

**FRANKLIN TOWNSHIP  
MUNICIPAL SANITARY AUTHORITY**

**AUDIT REPORT**

**DECEMBER 31, 2010**

FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Franklin Township Municipal  
Sanitary Authority  
3001 Meadowbrook Road  
Murrysville, Pennsylvania 15668

We have audited the accompanying financial statements of the business-type activities of the Franklin Township Municipal Sanitary Authority as of and for the year ended December 31, 2010, which comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Franklin Township Municipal Sanitary Authority, Murrysville, Pennsylvania's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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 that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Franklin Township Municipal Sanitary Authority, Murrysville, Pennsylvania, as of December 31, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 7, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

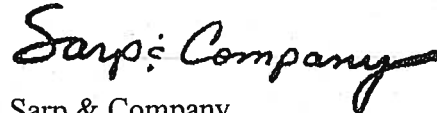
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# SARP & COMPANY

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CERTIFIED PUBLIC ACCOUNTANTS

In accordance with *Government Auditing Standards*, we have also issued a report dated February 25, 2011, on our consideration of the Franklin Township Municipal Sanitary Authority's internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants, and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



Sarp & Company  
CERTIFIED PUBLIC ACCOUNTANTS

Greensburg, Pennsylvania  
February 25, 2011



**Franklin Township Municipal Sanitary Authority**  
3001 Meadowbrook Road  
Murrysville, Pennsylvania 15668-1627

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Robert Klingensmith, Vice-Chairman  
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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **To the Board Members of the Franklin Township Municipal Sanitary Authority Municipality of Murrysville, Pennsylvania**

As management of the Franklin Township Municipal Sanitary Authority, (the "Authority"), we offer readers of our financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended December 31, 2010. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished to our Auditors in their letter of transmittal, which can be found on page 1 of this report.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. Since the Authority is engaged only in business-type activities, its basic financial statements are comprised of only two components: 1) enterprise fund financial statements and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

The *statement of net assets* presents information on the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *statement of revenues, expenses and changes in fund net assets* presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. (E.g. earned but unused sick leave).

The basic enterprise fund financial statements can be found on page 7 through 10 of this report.

**Notes to Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 11 through 31 of this report.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Authority's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found in Note 7 of the Notes to Financial Statements.

### **Long-Term Debt**

At the end of this fiscal year, the Authority had **\$14,885,637.01** at an average rate of **3.32%** in bonds, PENNVEST loans and local bank loans outstanding versus **\$16,282,127.39** at an average of **3.36%** last year (2008), a decrease of approximately **0.19%**. A copy of the outstanding principal and interest is attached to this report.

The Authority has three outstanding public bond issues, which all are rated "AAA" by Moody's and Standard and Poor. More detailed information on the Authority's long-term debt is presented in Note 2 of the Notes to the Financial Statements.

### **2010 Revenues and Expenditures**

Total projected operating and debt service expenditures for the Fiscal Year of **2010** are estimated to be **\$3,880,448.73**. This projected total is less than the **2010** projected revenue of **\$4,034,200.00** by **\$153,751.27**. This favorable variance is due to the Authority approving a 'A refinancing of the 2004 and 2005 Bond Issues' as explained below.

- The Authority's Series of 2004 and 2005 Bonds were refinanced on February 15, 2010 realizing an approximate savings of \$135,000.00. The 2004 and 2005 Bond Issues were not extended beyond their existing final payoffs of 2021. Also, the Trust Indenture was renegotiated as to the requirement of having 25% of the Authority's budget to be in the Revenue Fund to a new 10% requirement.

The total expense for operating the collection system and transportation/treatment system in **2010** is projected to be **\$2,642,050.00**. This operating expense total is more than the budgeted total of **\$2,589,650.00** yielding a negative variance of **\$52,400.00**.

The total debt service expense incurred by the Authority in **2010** was **\$1,238,398.73** and included the anticipated principal and interest payment due on January 1, 2009 under the terms of the October 18, 2005 refinancing of the 1995, of the February 15, 2001 and new 2004 Bond Issues, PENNVEST Loans of 1997 and 2001 and Local Bank Loans.

