

MILLCREEK TOWNSHIP SEWER AUTHORITY
A COMPONENT UNIT OF MILLCREEK TOWNSHIP
Erie, Pennsylvania
Financial Statements
December 31, 2009

MILLCREEK TOWNSHIP SEWER AUTHORITY
A COMPONENT UNIT OF MILLCREEK TOWNSHIP

3608 West 26th Street

Erie, Pennsylvania

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Independent Auditor's Report

MEMBERS
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
PA INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

Millcreek Township Sewer Authority:

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Millcreek Township Sewer Authority as of December 31, 2009 and 2008, and the respective changes in financial position, and cash flows, where applicable, thereof for the years then ended in conformity with the accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2010, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 6 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Buseck, Barger, Bleil & Co. Inc.
Certified Public Accountants

March 10, 2010



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Millcreek Township Sewer Authority:

We have audited the financial statements of the Millcreek Township Sewer Authority, a component unit of the Millcreek Township, as of and for the year ended December 31, 2009, and have issued our report thereon dated March 10, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Millcreek Township Sewer Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Millcreek Township Sewer Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Millcreek Township Sewer Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Buseck, Barger, Bleil & Co. Inc.
Certified Public Accountants

March 10, 2010

**MILLCREEK TOWNSHIP SEWER AUTHORITY
ERIE, PA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Required Supplementary Information (RSI)
December 31, 2009**

The discussion and analysis of the Millcreek Township Sewer Authority's financial performance provides an overall review of the Sewer Authority's financial activities for the year ended December 31, 2009. The intent of this discussion and analysis is to look at the Sewer Authority's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Sewer Authority's financial performance.

The Management Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued June 1999.

OVERVIEW OF FINANCIAL STATEMENTS

The Millcreek Township Sewer Authority's basic financial statements are comprised of two components: 1) enterprise fund financial statements and 2) notes to the financial statements.

Enterprise Fund Financial Statements

The enterprise fund financial statements are designed to provide readers with a broad overview of the Sewer Authority's finances, in a manner similar to a private-sector business.

The Statement of Net Assets includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Authority creditors (liabilities). The assets and liabilities are presented in order of liquidity. It also provides the basis for computing rate of return, evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority.

The Statement of Revenues, Expenses and Changes in Net Assets shows how the Fund's net assets changed during the most recent year. This statement measures the operating activities of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all of its costs through its services provided, as well as its profitability, and credit worthiness.

The Statement of Cash Flows reconciles the change in net assets reported on the Statement of Revenues, Expenses and Changes in Net Assets to the increase or decrease in cash reported for the year. The primary purpose of this statement is to provide information about the Authority's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, non-capital financing and financing activities and provides information regarding the sources and uses of cash and the change in the cash balance during the reporting period.

Notes to the Financial Statements

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

FINANCIAL ANALYSIS OF THE MILLCREEK TOWNSHIP SEWER AUTHORITY

The Sewer Authority's total net assets were \$13,500,532 and \$14,372,927 at December 31, 2009 and 2008.

Table A-1
Fiscal Year ended December 31, 2009 and 2008
Net Assets

	2009	2008
Assets		
Current assets	\$ 3,091,913	\$ 3,340,344
Restricted assets	323,674	330,730
Capital assets	213,147	236,853
Other assets	9,871,798	10,465,000
Total Assets	<u>\$ 13,500,532</u>	<u>\$ 14,372,927</u>
Liabilities		
Current liabilities	\$ 731,284	\$ 736,448
Long-term liabilities	9,442,462	9,998,308
Total Liabilities	<u>10,173,746</u>	<u>10,734,756</u>
Net Assets		
Invested in capital assets, net of related debt	213,147	236,853
Restricted	128,010	192,422
Unrestricted	2,985,629	3,208,896
Total Net Assets	<u>\$ 3,326,786</u>	<u>\$ 3,638,171</u>

Most of the Authority's net assets are restricted for capital activity. The Authority will use these assets to finance additional improvements to Millcreek Township's sewer system.

The results of this year's operations as a whole are reported in the Statement of Revenues, Expenses and Changes in Net Assets (page 8). Table A-2 takes the information from that Statement, rearranges it slightly, to present total revenues and expenses for the year.

