

Lancaster Area Sewer Authority

**Financial Statements and
Supplementary Information**

Years Ended March 31, 2013 and 2012

Lancaster Area Sewer Authority

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Years Ended March 31, 2013 and 2012

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Independent Auditor's Report

To the Board of Directors
Lancaster Area Sewer Authority
Lancaster County, Pennsylvania

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Lancaster Area Sewer Authority, which comprise the statement of net position as of March 31, 2013 and 2012, and the related statements of revenue, expenses, and changes in net position and cash flows for the years then ended and the related notes to the financial statements.

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 an opinion on these 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 required that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 misstatements 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lancaster Area Sewer Authority as of March 31, 2013 and 2012, and the results of its operations and its cash flow for the years ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 11 and required supplementary information on page 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of the 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because of the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying other supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates 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 audits 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 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 as a whole.

Adoption of GASB Statement No. 63 and No. 65

As discussed in Note 1 to the financial statements, as of March 31, 2013, the Authority elected to adopt GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Reinsel Kintz Leshner LLP

July 25, 2013
Lancaster, Pennsylvania

Lancaster Area Sewer Authority

Management's Discussion and Analysis Year ended March 31, 2013

The Lancaster Area Sewer Authority (the Authority) presents the following narrative and analysis to assist the reader in understanding the financial activities of the Authority for the fiscal year ending March 31, 2013.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Authority is a governmental entity engaged in business-type activities. The Authority's financial statements consist of two components: 1) enterprise fund financial statements and 2) notes to the financial statements. The financial statements in the attached report present fairly, in all material respects, the financial position of the Authority as of March 31, 2013 and March 31, 2012 and the results of the Authority's operations and cash flows for the years then ended.

FINANCIAL HIGHLIGHTS

- For fiscal year ending March 31, 2013, assets of the Authority exceeded liabilities by \$63.2 million. Of this amount, \$36.5 million was invested in capital assets net of related debt, while \$24.7 million were restricted funds in the custody of the Trustee. The Authority's net position increased by \$3.4 million, or 5.6%, in fiscal year 2013.
- Operating revenue for fiscal year 2013 showed a 9.9% decrease over fiscal year 2012. Decreases in tapping fee income, trucked waste revenue, and bulk treatment costs of 7.2% combined with a decrease in miscellaneous income of 5.8% were offset by a 3.1% increase in sewer rental and industrial waste surcharge income.
- Operating expenses increased 1.3% over fiscal year 2012 while nonoperating expenses decreased 8.6%.

FINANCIAL ANALYSIS

As Table 1 below indicates, the Authority's net position increased \$3.4 million to \$63.2 million in 2013 from \$59.9 million in 2012. The increase in total net position was primarily due to a \$4.2 million increase in net investment in capital assets.

Lancaster Area Sewer Authority

Management's Discussion and Analysis Year ended March 31, 2013

	March 31, 2013	March 31, 2012	March 31, 2011
Assets:			
Current Assets	\$ 10,731,467	\$ 10,518,748	\$ 8,516,700
Capital Assets	93,813,792	93,869,583	93,362,263
Funds in Custody of Trustee	20,042,968	20,832,092	22,475,383
Other Noncurrent Assets	1,219,499	1,430,224	515,563
Total Assets	<u>\$ 125,807,726</u>	<u>\$ 126,650,647</u>	<u>\$ 124,869,909</u>
Liabilities:			
Current Liabilities	\$ 9,927,349	\$ 9,775,403	\$ 8,650,306
Long-term Debt Outstanding	52,646,198	56,993,402	61,569,774
Total Liabilities	<u>62,573,547</u>	<u>66,768,805</u>	<u>70,220,080</u>
Net Position:			
Invested in Capital Assets	36,497,594	32,271,181	28,132,059
Restricted Net Assets	24,712,968	25,437,092	26,940,383
Unrestricted Net Assets (Deficit)	2,023,617	2,173,569	(422,613)
Total Net Position	<u>\$ 63,234,179</u>	<u>\$ 59,881,842</u>	<u>\$ 54,649,829</u>

Table 1 - Condensed Statement of Net Position

Table 2 below shows a condensed Statement of Revenue, Expenses, and Changes in Net Position for the years ended March 31, 2013, 2012, and 2011. The change in net position decreased from \$5.2 million in fiscal year 2012 to \$3.4 million in fiscal year 2013. Operating income decreased \$2 million over last year while nonoperating revenue and capital contributions decreased \$0.1 million over fiscal year 2012.

Lancaster Area Sewer Authority

Management's Discussion and Analysis Year ended March 31, 2013

	March 31, 2013	March 31, 2012	March 31, 2011
Operating Revenue	\$ 17,071,998	\$ 18,942,900	\$ 15,886,065
Operating Expenses	<u>12,256,619</u>	<u>12,093,174</u>	<u>11,500,502</u>
Operating Income	<u>4,815,379</u>	<u>6,849,726</u>	<u>4,385,563</u>
Non-Operating Revenue (Expenses)	<u>(2,240,446)</u>	<u>(2,443,044)</u>	<u>(2,555,921)</u>
Income Before Capital Contribution	2,574,933	4,406,682	1,829,642
Capital Contribution	<u>777,404</u>	<u>825,331</u>	<u>1,314,293</u>
Change in Net Position	3,352,337	5,232,013	3,143,935
Net Position, Beginning of Year	<u>59,881,842</u>	<u>54,649,829</u>	<u>51,505,894</u>
Net Position, End of Year	<u>\$ 63,234,179</u>	<u>\$ 59,881,842</u>	<u>\$ 54,649,829</u>

Table 2 - Condensed Statement of Revenues, Expenses, and Changes in Net Position

Table 3 and Table 4 below show a breakdown of fiscal year 2013 Operating Revenue and Operating Expenses, respectively.