The projected balance of the Revenue Fund at the end of Fiscal Year 2010 will meet the balance required by the terms of the Authority's Trust Indenture for 2010.

A five-year comparison of the fiscal year's actual budgeted income and expenses can be found in the *Supplementary Information* section of this report.

**Long Term Trends in Operations**

**Connection Growth.** The Authority has had an average of over 200 new connections over the last ten Fiscal Years, however during the last two Fiscal Years it averaged only 100 new connections. The annual growth of sewer customers has been in the 2 - 4% range.

**Revenue and Expense Growth.** A 10-year trend information on Revenues and Operating Expenses is attached to the *Discussion and Analysis*. With the growth the Authority has experienced over the last 10 years, management has been faced with controlling rising operational costs as well as large demands for capital spending. Also, new wastewater regulations have tended to increase operational costs and capital spending in the past decade. The Authority has taken several cost cutting steps at the treatment plant with implementation of a SCADA system to monitor the treatment plant and remote pump stations, thus saving employees overtime expenses and equipment breakdowns.

**User Rates.** Due to the above discussion in the 2010 Revenue and Expenditures it was not necessary to raise the rates in 2010, And, no rate increase will be necessary for 2011.

**It is worthy to note that the Authority has realized only nine sewer rate increases during the past forty - one years, the last one being in 2008 which shows an average of 4.88 % increase per year since the Authority started treating sewage on June 1, 1970.**

June 1, 1970	\$ 9.58/Month or \$114.96/Year	
January 1, 1974	\$12.25/Month or \$147.00/Year	\$2.67/Mo. Increase
February 1, 1984	\$13.35/Month or \$160.20/Year	\$1.10/Mo. Increase
February 1, 1989	\$14.45/Month or \$173.40/Year	\$1.10/Mo. Increase
February 1, 1994	\$15.95/Month or \$191.40/Year	\$1.50/Mo. Increase
February 1, 2001	\$18.95/Month or \$227.40/Year	\$3.00/Mo. Increase
January 1, 2003	\$21.27/month or \$255.24/Year	\$2.32/Mo. Increase
January 1, 2005	\$24.27/Month or \$291.24/Year	\$3.00/Mo. Increase
January 1, 2007	\$26.27/month or \$315.24/Year	\$2.00/Mo. Increase
January 1, 2008	\$28.27/Month or \$339.24/Year	\$2.00/Mo. Increase
January 1, 2011	\$28.27/Month or \$339.24/Year	No Increase.

User rates are compared with the local and regional area to make sure that they are competitive and are attached to this *Discussion and Analysis*.

**Summary.** The Authority has taken the necessary steps to promote growth and development in its service area and reduce operating expenses through the construction of innovative facilities at the Meadowbrook Road Water Pollution Control Plant. By expanding and upgrading the sewage treatment complex, the Authority has provided hydraulic and organic capacity to accommodate growth and development in its service area. Through the construction of state-of-art sludge digestion

and gas utilization facilities, the Authority has taken the necessary steps to reduce energy costs as well as sludge disposal costs. Other system improvement programs have also eliminated needless operating and maintenance costs. In addition, the Authority's actions in completing a refinancing of its outstanding bond issues further reduced annual expenses to be incurred in future years.

**Economic Factors and Next Year's Budgets and Rates.** The Authority's five year capital improvement plan, copy attached, will cost the Authority an estimated \$1,865,500.00, however will be funded with tap-ins from new customers.

**Contacting the Authority's Financial Management**

This financial report is designed to provide our citizens, customers and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Authority's Manager, James C. Brucker (724 327-1950) at the Franklin Township Municipal Sanitary Authority at 3001 Meadowbrook Road, Murrysville, Pennsylvania, 15668.