Table A-2
Fiscal Year ended December 31, 2009 and 2008
Changes in Net Assets

	2009	2008
Revenues		
Operating Revenue	\$ 660,962	\$ 651,726
Investment Income	79,386	102,595
Reimbursements - Summit & Fairview Townships	212,273	216,421
Other Income	115,334	30,699
Total Revenues	<u>\$ 1,067,955</u>	<u>\$ 1,001,441</u>
Expenses		
Sewer System Improvements	\$ 1,141,316	\$ 1,182,772
Depreciation & Amortization	27,255	36,120
Authority expenses & costs	750,208	777,344
Total Expenses	<u>1,918,779</u>	<u>1,996,236</u>
(Decrease) in Net Assets before Capital Contributions	(850,824)	(994,795)
Capital Contributions	<u>539,439</u>	<u>221,482</u>
(Decrease) in Net Assets	<u>\$ (311,385)</u>	<u>\$ (773,313)</u>

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2009, the Sewer Authority had \$213,147 invested in capital assets. This amount represents a net decrease over the prior year (including additions, deletions, and depreciation) of \$23,706. The Authority began capitalizing assets in 2005.

Debt Administration

As of January 1, 2009, the Sewer Authority had total outstanding bonds payable of \$10,465,000. During the year, the Sewer Authority made principal payments of \$625,000 resulting in ending outstanding bond debt as of December 31, 2009 of \$9,235,000. The Authority took out a construction note in 2009 not to exceed \$700,000. They drew \$11,798 down on this note in 2009. More detailed information about long-term liabilities is included in Note 4 to the financial statements.

OPERATING ANALYSIS

The Millcreek Township Sewer Authority is strictly a financing Authority in that it does not own and operate the assets of the Millcreek Township Sewer System. Those assets are owned and operated by Millcreek Township itself. The Millcreek Township Sewer Authority was created to analyze the future needs of sanitary sewers in the township, then to fund and manage the construction of those projects deemed necessary.

The Millcreek Township Sewer Authority derives its operating revenue directly from the Township based upon a calculation which considers the value of the sanitary sewer system's assets. Thus as the system's value is increased either through projects undertaken by the Authority or assets donated by developers, the Authority's operating revenues likewise increase proportionately.

Any commercial debt or bond issuance undertaken by the Authority is subsequently guaranteed by Millcreek Township and their ability to set rates. The latest commercial debt issuance was undertaken in 2009, primarily to fund the Overlook heights and Scenic Crest Subdivision projects.

The Overlook Heights and Scenic Crest Subdivision Projects were sanitary sewer extensions into older subdivisions of Millcreek Township that were being served by onlot sanitary septic systems. These areas were identified in the Township's Act 537 Study that was prepared in accordance with the strict guidelines of the Pennsylvania Department of Environmental Protection. The study indicated the average construction year of these properties was approximately 1969, the septic systems had a rate of 91% confirmed, suspected or potential malfunction and the soil suitable for onlot septic systems for the entire area was determined to be 88.5% unsuitable.

The projects consisted of 7,090 linear feet of sewer main, 2,720 liner feet of sewer service lateral, 27 precast concrete manholes, 300 linear feet of low pressure force main (Scenic Crest), duplex grinder pump station (Scenic Crest) and all associated restoration quantities. The projects provided 69 existing homes with public sanitary sewer service and the total costs for both projects was approximately \$700,000. The Overlook Heights project was completed and operational in 2009. The Scenic Crest project has minor work to be performed and is anticipated to be completed and operational in the spring of 2010.

Both the projects were financed via a guaranteed sewer revenue note, series of 2009 with the First National Bank of Pennsylvania. The \$700,000.00 promissory note was dated October 23, 2009 with a maturity date of November 1, 2019 and a fixed interest rate of 4.24%. Total interest on the note should approximate \$157,640.00 over the life of the loan. The loan was designed as a construction loan, with the Sewer Authority paying interest only for the first twelve months on principal borrowed. As of December 31, 2009, only legal fees and trustee fees totaling \$11,797.50 were drawn down against the loan. The Sewer Authority expects to complete both projects from reserve funds and take the final draw down in the twelfth month, thus converting the loan to a fixed term/fixed payment note for the remainder of the term.

The Lake Pleasant – East Gore Area Sanitary Sewer Extension Project was a sanitary sewer extension into an older developed area of Millcreek Township that was being served by onlot sanitary septic systems. These areas were identified in the Township's Act 537 Study that was prepared in accordance with the strict guidelines of the Pennsylvania Department of Environmental Protection. The study indicated the average construction year of these properties was approximately 1955, the septic systems had a rate of 94% confirmed, suspected or potential malfunction and the soil suitable for onlot septic systems for the entire area was determined to be 100% unsuitable.

The project consisted of 1,820 linear feet of sewer main, 750 linear feet of sewer service lateral, 700 linear feet of sewer service lateral casing pipe, 9 precast concrete manholes, 2,130 linear feet of low pressure force main, 20 low pressure service connection, duplex submersible pump station, 670 linear feet of pump station force main, and all associated restoration quantities. The project provided 38 existing homes with public sanitary sewer service and the total project cost was approximately \$754,000. This project was completed and operational in 2009.