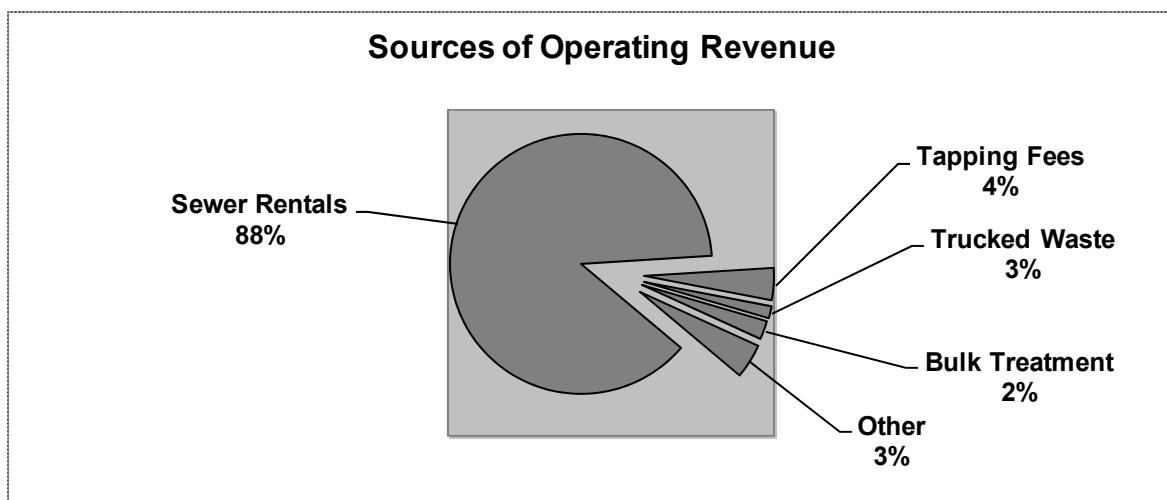


Table 3 - Sources of Operating Revenue - Fiscal Year 2013

Lancaster Area Sewer Authority

Management's Discussion and Analysis Year ended March 31, 2013

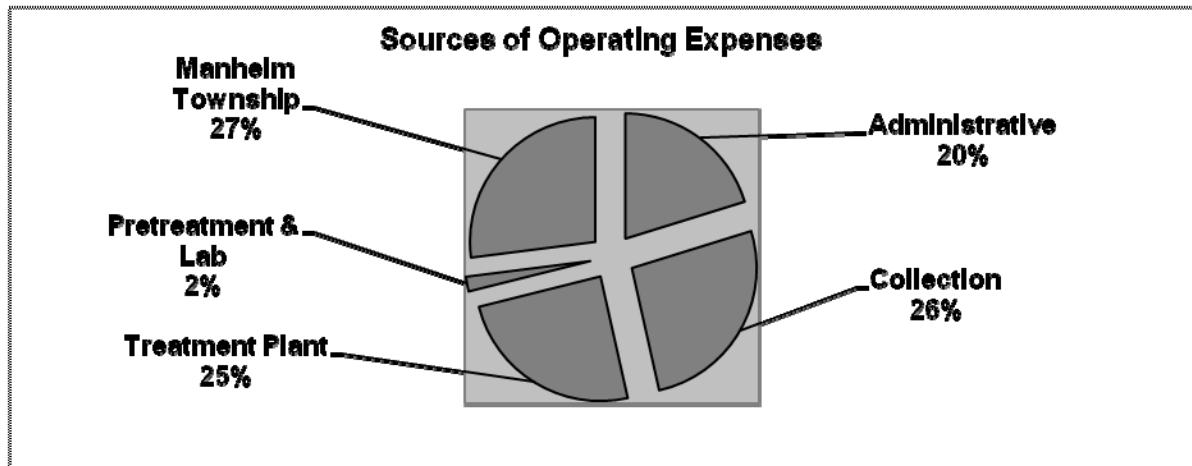


Table 4 - Sources of Operating Expenses - Fiscal Year 2013

BUDGETARY HIGHLIGHTS

The Authority adopts an annual operating budget and a five-year capital plan. The operating budget includes proposed expenses and the means of financing them. A 2013 budget to actual comparison is presented in Table 5 below.

	Original Budget	Actual	Variance
Revenues			
Sewer Rentals & Surcharges	\$ 15,884,693	\$ 15,224,849	\$ (659,844)
Tapping Fee	766,100	676,520	(89,580)
Investment Income	263,678	340,699	77,021
Other Income	721,172	1,170,629	449,457
Total Income	17,635,643	17,412,697	(222,946)
Operating Expenses			
Administrative	2,260,409	2,424,507	(164,098)
Maintenance & Collection	1,613,234	1,627,763	(14,529)
Treatment Plant	2,242,635	2,227,349	15,286
Laboratory & Pretreatment	264,561	297,847	(33,286)
Manheim Township	2,401,873	1,919,544	482,329
Depreciation	3,713,000	3,759,609	(46,609)
Total Expenses	12,495,712	12,256,619	239,093
Operating Income	\$ 5,139,931	\$ 5,156,078	\$ 16,147

Table 5 - Budget vs. Actual - Fiscal Year 2013

Lancaster Area Sewer Authority

Management's Discussion and Analysis Year ended March 31, 2013

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Authority's capital assets, net of accumulated depreciation, as of March 31, 2013 were \$93.8 million. The Authority capitalizes all assets costing more than \$20,000 whose expected life exceeds 12 months. A condensed Statement of Capital Assets for fiscal years 2013, 2012, and 2011 is presented in Table 6 below. Additional information on the Authority's capital assets can be found in Note 4 of the financial statements.

	2013	2012	2011
Construction in Progress	\$ 3,352,099	\$ 8,095,525	\$ 5,964,160
Land	36,257	36,257	36,257
Sewer System			
Lines	82,505,498	76,440,466	75,087,350
Pump Stations	31,842,537	31,400,018	31,237,697
Treatment Plant	35,939,827	34,305,387	34,084,572
Buildings & Improvements	3,159,096	3,159,096	3,159,096
Technology	937,000	799,087	710,340
Vehicles	1,735,156	1,636,674	1,631,170
Equipment	602,551	602,551	499,048
	<u>160,110,021</u>	<u>156,475,061</u>	<u>152,409,690</u>
Total Accumulated Depreciation	<u>(66,296,229)</u>	<u>(62,605,478)</u>	<u>(59,047,427)</u>
Total Capital Assets	<u>\$ 93,813,792</u>	<u>\$ 93,869,583</u>	<u>\$ 93,362,263</u>

Table 6 - Condensed Statement of Capital Assets - Fiscal Years 2013, 2012, and 2011

Debt Administration

At the end of March 31, 2013, the Authority had \$57.44 million of Sewer Revenue Bonds outstanding, a decrease of \$2.715 million from March 31, 2012. The Series 2012 Sewer Revenue Bonds issued May 8, 2012 and the Series 2013 Sewer Revenue Bonds issued February 14, 2013 refunded most of the 2004 Series Sewer Revenue Bonds and reduced the related total debt service requirements by \$777,000 and \$1,106,000, respectively. Combined with refundings in 2010, 2005, and 2002, the Authority has reduced more than \$6.8 million from its debt service costs over the next 15 years. Additional information on the Authority's debt administration can be found in Note 5 to the financial statements.

Moody's Investor Service has assigned all of the Authority's Bond issues the rating "Aaa", based on issuance and delivery of municipal bond insurance policies. In December 2008, Standard & Poor's changed the underlying rating from "A-" to "A+" for all of the Authority's bonds.

Lancaster Area Sewer Authority

Management's Discussion and Analysis Year ended March 31, 2013

REVIEW OF OPERATIONS

The Authority operates and maintains approximately 525 miles of pipeline, 38 pumping stations, and a 15 MGD wastewater treatment plant. According to the Authority's 2012 Municipal Wasteload Management report to the Pennsylvania Department of Environmental Protection, the annual average daily flow treated at the plant was 8.336 MGD. The Authority has a regularly scheduled program of pumping station maintenance and an ongoing program of sewer line flushing and repair. Overall the collection and conveyance system and the treatment plant were in good to excellent condition with an adopted Five Year Capital Plan that is formulated to maintain that status.

BUSINESS OUTLOOK

The Authority's Operating Budget provides a plan for short-term operational expenditures and debt service, while the Comprehensive Financial Plan, coupled with the Five Year Capital Improvement Plan, allows the Authority to look to the future for long range planning and ongoing implementation of the Authority's Strategic Plan.

The Comprehensive Financial Plan incorporates all revenue sources available to meet the requirements of the Five Year Capital Improvement Plan and all projected operating expenditures and debt service. It is a dynamic document, subject to annual review, that provides the Board and management with a long-range planning tool.

The current Comprehensive Financial Plan follows the same principles established in previous years by maintaining minimum balances in the Bond Redemption and Improvement Fund (BRIF) and the Capital Asset Replacement Fund (CARF). Each of these funds acts as the repository for the funding of the Five Year Capital Plan as well as self-insured pollution liability coverage.

The following are several key elements included in the Comprehensive Financial Plan, which covers fiscal year 2014 through fiscal year 2018.

REVENUE

Table 7 below shows anticipated revenue over the next five-year period.

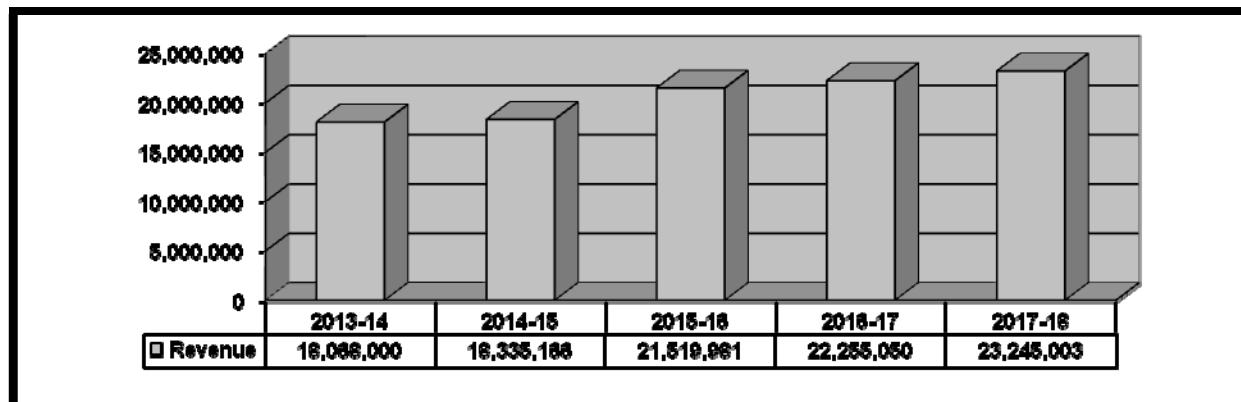


Table 7 - Total Revenue Projection - Fiscal Years 2014-2018

Lancaster Area Sewer Authority

Management's Discussion and Analysis Year ended March 31, 2013

Sewer rental income should continue to grow at 1.5% to 2.4% for the forecast period. Starting in fiscal year 2014 through the remainder of the planning period, additional increases in flat rate rental income are due to annual rate increases and new connections resulting from the sewerage of the needs areas identified in the Act 537 Plan.