**OUTSTANDING BONDS AND LOANS  
PRINCIPAL AND INTEREST  
FOR  
FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY**

<u>BONDS</u>			<u>LOANS</u>			
	<i>Principal</i>	<i>Interest</i>	<i>Avg. Rate</i>	<i>Principal</i>	<i>Interest</i>	<i>Avg. Rate</i>
2011 -	\$8,110,000.00	\$1,696,632.28	2.79%	\$4,229,765.67	\$849,239.06	3.84%

BONDS

*Total - Principal and Interest*

2011 - \$9,806,632.28

LOANS

*Total - Principal and Interest*

2011 - \$5,079,004.73

**BONDS AND LOANS**

*Total - Principal and Interest*

2011 - \$14,885,637.01

*Avg. Rate*

3.32%

FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY  
STATEMENT OF NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2010

Assets

Current Assets:

Cash Held by Authority	\$ 55,002
Cash and Temporary Investments Held by Trustee:	
Revenue Fund	296,741
Surplus Fund	82,339
Sewer Charges Receivable	394,273
Taps and Assessments Receivable	8,897
Prepaid Expenses	56,059
Other Receivables	16
Total Current Assets	893,327

Noncurrent Assets:

Restricted Cash and Temporary Investments Held by Trustee:	
Debt Service Reserve Fund	-
Minimum Maintenance	100,000
Debt Service Fund	437,811
Total Restricted Cash and Temporary Investments Held by Trustee	537,811

Plant, Property and Equipment:

Land and Rights of Way	632,504
Plant and System	54,951,821
Equipment	880,126
Office Equipment	365,189
	56,829,640
Less: Accumulated Depreciation	23,549,244
Net Plant, Property and Equipment	33,280,396

Total Assets	\$34,711,534
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The accompanying notes to financial statements are an integral part of this statement.

Liabilities

Current Liabilities:

Accounts Payable	\$ 35,970
Current Portion of Bonds Payable	510,000
Current Portion of Loans Payable	338,578
Accrued Bond Interest	140,311
Accrued Payroll Taxes	3,497
Due to Developers	15,075
Contracts Payable	10

Total Current Liabilities	<u>1,043,441</u>
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Long-Term Liabilities:

Loans Payable, National City Bank	137,142
Loans Payable, Pennvest #71140	3,553,810
Loans Payable, Pennvest #71006	209,900
Loans Payable, M&T Bank Series 2007	320,000
Loans Payable, M&T Bank Series 2008	330,000
Bonds Payable, Series 2010	6,144,598
Loans Payable, M&T Bank Series 2009	340,000

Total Long-Term Liabilities	<u>11,035,450</u>
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Total Liabilities	<u>12,078,891</u>
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Net Assets

Invested in Plant, Property and Equipment, Net of Related Debt	21,396,358
Restricted for Debt Service	437,811
Restricted for Maintenance	100,000
Unrestricted	698,474

Total Net Assets	<u>22,632,643</u>
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Total Liabilities and Net Assets	<u>\$ 34,711,534</u>
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FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2010

Operating Revenues	\$ 3,925,641
Operating Expenses	(4,072,582)
Net Operating Gain/(Loss) before Nonoperating Revenues and (Expenses)	<hr/> (146,941)
Nonoperating Revenues	85,133
Nonoperating Expenses	(489,956)
Net Gain/(Loss) before Contributions and Transfers	<hr/> (551,764)
Contributions and Transfers	378,988
Net Income (Loss)	<hr/> (172,776)
Net Assets, January 1	22,805,419
Net Assets, December 31	<hr/> <u>\$ 22,632,643</u>

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

FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2010

Cash Flow from Operating Activities:	
Cash Received from Customers, Sewer Charges	\$ 3,926,961
Payments to Employees	(1,705,134)
Payments to Suppliers, Vendors and Professional Services	(1,463,712)
	<hr/>
Net Cash Provided (Used) by Operating Activities	758,115
Cash Flows from Noncapital Financing Activities:	
Miscellaneous Receipts	85,133
	<hr/>
Net Cash Provided (Used) by Noncapital Financing Activities	85,133
Cash Flow from Capital and Related Financing Activities:	
Acquisition, Construction and Improvement to Land, Property and Equipment	(439,127)
Proceeds from Debt	7,680,000
Refunded Debt	(7,565,000)
Customer Contributions	390,677
Principal Payments on Long Term Debt	(1,091,148)
Interest Paid	(464,532)
Net Increase (Decrease) in Developers' Escrow	-
	<hr/>
Net Cash Provided (Used) by Capital and Related Financing Activities	(1,489,130)
Cash Flows from Investing Activities:	
Interest	255
	<hr/>
Net Cash Provided (Used) by Investing Activities	\$ 255