The East Gore Pump Station Upgrade Project was a project to upgrade an existing duplex pump station that serves over 400 units and was originally constructed in 1973. The project consisted of the replacement of two centrifugal pumps, new electrical service and control panel, emergency backup generator, site enclosure fencing and all associated restoration quantities. The total project cost was approximately \$220,000. This project was completed and operational in 2009.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Sewer Authority's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to the Millcreek Township Sewer Authority, 3608 West 26th Street, Erie, PA 16506.

MILLCREEK TOWNSHIP SEWER AUTHORITY
A COMPONENT UNIT OF MILLCREEK TOWNSHIP
BALANCE SHEETS

LIABILITIES AND NET ASSETS

	December 31,	
	2009	2008
<u>Current Liabilities</u>		
Current Maturities of Long-Term Debt		
Refunding Series of 2002	\$ 380,000	\$ 365,000
Refunding Series of 2004	245,000	240,000
Project Deposits	65,000	70,000
Accounts Payable	41,284	61,448
<u>Total Current Liabilities</u>	731,284	736,448
<u>Long-Term Liabilities - Net of Current Maturities</u>		
Refunding Series of 2002	805,000	1,185,000
Refunding Series of 2004	8,430,000	8,675,000
Construction Draws 2009 Note	11,798	-
Future compensation due employees	195,664	138,308
<u>Net Long-Term Liabilities</u>	9,442,462	9,998,308
<u>Total Liabilities</u>	10,173,746	10,734,756
<u>Net Assets</u>		
Unrestricted	2,985,629	3,208,896
Invested in Capital Assets, Net of Related Debt	213,147	236,853
Restricted for Capital Activity and Debt Service	128,010	192,422
<u>Total Net Assets</u>	3,326,786	3,638,171
<u>Total Liabilities and Net Assets</u>	\$ 13,500,532	\$ 14,372,927

MILLCREEK TOWNSHIP SEWER AUTHORITY
A COMPONENT UNIT OF MILLCREEK TOWNSHIP
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	For the Years Ended December 31,	
	2009	2008
<u>Operating Revenue:</u>		
Management fee - Millcreek Township	\$ 655,891	\$ 642,765
Developer fees	5,071	8,961
<u>Total Operating Revenue</u>	660,962	651,726
 <u>Operating Expenses</u>		
Salaries and wages	352,862	319,216
Payroll taxes	25,719	26,523
Employee benefits	70,528	93,098
Office and administrative expenses	105,787	106,990
Professional fees	32,074	35,423
Sewer system improvements	1,141,316	1,182,772
Other engineering costs	4,096	7,216
Travel	5,872	6,403
Maintenance and repairs	148,703	169,187
Equipment purchases	4,027	10,871
Clean water fund - fines	-	905
Depreciation expense	27,255	36,120
Miscellaneous expense	540	1,512
<u>Total Operating Expenses</u>	1,918,779	1,996,236
 <u>Operating Income (Loss)</u>	(1,257,817)	(1,344,510)
 <u>Non-Operating Revenue</u>		
Investment income	79,386	102,595
Loan Proceeds	11,798	-
Reimbursements - Summit & Fairview Townships	212,273	216,421
Tapping Fee Income	98,047	29,661
Miscellaneous Income	5,489	1,038
<u>Total Non-Operating Revenue</u>	406,993	349,715
 <u>Increase (Decrease) in Net Assets, Before Capital Contributions</u>	(850,824)	(994,795)
 <u>Capital Contributions:</u>		
Customers	539,439	221,482
 <u>Increase (Decrease) in Net Assets</u>	(311,385)	(773,313)
 <u>Net Assets at Beginning of Year</u>	3,638,171	4,411,484
 <u>Net Assets at End of Year</u>	\$ 3,326,786	\$ 3,638,171

The notes to financial statements are an integral part of this statement.