Revenue from metered customers is expected to follow below historic trends with a minimal 2% - 2.7% annual growth over the next five years. The major industrial/commercial customer base remains solid and should continue to provide a strong base of revenue. The same can be projected for surcharge income, which is generated by high strength industrial and commercial wastes.

Investment income will increase slightly over the last three years of the projection period as projected increases in the rate of return offset projected capital reserve decreases. The current rate of return on reserves is projected to be 0.84% in fiscal year 2014 before moving back up to 2.0% by the end of the planning period.

OPERATING EXPENDITURES

The chart below shows anticipated operating expenditures over the next five-year period.

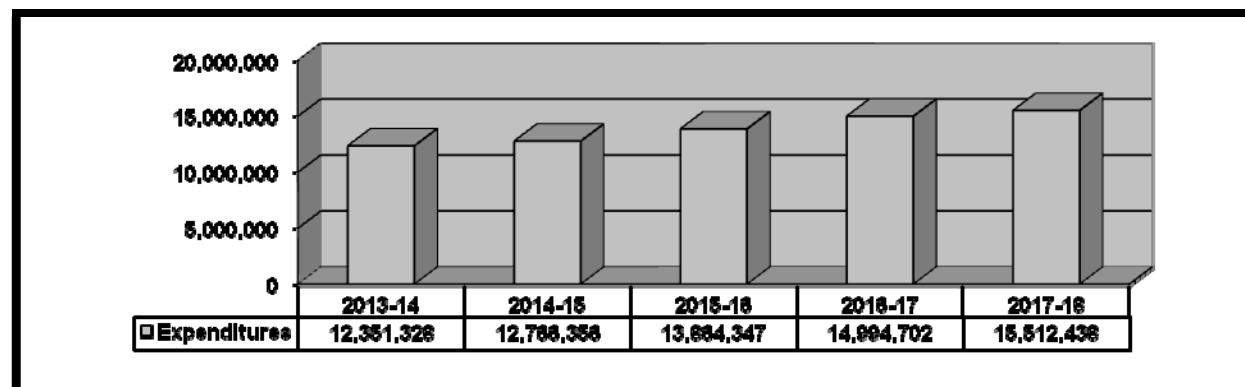


Table 8 - Total Operating Expenditures - Fiscal Years 2014-2018

Total operating expenses in fiscal year 2014 are budgeted to increase 0.8%. Operating expenses in fiscal years 2015 to 2018, with the exception of employee benefits, are projected to increase at an average annual rate of 3%. Health care costs continue to rise and are projected to increase at an annual rate of 7% for the next five years.

Lancaster Area Sewer Authority

Management's Discussion and Analysis Year ended March 31, 2013

FIVE YEAR CAPITAL IMPROVEMENTS PLAN

The current capital improvements plan reflects the Authority's commitment to upgrade the performance of the collection and conveyance system as well as the treatment plant. A well-defined and planned capital improvement plan allows for timely maintenance, improvement, and replacement of the facilities while reducing costly emergency repairs and unexpected improvements.

By looking forward at least five years, the Authority can begin now to put in place funding necessary to accomplish the necessary upgrades, replacements, and improvements that keep the system operating efficiently and within regulatory requirements.

Bond Redemption and Improvement Fund (BRIF)

Total improvements for the five-year period are estimated to be \$73.4 million. Table 9 below depicts the anticipated capital improvement costs over the next five years.

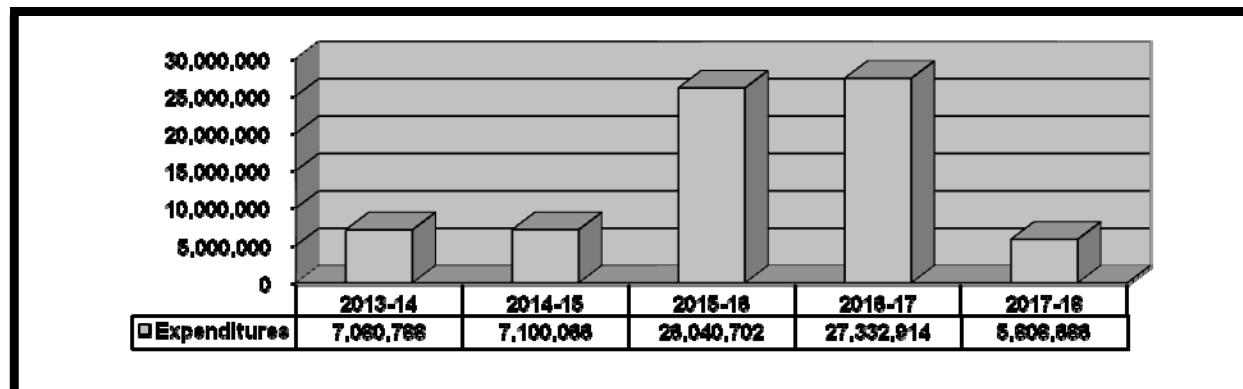


Table 9 - BRIF Expenditures - Fiscal Years 2014-2018

86% of the BRIF improvements planned over the next five years are designated for treatment plant upgrades to allow the plant to remain in compliance with discharge regulations and to expand the plant to receive most of the flow currently going to the City of Lancaster. A bond issue of \$55 million is planned in fiscal year 2015 to help fund the improvements. The remaining BRIF projects will require an additional \$9.4 million to fund Act 537 sewer extensions and other collection system updates. A reserve balance of over \$8.8 million will remain at the end of the five-year period.

Lancaster Area Sewer Authority

Management's Discussion and Analysis Year ended March 31, 2013

Capital Asset Replacement Fund (CARF)

The CARF is designed to provide funds for replacement of existing assets as they reach the end of their useful life. Total replacements for the five-year period are estimated to be \$5.1 million. Table 10 below provides a year by year graphic of the planned replacement expenditures.

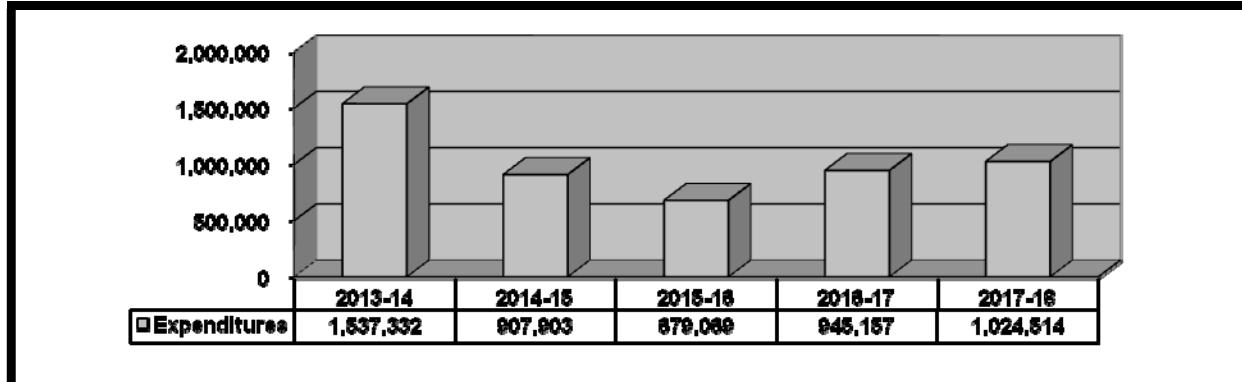


Table 10 - CARF Expenditures - Fiscal Years 2014-2018

Almost half of the CARF replacement costs over the next five years are designated to rehabilitate or replace deteriorating sections of the collection system. \$2.5 million will be spent to rehabilitate these sections. The remaining \$2.6 million will be used to replace obsolete equipment throughout the Authority's asset base. The CARF is projected to have an estimated \$1.6 million reserve at the end of the five-year planning period.

