHEDULE OF REVENUE AND EXPENSES AND CHANGES IN NET ASSETS -
MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2009

	Total	Water Operations Fund	Sewer Operations Fund
Operating revenue			
User fees (net)	\$ 3,722,425	\$ 1,639,739	\$ 2,082,686
Tapping, connection and other fees and permits	307,740	98,447	209,293
Total operating revenue	<u>4,030,165</u>	<u>1,738,186</u>	<u>2,291,979</u>
Operating expenses			
Operation and maintenance	1,811,625	479,285	1,332,340
Administration	457,146	226,207	230,939
Depreciation and amortization	1,428,250	538,493	889,757
Total operating expenses	<u>3,697,021</u>	<u>1,243,985</u>	<u>2,453,036</u>
Operating income (loss)	<u>333,144</u>	<u>494,201</u>	<u>(161,057)</u>
Nonoperating revenue (expenses)			
Investment income	1,043	448	595
Rental fees	16,875	10,125	6,750
Interest expense	(217,696)	(107,387)	(110,309)
Loss on disposal of capital assets	(55,550)	-	(55,550)
Nonoperating expenses in excess of revenue	<u>(255,328)</u>	<u>(96,814)</u>	<u>(158,514)</u>
Income (loss) before other revenues, expenses, gains, losses and transfers	77,816	397,387	(319,571)
Capital contributions	<u>220,829</u>	<u>-</u>	<u>220,829</u>
Increase (decrease) in net assets	298,645	397,387	(98,742)
Net assets, January 1	<u>15,259,585</u>	<u>5,403,498</u>	<u>9,856,087</u>
Net assets, December 31	<u>\$ 15,558,230</u>	<u>\$ 5,800,885</u>	<u>\$ 9,757,345</u>

SOUTH MIDDLETON TOWNSHIP MUNICIPAL AUTHORITY

WATER OPERATIONS

SCHEDULE OF REVENUE AND EXPENSES
 COMPARED TO BUDGET - MODIFIED CASH BASIS
 YEAR ENDED DECEMBER 31, 2009

	<u>Actual</u>	<u>Budget</u>	<u>Favorable (Unfavorable) Variance</u>
Operating revenue			
User fees (net)	\$ 1,639,739	\$ 1,646,129	\$ (6,390)
Tapping, connection and other fees and permits	98,447	150,133	(51,686)
Total operating revenue	<u>1,738,186</u>	<u>1,796,262</u>	<u>(58,076)</u>
Operating expenses			
Operation and maintenance			
Salaries and wages	100,960	146,756	45,796
Payroll taxes	8,439	11,676	3,237
Employee benefits	38,621	50,643	12,022
Maintenance	155,209	200,000	44,791
Chemicals	7,545	8,573	1,028
Electric	115,704	115,361	(343)
Lab testing	20,552	23,458	2,906
Vehicle expenses	8,962	7,526	(1,436)
Telephone	3,235	2,893	(342)
Insurance	20,003	22,026	2,023
Water purchases	55	1,500	1,445
	<u>479,285</u>	<u>590,412</u>	<u>111,127</u>
Administrative			
Salaries and wages	117,838	91,755	(26,083)
Payroll taxes	9,300	7,300	(2,000)
Employee benefits	40,169	31,663	(8,506)
Office expense	7,430	6,091	(1,339)
Data processing	8,602	3,597	(5,005)
Engineering	8,324	21,500	13,176
Legal	5,200	9,442	4,242
Audit	5,600	5,688	88
Officers' salaries	1,812	1,500	(312)
Postal supplies	5,156	3,364	(1,792)
Education	3,389	3,351	(38)
Maintenance	4,987	5,515	528
Telephone	4,112	4,386	274
Electric	1,773	3,268	1,495
Trustee fees	2,080	2,080	-
Insurance	435	481	46
	<u>226,207</u>	<u>200,981</u>	<u>(25,226)</u>

(Continued)

SOUTH MIDDLETON TOWNSHIP MUNICIPAL AUTHORITY
WATER OPERATIONS
SCHEDULE OF REVENUE AND EXPENSES
COMPARED TO BUDGET - MODIFIED CASH BASIS (Cont'd.)
YEAR ENDED DECEMBER 31, 2009

	<u>Actual</u>	<u>Budget</u>	Favorable (Unfavorable) Variance
Operating expenses (Cont'd.)			
Depreciation and amortization	\$ 538,493	\$ 548,191	\$ 9,698
Total operating expenses	<u>1,243,985</u>	<u>1,339,584</u>	<u>95,599</u>
Operating revenue over (under) operating expenses	<u>494,201</u>	<u>456,678</u>	<u>37,523</u>
Nonoperating revenue (expenses)			
Interest earned	448	17,702	(17,254)
Rental fees	10,125	-	10,125
Interest expense	<u>(107,387)</u>	<u>(107,387)</u>	<u>-</u>
Total nonoperating revenue (expenses)	<u>(96,814)</u>	<u>(89,685)</u>	<u>(7,129)</u>
Income (loss) before other revenues, expenses, gains, losses and transfers	397,387	366,993	30,394
Capital contributions	<u>-</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	<u>\$ 397,387</u>	<u>\$ 366,993</u>	<u>\$ 30,394</u>