MILLCREEK SEWER AUTHORITY
A COMPONENT UNIT OF MILLCREEK TOWNSHIP
STATEMENT OF CASH FLOWS

	December 31,	
	2009	2008
<u>Cash Flows From Operating Activities:</u>		
Management Fee	\$ 655,891	\$ 642,765
Developer Fees	5,071	8,961
Cash payments to vendors for goods and services	(2,188,760)	(1,870,322)
<u>Net Cash Used by Operating Activities</u>	(1,527,798)	(1,218,596)
<u>Cash Flows from Capital and Related Financing Activities:</u>		
Acquisition of Capital Assets	(3,549)	(18,105)
Capital contributions	539,439	221,482
Miscellaneous cash receipts	5,489	1,038
Tapping fee income	98,047	29,661
Reimbursements from other authorities	212,273	216,421
Project deposits	(5,000)	-
Construction draws	11,798	-
Reimbursements from Millcreek Township Sewer Revenue Fund	1,011,501	1,009,761
Debt service payments	(1,011,501)	(1,009,761)
<u>Net Cash Provided by Capital and Related Financing Activities</u>	858,497	450,497
<u>Cash Flows From Investing Activities:</u>		
Interest received	79,387	102,596
<u>Net Cash Provided by Investing Activities</u>	79,387	102,596
<u>Net Decrease in Cash and Cash Equivalents</u>	(589,914)	(665,503)
<u>Cash and Cash Equivalents Beginning</u>	2,894,366	3,559,869
<u>Cash and Cash Equivalents Ending</u>	\$ 2,304,452	\$ 2,894,366
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u>		
<u>Operating Income (Loss)</u>	(1,257,817)	(1,344,510)
<u>Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:</u>		
Depreciation	27,254	36,119
(Increase) Decrease in accounts receivables	(277,071)	83,217
Increase (Decrease) in accounts payable and accruals	(20,164)	6,578
<u>Total Adjustments</u>	(269,981)	125,914
<u>Net Cash Used by Operating Activities</u>	\$ (1,527,798)	\$ (1,218,596)

The notes to financial statements are an integral part of this statement.

MILLCREEK TOWNSHIP SEWER AUTHORITY
A COMPONENT UNIT OF MILLCREEK TOWNSHIP
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Authority was incorporated on June 15, 1956 as a public corporation of the Commonwealth of Pennsylvania, organized and existing under the Municipalities Authorities Act of 1945, approved May 2, 1945, P.L. 382 as amended. The Authority includes all funds that are controlled by or dependent on the board members. The Authority is included as a component unit of Millcreek Township. The Township appoints the board members and guarantees the debt of the Authority. The Authority has no stockholders or equity holders and the revenue or other cash received has been disbursed for specific purposes in accordance with provisions of existing agreements with bondholders and others.

A. Basis of Presentation and Accounting

The Authority's financial statements are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Authority applies all Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, and the Accounting Principles Board (APB) of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

All activities of the Authority are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included in the balance sheet. Net assets (i.e., total assets net of total liabilities) are segregated into "invested in capital assets, net of related liabilities"; "restricted for capital activity and debt service"; and "unrestricted" components.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date, and reported amounts of revenues and expenses during the reporting period. Estimates are used to determine depreciation expense, and certain claims and judgment liabilities, among other accounts. Actual results may differ from those estimates.

B. Cash Equivalents and Investments

Cash and cash equivalents, for purpose of the statement of cash flows, include restricted and unrestricted cash on hand or on deposit, certificates of deposit, and investments with a maturity of three months or less.

Investments are reported at their fair market value. The Authority is permitted to invest in certain authorized investment types including U.S. Treasury bills, other short-term U.S. and Pennsylvania government obligations, and insured or collateralized time deposits and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of Governmental Funds for investment purposes.

The deposit policy of the Authority adheres to state statutes and prudent business practice.

C. Restricted Assets

Restricted assets represent cash, investments and receivables maintained in accordance with bond resolutions, loan agreements, grant awards, and other resolutions and formal actions of the Authority or by agreement for the purpose of funding certain debt service payments, improvements and extensions to the sewer system. The total restricted assets at December 31, 2009 and 2008 are \$128,010 and \$192,422 respectively.

D. Equipment

Equipment in service is recorded at cost and consists of office equipment and operating equipment. Sewer system costs are expensed and recorded as assets of Millcreek Township Sewer Revenue Fund.

Assets are depreciated on the straight-line method. Depreciation is calculated using the following estimated useful lives:

	<u>Years</u>
Operating Equipment	3-20
Office Equipment	5-10

E. Long-Term Obligations and Costs

Long-term obligations are reported at face value, net of applicable premiums and discounts. Debt service payments are reimbursed to the Authority by Millcreek Township Sewer Revenue Fund.

F. Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the Authority. Operating revenues consist primarily of developer fees and management fees from Millcreek Township Sewer Revenue Fund. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from nonexchange transactions or ancillary activities. When an expense is incurred for purposes for which there are both restricted and unrestricted net assets available, it is the Authority's policy to apply those expenses to restricted net assets to the extent such are available and then to unrestricted net assets.

G. Claims and Judgments

These events and obligations are recorded on the accrual basis, when the event occurs and the obligation arises.

H. Capital Contributions

Contributions are recognized in the Statement of Revenues, Expenses and Changes in Net Assets when earned. Contributions include assessments of project costs to customers.

I. Special and Extraordinary Items

Extraordinary items are transactions or other events that are both unusual in nature and infrequent in occurrence. Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence. If such items exist during the reporting period, they are reported separately in the statement of revenues, expenses and changes in net assets.