Respectfully submitted:

R. Michael Lehman, CPA
Financial Director

Michael A. Kyle
Executive Director

Lancaster Area Sewer Authority

Statement of Net Position

	March 31,	
	2013	2012
Assets		
Current Assets		
Cash and cash equivalents	\$ 4,152,431	\$ 4,172,425
Funds in custody of trustee, restricted	4,670,000	4,605,000
Accounts receivable	<u>1,909,036</u>	<u>1,741,323</u>
Total Current Assets	<u>10,731,467</u>	<u>10,518,748</u>
Capital Assets		
Capital assets not being depreciated		
Land	36,257	36,257
Construction in progress	<u>3,352,099</u>	<u>8,095,525</u>
	<u>3,388,356</u>	<u>8,131,782</u>
Capital assets being depreciated		
Sewer system - lines	82,505,498	76,440,466
Sewer system - pump stations	31,842,537	31,400,018
Sewer system - treatment plant	35,939,827	34,305,387
Buildings and improvements	3,159,096	3,159,096
Technology	937,000	799,087
Vehicles	1,735,156	1,636,674
Equipment	<u>602,551</u>	<u>602,551</u>
	<u>156,721,665</u>	<u>148,343,279</u>
Less accumulated depreciation	<u>66,296,229</u>	<u>62,605,478</u>
	<u>90,425,436</u>	<u>85,737,801</u>
Capital Assets, Net	<u>93,813,792</u>	<u>93,869,583</u>
Accounts Receivable, Net of Current Portion	<u>788,459</u>	<u>955,297</u>
Funds in Custody of Trustee, Restricted	<u>20,042,968</u>	<u>20,832,092</u>
Net Pension Asset	<u>431,040</u>	<u>474,927</u>
Total Assets	<u>125,807,726</u>	<u>126,650,647</u>

Lancaster Area Sewer Authority

Statement of Net Position (continued)

	March 31,	
	2013	2012
<i>Liabilities and Net Position</i>		
Current Liabilities		
Escrow funds payable	555,299	861,902
Trade accounts payable	951,981	959,808
Accrued expenses	2,784,103	2,395,656
Revenues received in advance	965,966	953,037
Current portion of sewer revenue bonds payable	<u>4,670,000</u>	<u>4,605,000</u>
Total Current Liabilities	<u>9,927,349</u>	<u>9,775,403</u>
Bonds Payable		
Sewer revenue bonds payable, net of current portion	52,770,000	55,550,000
Net unamortized bond premium/discount and deferred refunding loss	<u>(123,802)</u>	<u>1,443,402</u>
Net Bonds Payable	<u>52,646,198</u>	<u>56,993,402</u>
Total Liabilities	<u>62,573,547</u>	<u>66,768,805</u>
Net Position		
Invested in capital assets, net of related debt	36,497,594	32,271,181
Restricted		
Bond redemption and improvements account	11,302,601	13,236,521
Revenue account	2,769,931	2,396,862
Debt service reserve	9,619,488	8,126,236
Rebate account	61	61
Capital asset replacement account	<u>1,020,887</u>	<u>1,677,412</u>
Total Restricted	<u>24,712,968</u>	<u>25,437,092</u>
Unrestricted		
	<u>2,023,617</u>	<u>2,173,569</u>
Total Net Position	<u>\$ 63,234,179</u>	<u>\$ 59,881,842</u>

Lancaster Area Sewer Authority

Statement of Revenues, Expenses, and Changes in Net Position

	Years Ended March 31,	
	2013	2012
Operating Revenue		
Sewer rental	\$ 15,006,858	\$ 14,494,376
Tapping fees	676,520	1,189,388
Industrial waste surcharges	217,991	123,169
Capacity reservation fees	97,553	107,758
Bulk treatment fees	384,742	1,146,268
Trucked waste program	263,664	345,730
Miscellaneous income	<u>424,670</u>	<u>1,536,211</u>
Total Operating Revenue	<u>17,071,998</u>	<u>18,942,900</u>
Operating Expenses		
Administrative	2,571,348	2,440,619
Collection department	3,363,658	3,183,483
Treatment plant	3,153,209	2,970,809
Pretreatment program and laboratory department	316,822	231,939
Manheim Township	<u>2,851,582</u>	<u>3,266,324</u>
Total Operating Expenses	<u>12,256,619</u>	<u>12,093,174</u>
Operating Income	<u>4,815,379</u>	<u>6,849,726</u>
Nonoperating Revenues (Expenses)		
Interest income	340,699	382,502
Interest expense - bonds	(2,258,349)	(2,796,918)
Amortization and bond issuance expense	<u>(322,796)</u>	<u>(28,628)</u>
Total Nonoperating Revenues (Expenses)	<u>(2,240,446)</u>	<u>(2,443,044)</u>
Income Before Capital Contributions	<u>2,574,933</u>	<u>4,406,682</u>
Capital Contributions	<u>777,404</u>	<u>825,331</u>
Increase in Net Position	<u>3,352,337</u>	<u>5,232,013</u>
Net Position, Beginning, as Previously Reported	<u>59,881,842</u>	<u>55,454,399</u>
Prior period adjustment	-	<u>(804,570)</u>
Net Position, Beginning, as Restated	<u>59,881,842</u>	<u>54,649,829</u>
Net Position, Ending	<u>\$ 63,234,179</u>	<u>\$ 59,881,842</u>

Lancaster Area Sewer Authority

Statement of Cash Flows

	Years Ended March 31,	
	2013	2012
Cash Flows from Operating Activities		
Cash received from customers	\$ 17,084,052	\$ 17,609,024
Cash payments to suppliers for goods and services	(5,738,644)	(5,332,359)
Cash payments to employees for services	<u>(2,333,859)</u>	<u>(2,272,673)</u>
Net Cash Provided by Operating Activities	<u>9,011,549</u>	<u>10,003,992</u>
Cash Flows from Capital and Related Financing Activities		
Cash paid for bond principal payments	(22,465,000)	(4,465,000)
Issuance of new debt	19,750,000	-
Cash paid to issue debt	(1,890,000)	-
Interest paid on bonds	(2,258,349)	(2,796,918)
Acquisition and construction of capital assets	<u>(2,926,414)</u>	<u>(3,289,237)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(9,789,763)</u>	<u>(10,551,155)</u>
Cash Flows from Investing Activities		
Decrease in funds held in custody of trustee	724,124	1,503,291
(Decrease) increase in escrow deposits	(306,603)	69,782
Investment income received	<u>340,699</u>	<u>382,502</u>
Net Cash Provided by Investing Activities	<u>758,220</u>	<u>1,955,575</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(19,994)</u>	<u>1,408,412</u>
Cash and Cash Equivalents at Beginning of Year	<u>4,172,425</u>	<u>2,764,013</u>
Cash and Cash Equivalents at End of Year	<u>\$ 4,152,431</u>	<u>\$ 4,172,425</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 4,815,379	\$ 6,849,726
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	3,759,609	3,607,248
Amortization of pension asset	43,887	40,636
Change in assets and liabilities		
Increase in accounts receivable	(875)	(1,420,410)
Decrease in prepaid expenses	-	11,477
(Decrease) increase in accounts payable	(7,827)	326,282
Increase in revenues received in advance	12,929	86,534
Increase in accrued expenses	<u>388,447</u>	<u>502,499</u>
Net Cash Provided by Operating Activities	<u>\$ 9,011,549</u>	<u>\$ 10,003,992</u>
Supplemental Disclosure of Cash Flow Information		
Noncash capital activities, contribution of capital assets from developers	<u>\$ 777,404</u>	<u>\$ 825,331</u>

Lancaster Area Sewer Authority

Notes to Financial Statements

Years Ended March 31, 2013 and 2012

Note 1 - Summary of Significant Accounting Policies

Operations

The Lancaster Area Sewer Authority, formed under the Municipality Authorities Act, was incorporated on March 17, 1965 under the laws of the Commonwealth of Pennsylvania. The Authority is governed by a Board of Directors comprised of seven members. One member of the Board of Directors is appointed by each of the six boroughs/townships who organized the Authority in 1965 and a seventh board member is appointed by Manheim Township.