SOUTH MIDDLETON TOWNSHIP MUNICIPAL AUTHORITY

SEWER OPERATIONS

SCHEDULE OF REVENUE AND EXPENSES

COMPARED TO BUDGET - MODIFIED CASH BASIS

YEAR ENDED DECEMBER 31, 2009

	<u>Actual</u>	<u>Budget</u>	Favorable (Unfavorable) Variance
Operating revenue			
User fees (net)	\$ 2,082,686	\$ 2,056,921	\$ 25,765
Tapping, connection and other fees and permits	209,293	273,999	(64,706)
Total operating revenue	<u>2,291,979</u>	<u>2,330,920</u>	<u>(38,941)</u>
Operating expenses			
Operation and maintenance			
Salaries and wages	261,935	254,409	(7,526)
Payroll taxes	21,595	20,242	(1,353)
Employee benefits	84,542	87,793	3,251
Maintenance	183,643	125,000	(58,643)
Chemicals	66,466	70,812	4,346
Electric	167,715	153,879	(13,836)
Lab testing	47,463	26,385	(21,078)
Vehicle expenses	13,154	11,284	(1,870)
Telephone	5,556	5,556	-
Insurance	34,072	31,198	(2,874)
Sludge removal	162,512	65,000	(97,512)
Carlisle treatment charges	198,309	223,494	25,185
Mt. Holly treatment charges	85,378	71,983	(13,395)
	<u>1,332,340</u>	<u>1,147,035</u>	<u>(185,305)</u>
Administrative			
Salaries and wages	99,335	87,723	(11,612)
Payroll taxes	7,845	6,979	(866)
Employee benefits	31,314	30,272	(1,042)
Office expense	10,904	7,893	(3,011)
Data processing	12,716	5,221	(7,495)
Engineering	26,539	31,500	4,961
Legal	6,819	10,717	3,898
Audit	8,000	7,688	(312)
Officers' salaries	1,812	1,500	(312)
Postal supplies	7,734	5,046	(2,688)
Education	4,034	3,625	(409)
Maintenance and repairs	5,042	5,525	483
Telephone	4,557	4,946	389
Electric	1,773	3,268	1,495
Trustee fees	2,080	2,080	-
Insurance	435	481	46
	<u>230,939</u>	<u>214,464</u>	<u>(16,475)</u>

(Continued)

SOUTH MIDDLETON TOWNSHIP MUNICIPAL AUTHORITY
SEWER OPERATIONS
SCHEDULE OF REVENUE AND EXPENSES
COMPARED TO BUDGET - MODIFIED CASH BASIS (Cont'd.)
YEAR ENDED DECEMBER 31, 2009

	<u>Actual</u>	<u>Budget</u>	Favorable (Unfavorable) Variance
Operating expenses (Cont'd.)			
Depreciation and amortization	\$ 889,757	\$ 859,145	\$ (30,612)
Total operating expenses	<u>2,453,036</u>	<u>2,220,644</u>	<u>(232,392)</u>
Operating income (loss)	<u>(161,057)</u>	<u>110,276</u>	<u>(271,333)</u>
Nonoperating revenue (expenses)			
Interest earned	595	8,792	(8,197)
Rental fees	6,750	-	6,750
Interest expense	(110,309)	(110,309)	-
Loss on disposition of fixed assets	<u>(55,550)</u>	<u>-</u>	<u>(55,550)</u>
Total nonoperating revenue (expenses)	<u>(158,514)</u>	<u>(101,517)</u>	<u>(56,997)</u>
Income (loss) before other revenues, expenses, gains, losses and transfers	(319,571)	8,759	(328,330)
Capital contributions	<u>220,829</u>	<u>208,023</u>	<u>12,806</u>
Increase (decrease) in net assets	<u>\$ (98,742)</u>	<u>\$ 216,782</u>	<u>\$ (315,524)</u>



Greenawalt & Company, P.C.

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INDEPENDENT AUDITOR'S REPORT

South Middleton Township
Municipal Authority
Boiling Springs, Pennsylvania

We have audited the statement of net assets – modified cash basis, of South Middleton Township Municipal Authority as of and for the years ended December 31, 2009 and 2008, and the related statements of revenue and expenses and changes in net assets – modified cash basis and cash flows for the years then ended in accordance with auditing standards generally accepted in the United States, and have issued our report thereon dated June 14, 2010.

In connection with our audit, nothing came to our attention that caused us to believe that South Middleton Township Municipal Authority failed to comply with the terms, covenants, provisions or conditions of the Trust Indenture dated July 15, 2003 with M&T Bank insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the Board of Directors and management of South Middleton Township Municipal Authority and M&T Bank and is not intended to be and should not be used by anyone other than these specified parties.

Greenawalt & Company, P.C.
GREENAWALT & COMPANY, P.C.

June 14, 2010

Mechanicsburg, Pennsylvania