J. Net Assets

Net assets comprise the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net assets are classified in the following three components: invested in capital assets, net of related liabilities; restricted for capital activity and debt service; and unrestricted net assets. Invested in capital, net of related debt, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted for capital activity and debt service consists of net assets for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates, less any related liabilities. Unrestricted consists of all other net assets not included in the above categories.

NOTE 2 – DEPOSITS AND INVESTMENTS

Cash – Deposits

Deposits include demand deposits and certificates of deposit in financial institutions. The carrying (balance sheet) amounts were \$2,494,514 and \$3,032,674 for December 31, 2009 and 2008, respectively. The bank balances were \$2,511,775 and \$3,085,688 for December 31, 2009 and 2008, respectively.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Millcreek Township Sewer Authority does not have a policy for custodial credit risk. As of December 31, 2009 \$1,920,558 of the Authority's balance of \$2,494,514, was exposed to custodial credit risk. \$573,956 of the bank balance was covered by federal depository insurance. The balance was insured by assets pledged by the trust bank, but not in the Authority's name.

The following reconciles deposits and investments to cash and cash equivalents, and investments, as presented in the balance sheet:

	December 31,	
	2009	2008
Disclosures regarding deposits and investments:		
Deposits	\$ 2,304,452	\$ 2,894,366
Investments	195,664	138,308
Total	<u>\$ 2,500,116</u>	<u>\$ 3,032,674</u>
Balance Sheet Amounts:		
Cash and cash equivalents:		
Unrestricted	\$ 2,176,442	\$ 2,701,944
Restricted	128,010	192,422
Total cash and cash equivalents	<u>2,304,452</u>	<u>2,894,366</u>
Investments:		
Restricted	195,664	138,308
Total investments	<u>195,664</u>	<u>138,308</u>
Total	<u>\$ 2,500,116</u>	<u>\$ 3,032,674</u>

The restricted deposits and investments consist of deposits held in trust funds for payment of bond debt and improvements to the sewer system and for deferred compensation plan as further described in Note 13.

Investments

Investments at December 31, 2009, consisted of restricted investments with a fair market value of \$195,664. These investments are the deferred compensation plan.

Interest Rate Risk

The Millcreek Township Sewer Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The deposits and investment policies of the Millcreek Township Sewer Authority adhere to the provisions of the Trust Indenture.

Concentration of Credit Risk

The Authority places no limit on the amount the Authority may invest in any one issuer. As of December 31, 2009, all the investments were restricted investments for deferred compensation.

Custodial Credit Risk

For an investment, custodial 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 security that are in the possession of an outside party. The Authority has no investment subject to custodial credit risk.

NOTE 3 – CAPITAL ASSETS

The Authority has capitalized assets beginning January 1, 2005. Assets purchased for the Authority use consist of office and operating equipment. Sewer System improvements are added to the value of the sewer system recorded on the Millcreek Township Sewer Revenue Fund.

	Balance			Balance
	1/1/09	Additions	Dispositions	12/31/09
Operating equipment	\$ 154,517	\$ 3,548	\$ -	\$ 158,066
Office equipment	159,592	-	-	159,592
Total Property & Equipment	314,109	3,548	-	317,658
Accumulated Depreciation	(77,256)	(27,255)	-	(104,511)
Net Property & Equipment	\$ 236,853	\$ (23,707)	\$ -	\$ 213,147

	Balance 1/1/08	Additions	Dispositions	Balance 12/31/08
Operating equipment	\$ 136,412	\$ 18,104	\$ -	\$ 154,517
Office equipment	159,592	-	-	159,592
Total Property & Equipment	296,004	18,104	-	314,109
Accumulated Depreciation	(41,136)	(36,120)	-	(77,256)
Net Property & Equipment	\$ 254,868	\$ (18,016)	\$ -	\$ 236,853

NOTE 4 – BONDS AND NOTES PAYABLE

2009 Note

In September 2009 the Authority took out a construction note with First National Bank of Pennsylvania in the amount of \$700,000 to pay for improvements to the sanitary sewer system. The major portion of the construction draws on the 2009 note will be in 2010.

The 2009 Note bears interest at a rate of 4.24% for ten years. The first twelve months will consist of interest only and the remaining 108 payments will include principal and interest in the amount of \$7,809 until maturity. The principal balance on the 2009 Note at December 31, 2009 was \$11,798.

Guaranteed Sewer Revenue Bonds, Refunding Series of 2004

On October 30, 2004 the Authority issued \$9,895,000 of Guaranteed Sewer Revenue Bonds, Refunding Series of 2004, dated October 15, 2004, to refund \$3,140,000 Guaranteed Sewer Revenue Refunding Bonds, Series of 1998, to finance additions and improvements to the sewer system and to pay the costs of issuing the bonds.