The Authority was organized by the boroughs of East Petersburg and Mountville and the townships of East Hempfield, Lancaster, Manor, and West Hempfield for the purpose of providing a sanitary sewer system for the residents of all or a portion of these areas. Subsequent to the original system, Manheim Township was added and is now served in its entirety by the Authority.

The Authority has no taxing authority; however, under the Trust Indenture the Authority covenants that so long as any sewer revenue bonds shall remain outstanding it will provide income, as therein defined, for (a) payment of the expenses of operating, maintaining, repairing, etc. of the sewer system, (b) for the payment of reasonable administrative expenses of the Authority in connection with the sewer system, and (c) an amount equal to at least one hundred five percent (105%) of the average annual debt service. For the years ended March 31, 2013 and 2012, the Authority has met the rate covenant requirements. The Authority's rates are not subjected to regulatory compliance.

The following paragraphs describe the more significant accounting policies used by the Lancaster Area Sewer Authority.

Reporting Entity

Accounting principles generally accepted in the United States of America require the financial statements of the reporting entity (the Authority) include those of the Lancaster Area Sewer Authority and any component units. Consistent with applicable guidance, the criteria used by the entity are financial accountability and the nature and significance of the relationship. In determining financial accountability in a given situation, the Authority reviews the applicability of the following criteria.

Lancaster Area Sewer Authority

Notes to Financial Statements

Years Ended March 31, 2013 and 2012

Note 1 - Summary of Significant Accounting Policies (continued)

Reporting Entity (continued)

The Authority is financially accountable for:

1. Organizations that make up the legal reporting entity.
2. Legally separate organizations, if the Authority appoints a voting majority of the organizations' governing body and the Authority is able to impose its will on the organization or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Authority.

The Authority is able to impose its will on an organization if the Authority can significantly influence the programs, projects, or activities of, or the level of services performed or provided by the organization.

There is potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Authority if the Authority (a) is entitled to the organization's resources, (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to the organization, or (c) is obligated in some manner for the debt of the organization.

3. Organizations that are fiscally dependent on the Authority.

Based on the criteria above, there were no additional entities required to be included in the report under these criteria for the current period.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The 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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 are generally followed to the extent that these standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Authority has elected to follow subsequent private-sector guidance, subject to the same limitation.

Operating revenues and expenses are distinguished from nonoperating items in the statement of revenues, expenses, and changes in net assets. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for the collection and treatment of wastewater. Operating expenses include the cost of providing services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal nonoperating revenues of the Authority are interest income. The principal nonoperating expenses of the Authority are interest expense and amortization expense.

Lancaster Area Sewer Authority

Notes to Financial Statements

Years Ended March 31, 2013 and 2012

Note 1 - Summary of Significant Accounting Policies (continued)

Governmental Accounting Standards Board (GASB) Pronouncements

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflow of Resources, Deferred Inflows of Resources, and Net Position*. The objective of this statement is to provide guidance for reporting of deferred inflows and outflows of resources which are distinctly different from assets and liabilities. As a result of reporting these additional elements, the residual balances will be considered as net position, rather than net assets. The adoption of this statement did not result in a reclassification of any assets or liabilities.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of this statement is to reclassify certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. In addition, this statement recognizes certain items currently being reported as assets and liabilities as outflows of resources and inflows of resources. This statement is effective for periods beginning after December 15, 2012. However, the Authority early adopted this statement during the year ended March 31, 2013. As a result of the adoption of this statement, the Authority was required to reduce the carrying value of unamortized note issuance costs and reduce net assets as of March 31, 2011 by \$804,570. For the year ended March 31, 2012, the adoption of this statement resulted in a reduction of amortization expense, in the amount of \$55,559 and a corresponding increase in net position of \$55,559.

The following standards will be effective in the future for the Authority:

GASB has issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. This statement replaces GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as certain requirements of Statement No. 50, *Pension Disclosures*. GASB 68 addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts. This statement also establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditures. In addition, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2014.

Use of Estimates

The preparation of financial statements 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand and interest-bearing bank deposits, as well as investments with maturities of three months or less.

Lancaster Area Sewer Authority

Notes to Financial Statements

Years Ended March 31, 2013 and 2012

Note 1 - Summary of Significant Accounting Policies (continued)

Accounts Receivable

Accounts receivable are shown net of an allowance for uncollectible accounts, as applicable. Accounts receivable are evaluated for collectability and an allowance is established, as deemed necessary, based on the best information available and in an amount that management believes is adequate. As of March 31, 2013 and 2012, management has determined no allowance for uncollectible accounts is required. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

Investments

The Authority is permitted to invest its funds as defined in the Local Government Unit Debt Act and the Municipality Authorities Act. Authorized types of investments include the following:

- a. U.S. Treasury Bills
- b. Short-term obligations of the U.S. Government and Federal agencies
- c. Insured savings and checking accounts and certificates of deposit in banks, savings and loan associations, and credit unions
- d. General obligation bonds of the Federal Government, the Commonwealth of Pennsylvania, or any state agency, or of any Pennsylvania political subdivision
- e. Shares of mutual funds whose investments are restricted to the above categories

When making investments, the Authority can combine monies from more than one fund under its control for the purchase of a single investment and join with other political subdivisions and municipal authorities in the purchase of a single investment.

Extraordinary Operating Expenses

Extraordinary operating expenses represent operating expenses in any fiscal year which cannot be paid by the Authority out of receipts and revenues from the sewer system as current operating expenses. Extraordinary operating expenses are paid from the Bond Redemption and Improvement Fund of the Authority and are reflected as a nonoperating expense in the statement of revenues, expenses, and changes in net position. There were no extraordinary operating expenses for the years ended March 31, 2013 and 2012.

Bond Premiums/Discounts and Deferred Refunding Loss

Bond premiums/discounts and deferred refunding losses are being amortized using the interest method over the term of the bonds. Net amortized expense (income) for the years ended March 31, 2013 and 2012 totaled \$(11,222) and \$28,628, respectively. Net amortization of bond premiums/discounts and deferred refunding losses for the years ending March 31, 2014, 2015, 2016, 2017, and 2018 will approximate \$34,019, \$27,061, \$(4,512), \$(89,204), and \$(100,848), respectively.

Lancaster Area Sewer Authority

Notes to Financial Statements

Years Ended March 31, 2013 and 2012

Note 1 - Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets are defined by the Authority as assets with a useful life in excess of one year and an initial cost of \$20,000 or more and are recorded at historical cost. Depreciation of capital assets is computed on the straight-line method over the following estimated useful lives:

Sewer system - lines, pump stations, and treatment plant	50 years
Buildings and improvements	20 to 30 years
Technology and equipment	5 to 10 years
Vehicles	7 years

Maintenance and repairs of capital assets are charged to operations and major improvements are capitalized. Upon retirement, sale, or other disposition of capital assets, the cost and accumulated depreciation are eliminated from the accounts and gain or loss is included in operations.

Long-lived assets other than those held for sale are reviewed for impairment whenever events or circumstances indicate that the carrying amount of the assets may not be recoverable. An asset is considered to be impaired when the undiscounted estimated net cash flows to be generated by the asset are less than the carrying amount. The impairment recognized is the amount by which the carrying amount exceeds the fair value of the impaired asset. Management has concluded that no impairment reserves are required as of March 31, 2013 and 2012.

Construction in Progress

Construction in progress at March 31, 2013 and 2012 consists of the following open projects:

	2013	2012
Letort Manor sewer extension	\$ -	\$ 5,631,119
Upgrades to City of Lancaster Treatment Plant	508,294	2,119,986
Pleasant Valley extension	2,470,677	165,123
Other miscellaneous projects	373,128	179,297
	<hr/> \$ 3,352,099	<hr/> \$ 8,095,525

Funds in Custody of Trustee

All funds held in trust by the trustee are pledged as additional collateral for the Sewer Revenue Bonds. Furthermore, the funds held in trust are restricted for specific purposes as defined by the Trust Indenture.

Revenues Received in Advance

Revenues received in advance represent monies received prior to the period when the sewer service will be provided. These receipts are recognized as revenue when the service is provided.