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

FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2010  
(CONTINUED)

Net Increase (Decrease) in Cash and Cash Equivalents	\$ (645,627)
Cash and Cash Equivalents, Beginning of the Year	1,617,520
Cash and Cash Equivalents, End of the Year	<u>971,893</u>
Cash and Cash Equivalents, Unrestricted	434,082
Cash and Cash Equivalents, Restricted	537,811
Total Cash and Cash Equivalents	<u>971,893</u>
Reconciliation of Operating Income (Loss) to Net Cash	
Provided (Used) by Operating Activities:	
Operating Gain (Loss)	(146,941)
Adjustments to Reconcile Operating Income to Net	
Cash Provided (Used) by Operating Activities:	
Depreciation	1,388,747
Changes in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	1,320
(Increase) Decrease in Prepaid Expenses	(391)
Increase (Decrease) in Accounts Payable	(484,620)
Net Cash Provided (Used) by Operating Activities	<u>\$ 758,115</u>

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

FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Franklin Township Municipal Sanitary Authority was incorporated on December 27, 1966, as a public corporation of the Commonwealth of Pennsylvania, organized and existing under the Municipal Authority's Act. The Authority has no stockholders, and the revenues or other cash received must be disbursed for specific purposes in accordance with the provisions of the trust indenture agreements with holders of its bonds. On January 1, 1969, the Authority entered into sewer service agreements with the Municipality of Murrysville and the Borough of Export, both of Westmoreland County, Pennsylvania. On January 18, 1983, January 20, 1983, August 16, 1984, and December 16, 1993, the Authority entered into sewer service agreements with the Borough of Delmont, Salem Township, and Penn Township of Westmoreland County and Municipality of Monroeville of Allegheny County. Also, on March 4, 1985, and September 20, 1990, sewer service agreements were entered into with the Borough of Plum of Allegheny County, Pennsylvania. Under such agreements, the Authority constructed facilities and furnished sewer collections, transportation and treatment.

The financial statements of the Authority are prepared in accordance with generally accepted accounting principles, as applicable to governmental units. The most significant accounting policies are summarized below: (Note: Due to rounding, some amounts may vary by one dollar.)

A. Reporting Entity

The Governmental Accounting Standards Board (GASB) Statement 14 "Defining the Governmental Reporting Entity" established the criteria for determining the activities, organizations and functions of government to be included in the financial statements of the reporting entity. The criteria used in determining whether such organizations should be included in the Authority's financial reporting entity are financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, accountability for fiscal matters, scope of public service and special financial relationships.

The members of the Authority's Board (Board), a five member group constituting an on-going entity, is the level of government which has governance responsibilities over all activities within the jurisdiction of the Franklin Township Municipal Sanitary Authority. The Board receives funding from local, state and federal government sources and must comply with the concomitant requirements of these funding source entities. The Board is considered a component of the Municipality of Murrysville as defined in Section 2100, "Codification of Governmental Accounting and Financial Reporting Standards", since the Board members are appointed by the Municipality which has the power to influence and to designate management, which could significantly influence operations and primary accountability for fiscal matters. The Municipality of Murrysville also guarantees the Authority's debt.

**NOTE 1: (CONTINUED)**

The Authority has only one fund which is presented as a major fund.

1. Proprietary Fund Types:

a) Enterprise Funds:

The enterprise funds are used to account for operations which are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges and the measurement of financial activity focuses on net income. Included in this group of funds are:

Franklin Township Municipal Sanitary Authority

In applying the provisions of Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds, the Authority applies all GASB pronouncements and all Financial Accounting Standards Board pronouncements, Accounting Principle Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements.

B. Measurement Focus

The Authority, as a proprietary fund, is accounted for on a cost of services measurement focus. All assets and liabilities (current and noncurrent) associated with the activity of the Authority are included on its balance sheet.

C. Basis of Accounting

The accrual basis of accounting was used to prepare the accompanying comparative financial statements which requires, among other things, the recognition of depreciation and interest expense.