The 2004 bonds, which bear interest at various rates from 1.60% to 4.46%, pay interest semi-annually on February 1 and August 1, commencing February 1, 2005. The bonds are fully registered bonds each in the denomination of \$5,000 or multiple thereof as provided in the Indenture. The principal balance of the 2004 Bonds at December 31, 2009 was \$8,675,000.

Guaranteed Sewer Revenue Bonds, Refunding Series of 2002

On July 30, 2002 the Authority issued \$3,700,000 of Guaranteed Sewer Revenue Bonds, Refunding Series of 2002, dated July 15, 2002, to provide funds to refund the Guaranteed Sewer Revenue Bonds, Series of 1993 and to pay the costs of issuing the bonds.

The 2002 bonds, which bear interest at various rates from 1.55% to 4.05%, pay interest semi-annually on May 1 and November 1, commencing November 1, 2003. The bonds are fully registered bonds each in the denomination of \$5,000 or multiple thereof as provided in the Indenture. The principal balance of the 2002 bonds at December 31, 2009 was \$1,185,000.

The annual debt service requirements to maturity, including principal and interest, on bond principal outstanding as of December 31, 2009 are as follows:

Year	Series of 2004	Series of 2002	Total Principal	Interest	Total
2010	\$ 245,000	\$ 380,000	\$ 625,000	\$ 386,223	\$ 1,011,223
2011	250,000	395,000	645,000	363,830	1,008,830
2012	260,000	410,000	670,000	339,418	1,009,418
2013	695,000		695,000	313,225	1,008,225
2014	720,000		720,000	288,700	1,008,700
2015	750,000		750,000	261,419	1,011,419
2016	775,000		775,000	232,961	1,007,961
2017	810,000		810,000	202,954	1,012,954
2018	835,000		835,000	175,314	1,010,314
2019	870,000		870,000	139,827	1,009,826
2020	905,000		905,000	103,939	1,008,939
2021	945,000		945,000	66,608	1,011,608
2022	615,000		615,000	26,444	641,445
	<u>\$ 8,675,000</u>	<u>\$ 1,185,000</u>	<u>\$ 9,860,000</u>	<u>\$ 2,900,862</u>	<u>\$ 12,760,862</u>

The following is an analysis of Millcreek Township Sewer Authority's debt for 2009.

	Balance January 1, 2009	Additions	Reductions	Balance December 31, 2009	Due Within One Year
Bonds payable:					
Revenue refunding bonds	\$ 10,465,000	\$ -	\$ (605,000)	\$ 9,860,000	\$ 625,000

NOTE 5 – LEASE AGREEMENT

The Authority and Millcreek Township entered into a lease agreement dated as of December 1, 1992, a first supplemental agreement of lease dated November 15, 1993, a second supplemental agreement of lease dated April 15, 1997, a third supplemental agreement of lease dated June 1, 1998, and a fourth supplemental agreement of lease dated July 15, 2002, a fifth supplemental agreement of lease dated October 15, 2004, and a sixth supplemental agreement of lease dated October 23, 2009, whereby the Authority will lease the Sewer System to the Township. The lease will be for a period conterminous with the Bonds. Pursuant to the Lease, the Township will operate and maintain the Sewer System and the Authority will be responsible for the financing and performance of major maintenance and extraordinary repairs. The Township covenants to maintain in effect rates and charges in such amounts as will be sufficient to pay the expenses of the Sewer System, debt service requirements on the Bonds, plus a coverage factor of 10%, plus all amounts owing to the Authority under a Management Agreement dated November 15, 1990 and modified effective September 21, 2004. All rentals payable to the Authority by the Township are assigned to the Trustee under the Indenture.

NOTE 6 - SEWER SYSTEM MANAGEMENT AGREEMENT

Millcreek Township and the Millcreek Township Sewer Authority entered into a Sewer System Management Agreement dated November 15, 1990. This agreement was modified by the parties effective September 21, 2004 in connection with the agreement of lease entered into by the Township and Authority.

The Agreement provides, in part, that the Authority will continue to be responsible for planning, designing, financing and constructing all major renewals and replacements and new sewer extensions to the sanitary sewer system of Millcreek Township.

The Agreement also provides, in part, that the Township will continue to operate and maintain the sewer system and collect sewer use revenues for the sewer system.

The Agreement also provides that the Township will pay to the Authority an annual amount equal to one percent (1%) of the valuation of the sewer system as annually reported by the Sewer Revenue Fund. These funds shall be used for costs related to repairs and improvements to the sewer system. In accordance with this provision, the Sewer Revenue Fund of Millcreek Township paid \$655,891 and \$642,765 to the Sewer Authority during the years 2009 and 2008, respectively. During the year ended December 31, 2010, the Sewer Revenue Fund of Millcreek Township will pay \$665,261 to the Sewer Authority.