Lancaster Area Sewer Authority

Notes to Financial Statements

Years Ended March 31, 2013 and 2012

Note 1 - Summary of Significant Accounting Policies (continued)

Net Position

Net position is classified into three categories, as applicable, as follows:

1. Invested in capital assets consists of capital assets, net of accumulated depreciation, and debt incurred for the acquisition of capital assets.
2. Restricted net position is amounts that have externally imposed restrictions on how the funds can be spent.
3. Unrestricted net position is amounts that do not meet the definitions of "invested in capital assets" or "restricted" and are available for Authority operations.

When restricted and unrestricted resources are available for its use, it is the Authority's policy to use restricted resources first.

Note 2 - Deposits and Investments

Deposits

The Authority's available cash is invested in demand deposit accounts.

The Authority has custodial credit risk on cash deposits. This is the risk that in the event of a financial institution failure, the Authority's deposits may not be returned. The Authority has a deposit policy for custodial risk that requires depository institutions to pledge securities as collateral for deposits that exceed depository insurance.

The carrying amounts of the cash and investments at March 31, 2013 and 2012 consist of the following:

	2013	2012
Demand deposit accounts	\$ 4,152,431	\$ 4,172,425
Federal agency obligations	733,836	1,271,481
Municipal bonds	806,446	-
Certificate of deposit accounts	8,755,316	15,288,326
Repurchase agreement	1,927,000	1,927,000
Money market mutual funds	<u>12,490,370</u>	<u>6,950,285</u>
	<hr/> \$ 28,865,399	<hr/> \$ 29,609,517

Classification Per Statements of Net Position

Cash and cash equivalents	\$ 4,152,431	\$ 4,172,425
Funds in custody of trustee, restricted	<u>24,712,968</u>	<u>25,437,092</u>
	<hr/> \$ 28,865,399	<hr/> \$ 29,609,517

Lancaster Area Sewer Authority

Notes to Financial Statements

Years Ended March 31, 2013 and 2012

Note 2 - Deposits and Investments (continued)

Deposits (continued)

At March 31, 2013 and 2012, the carrying amounts of the Authority's bank deposits were \$4,152,431 and \$4,172,425, respectively, and the bank balances were \$4,403,451 and \$4,202,166, respectively, of which \$250,000 was covered by Federal Depository Insurance at March 31, 2013 and 2012. The remaining \$4,153,451 and \$3,952,166 of deposits were exposed to custodial risk because they were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Authority's name. The Authority has additional bank deposits within its trust accounts in the form of certificates of deposits. These certificates of deposit had a carrying value of \$8,755,316 and \$15,288,326 as of March 31, 2013 and 2012, respectively, and bank balance of \$8,755,316 and \$15,288,326, respectively, and were fully covered by Federal Deposit Insurance.

Investments

As of March 31, 2013 and 2012, the Authority had the following investments and maturities with the bank:

	March 31, 2013 - Investment Maturities (In Years)			
	Fair Value	Less than One Year	One to Five Years	More than Five Years
Money market mutual funds	\$ 12,490,370	\$ 12,490,370	\$ -	\$ -
Repurchase agreement	1,927,000	-	-	1,927,000
Municipal bonds	806,446	500,710	305,736	-
Certificate of deposit	8,755,316	7,285,316	1,470,000	-
	23,979,132	20,276,396	1,775,736	1,927,000
Federal Agencies				
Federal home loan bank	508,412	508,412	-	-
Federal farm credit bank	225,424	225,424	-	-
	733,836	733,836	-	-
	\$ 24,712,968	\$ 21,010,232	\$ 1,775,736	\$ 1,927,000

Lancaster Area Sewer Authority

Notes to Financial Statements

Years Ended March 31, 2013 and 2012

Note 2 - Deposits and Investments (continued)

Investments (continued)

	March 31, 2012 - Investment Maturities (In Years)			
	Fair Value	Less than One Year	One to Five Years	More than Five Years
Money market mutual funds	\$ 6,950,285	\$ 6,950,285	\$ -	\$ -
Repurchase agreement	1,927,000	-	-	1,927,000
Certificate of deposit	15,288,326	8,247,927	6,305,399	735,000
	24,165,611	15,198,212	6,305,399	2,662,000
Federal Agencies				
Federal home loan bank	1,046,057	-	1,046,057	-
Federal farm credit bank	225,424	225,424	-	-
	1,271,481	225,424	1,046,057	-
	\$ 25,437,092	\$ 15,423,636	\$ 7,351,456	\$ 2,662,000

Interest Rate Risk

The Authority's policy on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates is governed by the Trust Indenture and limits investments maturities based on the estimated date funds will be expended.

Credit Risk

The Authority limits the type of investments permitted as defined in the Municipality Authorities Act. Permitted investments are defined in Note 1. The Authority's investment policy is consistent with these limitations. The Authority's investments in federal agencies are each rated "Aaa" by Moody's Investor Service. The Authority's investment in the repurchase agreement is unrated.

Custodial Credit Risk

For an investment, 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 investments or collateral securities that are in the possession of an outside party.

Lancaster Area Sewer Authority

Notes to Financial Statements

Years Ended March 31, 2013 and 2012

Note 3 - Accounts Receivable

Accounts receivable includes agreements with landowners within Washington Boro, Lancaster County, and Honeysuckle Lane and Rohrer Road areas of Lancaster County, regarding payment of tapping, lateral, and connection fees. Certain landowners have requested relief from the Authority's rules and regulations which require payment of tapping fees prior to the issuance of a connection permit to connect to the Authority's system. The Authority has agreed to allow these landowners to pay tapping, lateral, and connection fees over a period of sixty months. These loan agreements are non-interest bearing; however, the Authority assesses an administrative charge of \$165 on each agreement. The landowner is also responsible for paying all lien fees against such property.

Accounts receivable also includes agreements with landowners within the LeTort Manor and Perth Hills developments in Manor Township, Lancaster County, regarding payment of tapping and special purpose fees. Certain landowners have requested relief from the Authority's rules and regulations which require payment of tapping fees and special purpose fees prior to the issuance of a connection permit to connect to the Authority's system. The Authority has agreed to allow these landowners to choose to pay tapping and special purpose fees over a period of either 120 or 180 months. These loan agreements are non-interest bearing; however, the Authority assesses administrative charges of \$310 for the 120 month plan and \$428 for the 180 month plan.

The outstanding balance on these loans at March 31, 2013 and 2012 totaled \$888,030 and \$1,065,908, respectively

Also included in accounts receivable are sewer rental fees due from customers.

Lancaster Area Sewer Authority

Notes to Financial Statements

Years Ended March 31, 2013 and 2012

Note 4 - Capital Assets

	2013			
	Balance March 31, 2012	Increases	Decreases	Balance March 31, 2013
Capital Assets Not Being Depreciated				
Land	\$ 36,257	\$ -	\$ -	\$ 36,257
Construction in progress	8,095,525	2,609,907	7,353,333	3,352,099
Total Capital Assets Not Being Depreciated	8,131,782	2,609,907	7,353,333	3,388,356
Capital Assets Being Depreciated				
Sewer system - lines	76,440,466	6,065,032	-	82,505,498
Sewer system - pump stations	31,400,018	442,519	-	31,842,537
Sewer system - treatment plant	34,305,387	1,634,440	-	35,939,827
Buildings and improvements	3,159,096	-	-	3,159,096
Technology	799,087	137,913	-	937,000
Vehicles	1,636,674	167,340	68,858	1,735,156
Equipment	602,551	-	-	602,551
Total Capital Assets Being Depreciated	148,343,279	8,447,244	68,858	156,721,665
Less Accumulated Depreciation For				
Sewer system - lines	29,050,022	1,578,312	-	30,628,334
Sewer system - pump stations	11,374,026	967,940	-	12,341,966
Sewer system - treatment plant	18,573,121	912,411	-	19,485,532
Buildings and improvements	1,368,110	97,594	-	1,465,704
Technology	664,179	46,258	-	710,437
Vehicles	1,226,463	119,578	68,858	1,277,183
Equipment	349,557	37,516	-	387,073
Total Accumulated Depreciation	62,605,478	3,759,609	68,858	66,296,229
Total Capital Assets Being Depreciated, Net	85,737,801	4,687,635	-	90,425,436
Total Capital Assets, Net	\$ 93,869,583	\$ 7,297,542	\$ 7,353,333	\$ 93,813,792