The significant accounting policies followed by the Authority in preparation of the accompanying comparative financial statements are described as follows:

1. Revenue - Sewer charges are recorded as receivable in the period when earned regardless of the period of collection subsequent to year end.

**NOTE 1: (CONTINUED)**

Federal and State grants and aids are recognized as revenues in the period in which expenditures are incurred, if applicable, or when the Authority is entitled to the grants and aids. However, intergovernmental grants are subject to audit and adjustment by the grantor agency. Grant revenues received for expenses which are disallowed are repayable to the grantor.

Investment income is recognized as revenue when earned.

The receivable balances presented in the accompanying statements of financial position are recorded at net realizable value. The Authority records uncollectible accounts through direct write off.

2. Expenditures - Expenditures are recognized when incurred. Prepaid expenses are recorded when the amounts are material.
3. Investments - Investments are recorded at cost which approximates fair value.
4. Budgets - The Authority prepares a budget at the beginning of each year on the accrual basis. The budget is used for internal reporting purposes and for establishment of sewer charge rates.
5. Encumbrance - The Authority does not use a formal system of encumbrance accounting.
6. Cash and Cash Equivalents - Various restrictions on deposits and investments are imposed by state statutes. These are summarized as follows:

Deposits: - The Authority is required by Act 72 of the Commonwealth of Pennsylvania, dated August 6, 1971, to maintain deposits that are properly collateralized. Collateralization is permitted to be on a "pooled" basis.

Investments - The Authority is authorized to invest in U.S. Treasury Bills, and short term obligations of the Federal Government or its instrumentality obligations. As of December 31, 2010, the Authority had investment in M&T Investment Group placed with U.S. Government Money Market Inst. II Fund. These investments have characteristics similar to a mutual fund and, as such, cannot be classified as to risk in accordance with GASB 40.

**NOTE 1: (CONTINUED)**

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of a bank failure, the Authority’s deposits might not be recovered. The Authority does not have a policy regarding custodial credit risk, however, deposits are in compliance with Act 72. As of December 31, 2010, \$917,141 of the Authority’s bank balance of \$971,893 were exposed to custodial credit risk as follows:

Uninsured and Uncollateralized with securities held by pledging financial institutions on a pooled basis	\$ -
Unclassified – U.S. Government Money	
Market Inst. II Fund	<u>\$ 917,141</u>

As of December 31, 2010, \$54,752 of the Authority’s bank balances were covered by FDIC insurance.

Interest Rate Risk – Interest rate risk arises from investments and is defined as “The risk that changes in interest rates will adversely affect the fair value of the investment.” During the year and at year end, December 31, 2010, the Authority’s investments consisted of deposits with financial institutions and had no significant interest rate risk.

7. Cash and Temporary Investments held by Trustee - In accordance with the terms of the trust indentures securing the Revenue Bonds, monies of the Authority are accounted for by trustee held cash accounts, segregated for specific use and for the security of the bondholders, which accounts are maintained by independent trustees on a cash basis of accounting, which method is in accordance with the terms of the trust indentures securing the Revenue Bonds and does not differ materially from the accrual basis as recognized for local government accounting for debt service funds.
8. Plant, Property, and Equipment
  - a. Fixed assets of the Authority are recorded at cost and depreciated over their estimated useful lives on the straight line basis. The following schedule presents the changes to and depreciable lives of the fixed assets.

**NOTE 1: (CONTINUED)**

<u>Asset</u>	<u>Life in Years</u>	<u>Balance 01-01-10</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12-31-10</u>
Plant and System Equipment		\$54,551,918	\$ 399,903	\$ -	\$54,951,821
Office Equipment		872,261	28,157	(20,292)	880,126
Land and Right- of Way		353,967	11,222	-	365,189
Accumulated Depreciation		632,504	-	-	632,504
		(22,180,634)	(1,388,902)	20,292	(23,549,244)
<b>Total</b>		<u>\$34,230,016</u>	<u>\$ (949,620)</u>	<u>\$ -</u>	<u>\$33,280,396</u>

b. Construction in progress is capitalized and depreciated when the project is completed.

9. Statement of Cash Flows - For the purposes of the Statement of Cash Flows, the Authority considers all highly liquid debt instruments and money market (or mutual funds) purchased to be cash equivalents with maturity dates within 90 days.