The Agreement further provides that the Township is responsible for maintaining the Sewer Authority's Construction and Administrative Fund at \$2,220,513 as adjusted annually by the Engineering News Record Construction Cost Index for Twenty Cities. The Township is required to replenish any deficiency in this Fund within twenty-four (24) months of notice to the Township by the Authority. A deficiency existed in this fund at December 31, 2009.

NOTE 7 – JOINT TRANSPORTATION AGREEMENTS

Summit Township Sewer Authority

The Millcreek Township Sewer Authority entered into a joint transportation agreement with the Summit Township Sewer Authority in 1994. Under the terms of this agreement the Summit Township Sewer Authority is reimbursing the Millcreek Township Sewer Authority for its share of the costs of three projects completed by the Millcreek Township Sewer Authority as follows:

Beaver Run Project

Payable in 80 quarterly installments of \$2,678 ending October 15, 2015.

Glenwood Park Avenue Relief Sewer and Pumping Station Modifications

Payable in 80 quarterly installments of \$13,071 ending July 15, 2018.

Pitt/Manor Project

Payable in 80 quarterly installments of \$9,183 ending January 16, 2021.

During the years ended December 31, 2009 and 2008, the Summit Township Sewer Authority reimbursed the Millcreek Township Sewer Authority \$175,598 and \$182,713, respectively, for these projects.

Fairview Township Sewer Authority

The Millcreek Township Sewer Authority entered into a joint transportation agreement with the Fairview Township Sewer Authority in 1996. Under the terms of this agreement the Fairview Township Sewer Authority is reimbursing the Millcreek Township Sewer Authority for its share of the costs of two projects completed by the Millcreek Township Sewer Authority as follows:

Millfair Heights Increased Pipe Size

Payable in annual principal installments of \$2,510 plus 4.54% interest ending in 2015.

Pitt/Manor Project

Payable in 80 quarterly installments of \$6,336 ending January 16, 2021.

During the years ended December 31, 2009 and 2008, the Fairview Township Sewer Authority reimbursed the Millcreek Township Sewer Authority \$36,675 and \$33,708, respectively, for these projects.

NOTE 8 - REFUNDING OF SEWER REVENUE BONDS

Series of 1965 and 1977

All outstanding Millcreek Township Sewer Authority Sewer Revenue Bonds of the Series 1965 and 1977 Bonds were refunded by the Authority on November 28, 1990.

The Authority made an irrevocable deposit with the trustee, as escrow agent in the escrow fund, in an amount which shall be sufficient when invested to pay the principal of and interest on the refunded bonds payable. The principal and interest payable on the refunded bonds, on Series 1977 by the escrow agent was paid in full in 2009. The Series of 1965 Bonds were completely refunded in 2006.

NOTE 9 - SEWER SYSTEM VALUATION

The Millcreek Township Sewer System, comprised of Authority constructed improvements, developer sewers constructed by private contractors, and the original sewer system constructed by Millcreek Township, having a combined value of \$66,029,194 as set forth in Schedule A of this report, is carried for accounting purposes, in the accounts of the Millcreek Township Sewer Revenue Fund, lessee of the sewer system.

A reconciliation of 2009 general improvement construction costs installed by the Authority is as follows:

Sewer system project costs	\$ 1,139,983
Accounts payable at December 31, 2007	(10,263)
Accounts payable at December 31, 2008	11,596
Reimbursements from Summit Township Sewer Authority	(175,598)
Reimbursements from Fairview Township Sewer Authority	(36,675)
General improvement construction costs installed by Authority (Schedule A)	<u>\$ 929,043</u>

NOTE 10 - RELATED PARTY TRANSACTIONS

The Millcreek Township Sewer Authority receives monthly reimbursements from the Millcreek Township Water Authority for salaries and office expenses. The total amount received as reimbursements was \$308,142 and \$327,476 during the years ended December 31, 2009 and 2008, respectively.

NOTE 11 - PENSION PLANS

The employees of the Millcreek Township Sewer Authority are covered by Millcreek Township's Single Employer Defined Benefit Plan.

A. Plan Descriptions:

The Township sponsors two contributory single employer defined benefit pension plans through Mockenhaupt Benefits Group, covering substantially all full-time employees. Eligibility for participation in the Pension Plan occurs at date of hire. 100% vesting occurs in the General Employees Pension Plan upon termination if ineligible for any other benefit from the Plan for participants hired before January 1, 1991. For participants hired on or after January 1, 1991, 100% vesting occurs after completion of ten years of service. Normal retirement under the General Employees Pension Plan is the later of age 62 or the completion of ten years of service.

B. Benefits:

The General Employees Pension Plan provides for a monthly benefit equal to 2.5% of final average earnings multiplied by the number of years of service, up to a maximum of 20 years.