Lancaster Area Sewer Authority

Notes to Financial Statements

Years Ended March 31, 2013 and 2012

Note 4 - Capital Assets (continued)

	2012			
	Balance March 31, 2011	Increases	Decreases	Balance March 31, 2012
Capital Assets Not Being Depreciated				
Land	\$ 36,257	\$ -	\$ -	\$ 36,257
Construction in progress	5,964,160	2,148,853	17,488	8,095,525
Total Capital Assets Not Being Depreciated	6,000,417	2,148,853	17,488	8,131,782
Capital Assets Being Depreciated				
Sewer system - lines	75,087,350	1,353,116	-	76,440,466
Sewer system - pump stations	31,237,697	162,321	-	31,400,018
Sewer system - treatment plant	34,084,572	220,815	-	34,305,387
Buildings and improvements	3,159,096	-	-	3,159,096
Technology	710,340	88,747	-	799,087
Vehicles	1,631,170	57,284	51,780	1,636,674
Equipment	499,048	103,503	-	602,551
Total Capital Assets Being Depreciated	146,409,273	1,985,786	51,780	148,343,279
Less Accumulated Depreciation For				
Sewer system - lines	27,548,774	1,501,248	-	29,050,022
Sewer system - pump stations	10,420,809	953,217	-	11,374,026
Sewer system - treatment plant	17,699,523	873,598	-	18,573,121
Buildings and improvements	1,270,516	97,594	-	1,368,110
Technology	627,222	36,957	-	664,179
Vehicles	1,160,288	115,372	49,197	1,226,463
Equipment	320,295	29,262	-	349,557
Total Accumulated Depreciation	59,047,427	3,607,248	49,197	62,605,478
Total Capital Assets Being Depreciated, Net	87,361,846	(1,621,462)	2,583	85,737,801
Total Capital Assets, Net	\$ 93,362,263	\$ 527,391	\$ 20,071	\$ 93,869,583

Lancaster Area Sewer Authority

Notes to Financial Statements

Years Ended March 31, 2013 and 2012

Note 5 - Sewer Revenue Bonds Payable

The following is a summary of changes in bonds payable for the years ended March 31:

	2013	2012
Outstanding Balance at Beginning of Year	\$ 60,155,000	\$ 64,620,000
Proceeds from bond issuance	19,750,000	-
Principal retirements	<u>(22,465,000)</u>	<u>(4,465,000)</u>
Outstanding Balance at End of Year	<u>\$ 57,440,000</u>	<u>\$ 60,155,000</u>

In May 2012 and March 2013, the Authority issued Sewer Revenue Bonds, Series of 2012 and 2013 (with an interest rate of 2.0% - 4.0%), to partially refund Series 2004 (with an interest rate of 3.0% - 5.0%). As a result of the 2012 refunding, the Authority incurred a loss of \$692,540, which has been deferred and is being amortized over the life of the refunding bonds, or 16 years. As a result of the 2013 refunding, the Authority incurred a loss of \$498,953, which has been deferred and is being amortized over the life of the refunding bonds, or 13 years. As a result of the refunding, the net present value of the debt service requirements is \$1,807,742.

As a result of the partial advance refunding of Series 2004, certain bonds were defeased by placing a portion of the proceeds of the new bonds in escrow to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the Authority's financial statements.

A summary of bonds outstanding as of March 31, 2013 is as follows:

Date of Issue/ Maturity	Amount of Original Issue	Description and Interest Rates	Balance Outstanding March 31, 2013	Amounts Due within One Year
2002/2022	\$ 19,270,000	Sewer Revenue Bonds, 1.80% - 4.50%	\$ 2,930,000	\$ 540,000
2004/2028	\$ 27,390,000	Sewer Revenue Bonds, 2.00% - 5.00%	2,275,000	855,000
2005/2021	\$ 23,000,000	Sewer Revenue Bonds, 3.00% - 5.00%	22,280,000	255,000
2010/2022	\$ 14,790,000	Sewer Revenue Bonds, 2.00% - 4.00%	10,205,000	3,015,000
2012/2028	\$ 9,890,000	Sewer Revenue Bonds, 2.00% - 3.25%	9,890,000	-
2013/2025	\$ 9,860,000	Sewer Revenue Bonds, 2.00% - 2.50%	<u>9,860,000</u>	<u>5,000</u>
			57,440,000	<u>\$ 4,670,000</u>
		Less current portion	<u>(4,670,000)</u>	
		Long-Term Portion of Sewer Revenue Bonds Payable	<u>\$ 52,770,000</u>	

Lancaster Area Sewer Authority

Notes to Financial Statements

Years Ended March 31, 2013 and 2012

Note 5 - Sewer Revenue Bonds Payable (continued)

Future maturities of principal and interest are as follows for the years ending March 31:

	Principal	Interest	Total
2014	\$ 4,670,000	\$ 2,145,280	\$ 6,815,280
2015	4,865,000	1,979,766	6,844,766
2016	5,085,000	1,784,856	6,869,856
2017	5,460,000	1,663,256	7,123,256
2018	5,825,000	1,426,741	7,251,741
2019-2023	22,705,000	3,420,983	26,125,983
2024-2028	8,830,000	806,256	9,636,256
	\$ 57,440,000	\$ 13,227,138	\$ 70,667,138

Note 6 - Retirement Plans

Defined Benefit Plan

The Authority has a single-employer defined benefit plan (the Plan), which covers substantially all employees who meet the stated eligibility requirements. The Plan does not issue stand-alone financial reports.

Valuation of Investments

All investments of the pension plans are reported at fair value based on quoted market values. Investments that do not have an established market value are reported at estimated fair value, insurance holdings, if any, are valued at reported contract values.

Plan Description and Contribution Information

Plan Description - The Plan is a single-employer defined benefit pension plan that covers all employees who meet the stated eligibility requirements. The Plan provides for retirement and death benefits.

Lancaster Area Sewer Authority

Notes to Financial Statements

Years Ended March 31, 2013 and 2012

Note 6 - Retirement Plans (continued)

Defined Benefit Plan (continued)

Plan Description and Contribution Information (continued)

Membership of the Plan consisted of the following as of September 1, 2011, the date of the latest actuarial valuation:

Active members	39
Retirees and beneficiaries currently receiving benefits	13
Beneficiaries of deceased members	1
Terminated plan members entitled to, but not yet receiving benefits	26
	<hr/>
	79

Contributions - Plan members are not required to contribute to the Plan. The Authority is required to make contributions to the Plan in amounts necessary to fund the Plan according to the actuarially determined rate.

The Authority contributed \$362,695 and \$361,808 to the Plan for the years ended March 31, 2013 and 2012, respectively.

Annual Pension Cost and Net Pension Asset - The Authority's annual pension cost and net pension asset for the years ended March 31, are as follows:

	2013	2012
Annual required contribution/pension cost	\$ 318,808	\$ 321,172
Contributions	<hr/> 318,808	<hr/> 321,172
Increase in Net Pension Asset		
Amortization of net pension asset	(43,887)	(40,636)
Net Pension Asset Beginning of Year	<hr/> 474,927	<hr/> 515,563
Net Pension Asset End of Year	<hr/> \$ 431,040	<hr/> \$ 474,927

The annual required contribution for the current year was determined as part of the September 1, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8.0% investment rate of return and (b) projected salary increases of 5.25% per year. The actuarial values of assets are determined by the Trustee and are reported at fair value. The unfunded actuarial accrued liability is being amortized as a level dollar on a closed basis. As of March 31, 2013, the remaining amortization period was 13 years.

Lancaster Area Sewer Authority

Notes to Financial Statements

Years Ended March 31, 2013 and 2012

Note 6 - Retirement Plans (continued)

Defined Benefit Plan (continued)

Three-Year Trend Information

Three-year trend information follows for the years ending March 31:

	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
2011	\$ 277,062	100 %	\$ 515,563
2012	\$ 321,172	100 %	\$ 474,927
2013	\$ 318,808	100 %	\$ 431,040

Funded Status of Funding Progress

The funded status of the Authority's Pension Plan as of September 1, 2011, the most recent actuarial valuation date, is as follows:

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 a Percentage of Covered Payroll (b-a)/c
\$ 4,505,216	\$ 5,855,180	\$ 1,349,964	76.9 %	\$ 2,102,181	64.2 %

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 values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits. The information about the funded status is prepared using the entry age normal cost method.