C. Contributions:

Covered employees, under the General Employees Pension Plan, were required to contribute 4% of monthly compensation to the Plan during 2009. The Township is required to contribute the remaining amounts necessary, as determined by the actuary, to pay benefits when due.

The Plans have been established by Township ordinance with the authority for municipal contributions required by Act 205 of the Pennsylvania Legislature.

The latest actuarial information for the General Employees Pension Plan is included in the audit report of Millcreek Township.

NOTE 12 - PUBLIC EMPLOYEES DEFERRED COMPENSATION PLAN

The Authority maintains a Deferred Compensation Plan qualified under Internal Revenue Code Section 457, on behalf of employees. The assets of the Plan are held by insurance carriers and remain the property of the Authority until they become due and payable to the Plan participants under the terms of the Plan. The carrying value of the Plan's assets and corresponding liability to participants amounted to \$195,664 and \$138,308 at December 31, 2009 and 2008, respectively. These assets are shown as restricted investments in the financial statements.

NOTE 13 – OFFICE LEASE

The Millcreek Township Sewer and Water Authorities lease their office from Millcreek Township. The term of the current lease is ten years and expires on September 30, 2008. Under the terms of the current lease the Authorities are required to pay \$61,124 annually in rent. The Authorities are also required to pay a utility fee of \$7,054 annually, which is adjusted every three years beginning on January 1, 2005. The Authorities are allocating the cost of this lease as 2/3 for Millcreek Township Sewer Authority and 1/3 for the Millcreek Township Water Authority. The total lease payments made by the Sewer Authority for the years ended December 31, 2009 and 2008 were \$46,576 and \$46,576, respectively. The Township and Sewer Authority have not signed a new contract for 2010 yet. The 2010 rent will be the same as 2009 until a new agreement is reached.

NOTE 14 – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; and natural disasters. The Authority is insured through commercial insurance for risk of loss. The Authority is insured through a joint policy with Millcreek Township. The Millcreek Township Sewer Authority did not have settled claims that exceeded the Authority’s commercial insurance coverage in any of the past three years.

The Authority’s deductibles and maximum coverage are as follows:

<u>Coverage Description</u>	<u>Deductibles</u>	<u>Commercial Insurance Coverage</u>
General liability	\$1,000	\$2,000,000
Building	\$5,000	\$34,720,799
Automobile	\$250/\$500	\$1,000,000
Equipment	\$1,000	\$1,998,144

NOTE 15 - COMMITMENTS AND CONTINGENCIES

The Authority has an Act 537 Sewage Facility Plan Update, which was approved by the Pennsylvania Department of Environmental Protection during the year ended December 31, 1992 and which has expired. The Authority and the Township have updated the Act 537 Sewage Facility Plan to include the Kearsarge O.R.F. Project which has been successfully concluded. A new Act 537 document has been drafted and is in the final stages of approval by PA DEP.

Millcreek Township Sewer Authority and Millcreek Township were being sued by environmental groups claiming the Authority has taken too long to correct problems with Kearsarge Pump Station that had periodically discharged inadequately treated sewage. The Authority upgraded the Kearsarge Pump Station, met all requirements of the Consent Order and Agreement (COA) in 2007, and the COA expired in March 2009. This suit was settled in principle in late 2009 with final paperwork expected to be concluded in 2010.

SUPPLEMENTARY INFORMATION

MILLCREEK TOWNSHIP SEWER AUTHORITY
A COMPONENT UNIT OF MILLCREEK TOWNSHIP
SCHEDULE OF SEWER SYSTEM VALUATION
AS OF DECEMBER 31, 2009

Sewer System Valuation, January 1, 2009

Original Sewer System	\$ 1,241,299	
Additions by Millcreek Township Sewer Revenue Fund	552,206	
Sewer System Installed by Authority	41,131,404	
Appraisal Value - Developer Sewers	<u>23,104,285</u>	
<u>Totals</u>		\$ 66,029,194

Additions, Year Ended December 31, 2009

General Improvement Construction Costs Installed by Authority	929,043	
Appraisal Value - Developer Sewers	<u>120,044</u>	
<u>Total Additions By Developer and Authority</u> <u>Year Ended December 31, 2009</u>		<u>1,049,087</u>

<u>Total Sewer System Valuation, December 31, 2009</u>		<u>\$ 67,078,281</u>
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Sewer System Valuation, December 31, 2009

Original Sewer System	\$ 1,241,299	
System additions - Millcreek Twp Sewer Revenue Fund	552,206	
Sewer System Installed by Authority	42,060,447	
Appraisal Value - Developer Sewers	<u>23,224,329</u>	
<u>Totals</u>		<u>\$ 67,078,281</u>