Defined Contribution Plan

The Authority offers all employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan is referred to as the Lancaster Area Sewer Authority Deferred Compensation Plan and is administered by the Authority. The Plan permits employees to defer federal income taxation on a portion of their compensation until future years. Participation in the Plan is optional. The deferred compensation is not available to employees until age 59-1/2, or until separation from service or death. The Authority matches contributions for non-union employees up to 100% of the employees' first \$600 of contributions. Contribution expense for the years ended March 31, 2013 and 2012 totaled \$5,323 and \$5,442, respectively.

Assets of the Plan are held in trust with ING Life Insurance & Annuity Company, serving as trustee, for the exclusive benefit of plan participants and their beneficiaries, and the assets shall not be diverted to any other purpose.

Lancaster Area Sewer Authority

Notes to Financial Statements

Years Ended March 31, 2013 and 2012

Note 7 - Risk Management

The Authority participates in a self-funded minimum premium plan with several other municipalities to cover certain insurance risks under its employee health insurance program. According to the terms of the Plan, the Authority is liable for covered medical expenses up to \$25,000 per individual per year. In addition, the Plan contains an aggregate cap and a pooling arrangement where claims in excess of specified amounts are shared by all municipalities participating in the Plan. Claims under this agreement are expensed as incurred. Aggregate medical claims paid by the Authority were approximately \$357,677 and \$259,778 during the years ending March 31, 2013 and 2012, respectively. For the years ended March 31, 2013, 2012, and 2011 claims settled were not in excess of insurance coverage.

The Authority also participates in a self-funded minimum premium plan with several other municipalities to cover its workers' compensation claims. The Plan is administered by a third party administrator and requires the payment of quarterly premiums based on the Authority's payroll. Costs related to claims are expensed as incurred. For the years ended March 31, 2013, 2012, and 2011 claims settled were not in excess of insurance coverage.

The Authority is covered from significant losses by commercial insurance for all major programs except those discussed above. For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the past three years.

Note 8 - Commitments

At March 31, 2013, the Authority has open contracts for various sewer related projects. These agreements provide for a total contract price of approximately \$8,631,198. At March 31, 2013, approximately \$190,583 was still outstanding on these contracts. These outstanding commitments will be funded by monies from the Authority's Bond Redemption and Improvement Fund.

Note 9 - Subsequent Events

The Authority has evaluated subsequent events through July 25, 2013. This is the date the financial statements were issued. No material events subsequent to March 31, 2013 were identified.

Lancaster Area Sewer Authority

Schedule of Funding Progress

Valuation Date September 1	Entry Age			Funded Ratio (A/B)	Covered Payroll (C)	UAAL as % of Covered Payroll (B-A)/C
	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded AAL (UAAL) (B-A)			
2007	\$ 4,094,486	\$ 4,156,210	\$ 61,724	98.5 %	\$ 1,994,968	3.1 %
2009	3,648,635	4,754,493	\$ 1,105,858	76.7	2,121,029	52.1
2011	4,505,216	5,855,180	\$ 1,349,964	76.9	2,102,181	64.2

Lancaster Area Sewer Authority

Operating Expenses - Administrative

	Years Ended March 31,	
	2013	2012
Salaries	\$ 838,045	\$ 786,542
Unemployment compensation taxes	8,887	32
Insurance - general	94,974	102,468
Social security taxes	68,368	66,253
Worker's compensation insurance	31,836	15,646
Hospitalization	545,357	485,417
Pension	362,695	361,808
Power	6,537	6,815
Heat and air conditioning	1,575	1,745
Water	1,197	1,123
Communications	-	21,234
Maintenance of grounds and buildings	12,016	8,829
Vehicle maintenance	2,645	1,058
Equipment maintenance	6,703	5,653
Fuel	484	3,088
Postage	41,089	40,849
Office supplies	84,459	45,444
Dues and subscriptions	9,532	10,767
Training and conferences	19,541	7,852
Advertising	4,147	5,330
Professional services - legal	48,727	44,103
Professional services - accounting	13,900	13,900
Professional services - trustee	25,057	29,473
Professional services - engineering	16,466	30,150
Professional services - computer	92,503	72,429
Professional services - testing	1,834	2,228
Professional services - outside consultants	18,740	33,278
Real estate taxes	14,983	15,528
Deferred compensation	4,123	4,427
Depreciation expense	146,841	137,666
Contract labor	11,883	30,975
Meter reading expense	2,163	2,186
Office cleaning expenses	3,768	5,432
Uniforms	13,936	24,030
Miscellaneous	16,337	16,861
	<hr/> <u>\$ 2,571,348</u>	<hr/> <u>\$ 2,440,619</u>

Lancaster Area Sewer Authority

Operating Expenses - Collection Department

	Years Ended March 31,	
	2013	2012
Salaries	\$ 608,158	\$ 618,044
Social security taxes	46,346	46,673
Heat and air conditioning	1,575	1,745
Power	381,990	442,124
Water	17,716	12,028
Communications	56,702	52,294
Maintenance of grounds and buildings	26,239	23,212
Vehicle maintenance	10,982	18,786
Equipment maintenance	156,854	59,909
Fuel	56,923	41,844
Dues and subscriptions	586	700
Training and conferences	7,754	2,138
Operating supplies	22,227	19,674
Chemicals	203,494	156,273
Expendable items	4,273	3,563
Small hand tools	1,857	2,157
Health and safety	12,081	6,270
Deferred compensation	1,200	1,015
Depreciation expense	1,735,894	1,647,248
Contract labor	7,210	15,645
Infiltration and inflow expenses	-	-
Miscellaneous	3,597	12,141
	\$ 3,363,658	\$ 3,183,483

Lancaster Area Sewer Authority

Operating Expenses - Treatment Plant

	Years Ended March 31,	
	2013	2012
Salaries	\$ 536,034	\$ 534,343
Social security taxes	40,789	40,736
Power	276,857	324,332
Communications	11,194	9,395
Maintenance of grounds and buildings	63,863	33,869
Vehicle maintenance	66,690	17,858
Equipment maintenance	118,509	99,361
Rental property	-	6,549
Dues and subscriptions	6,055	3,600
Fuel	3,551	12,005
Training and conferences	2,656	961
Chemicals	505,722	473,572
Sludge disposal	572,827	508,033
Expendable items	2,635	2,434
Deferred compensation	-	-
Depreciation expense	925,861	883,188
Contract labor	-	11,221
Grit disposal	9,925	-
Small hand tools	1,295	703
Miscellaneous	8,746	8,649
	\$ 3,153,209	\$ 2,970,809

Lancaster Area Sewer Authority

Operating Expenses - Pretreatment Program and Laboratory Department

	Years Ended March 31,	
	2013	2012
Salaries	\$ 216,805	\$ 149,111
Social security taxes	16,449	11,291
Communications	2,128	1,956
Health and safety	226	130
Vehicle maintenance	238	181
Equipment maintenance	26,463	17,205
Dues and subscriptions	2,769	2,695
Training and conferences	4,083	878
Deferred compensation	600	850
Depreciation expense	18,975	19,442
Lab supplies	27,920	28,183
Expendable items	166	17
	<u>\$ 316,822</u>	<u>\$ 231,939</u>

Lancaster Area Sewer Authority
 Operating Expenses - Manheim Township

	Years Ended March 31,	
	2013	2012
Salaries	\$ 134,817	\$ 184,633
Social security taxes	10,234	14,024
Health and safety	2,285	2,500
Power	123,233	150,849
Water	732	703
Sewer treatment fee	1,577,958	1,942,148
Communications	19,861	4,182
Equipment maintenance	22,054	18,803
Building maintenance	5,487	6,204
Vehicle maintenance	2,913	3,481
Fuel	3,743	3,876
Depreciation expense	932,038	919,704
Operating supplies	15,800	14,842
Miscellaneous	427	375
	<u>\$ 2,851,582</u>	<u>\$ 3,266,324</u>