Supplemental Disclosure to the Statement of Cash Flows:

	<u>2010</u>
Cash Paid During the Year for:	
Interest	<u>\$464,532</u>

10. Management's Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could result from those estimates.

**NOTE 2: LONG-TERM DEBT**

Guaranteed Sewer Revenue Bonds:

Series 1995-A and 1995-B Guaranteed Sewer Revenue Bonds - On October 1, 1995, the Authority issued \$5,445,000 of Series 1995-A Sewer Revenue Bonds and \$1,745,000 of Series 1995-B Sewer Revenue Bonds. The issuance of the Series 1995-A and 1995-B bonds defeased the prior outstanding bond issue Series 1986, the balance of which was \$5,115,000, and defeased the prior outstanding bond Series 1992, the balance of which was \$1,500,000.

## NOTE 2: (CONTINUED)

The refunding transaction in connection with the issuance of the Series 1995-A and 1995-B bonds resulted in a loss on refunding of \$575,000. However, the issuance of the refunding debt at interest rates lower than the previous rates will cause aggregate debt service payments to be reduced by almost \$1,459,340; the economic or present value of these savings was \$405,219 at October 1, 1995.

During the year ended December 31, 2003, the Authority defeased the remaining outstanding balance on the Bonds Series of 1995-A with the issuance of the Bond Series of 2001-A.

### Series 2001-A, Guaranteed Sewer Revenue Bonds

The Authority issued Guaranteed Sewer Revenue Bonds, Series 2001-A dated February 5, 2001, in the amount of \$5,075,000. The series 2001-A bonds bear interest at 3.80 percent to 4.35 percent payable on January 1 and July 1 and mature in varying amounts from January 1, 2002 through 2011.

The Series 2001-A bonds were issued to defease the outstanding balance of \$5,365,000 on the Series 1995-A Bonds and to pay the costs of issuance of the Series 2001-A bonds. The refunding transaction in connection with the issuance of the Series 2001-A bonds resulted in a loss on the refunding of \$555,153. In accordance with GASB 23, this loss is netted with the long-term portion of the new bonds and is amortized over the life of the new bonds. During the year ended December 31, 2005, the Authority defeased these bonds.

### Series 2001-B, Guaranteed Sewer Revenue Bonds

The Authority issued Guaranteed Sewer Revenue Bonds, Series 2001-B dated February 15, 2001, in the amount of \$6,475,000. The Series 2001-B bonds bear interest at 3.30 percent to 5.05 percent payable January and July 1 and mature in varying amounts from July 1, 2001 through 2020. During the year ended December 31, 2005, the Authority defeased these bonds.

### Series 2004, Guaranteed Sewer Revenue Bonds

The Authority issued Guaranteed Sewer Revenue Bonds, Series 2004 dated August 15, 2004, in the amount of \$2,700,000. The Series 2004 bonds bear interest at 3.00 percent to 4.40 percent payable at January 1 and July 1 and mature in varying amounts from July 1, 2006 through 2020.

The Series 2004 bonds were issued to provide funding for various construction projects, and to pay for the costs associated with the issuance of the Series of 2004 bonds. During the year ended December 31, 2010, the Authority defeased these bonds.

### Series 2005, Guaranteed Sewer Revenues Bonds

The Authority issued Guaranteed Sewer Revenue Bonds, Series 2005 dated October 18, 2005, in the amount of \$8,715,000. These Series 2005 bonds bear interest at 3.00 percent to 4.00 percent payable January 1 and July 1 and mature in varying amounts from January 1 and July 1, 2006, through 2011, and mature in varying amounts on July 1 only through 2020.

## NOTE 2: (CONTINUED)

The Series 2005 were issued to defease the respective outstanding balances of \$3,125,000 and \$5,230,000 on the Series 2001-A and Series 2001-B bonds and to pay the costs of issuance of the Series 2005 bonds. The refunding transaction in connection with the issuance of the Series 2005 bonds resulted in a loss of \$701,216. In accordance with GASB 23, this loss is netted with the long-term portion of the new bonds and is amortized over the life of the new bonds. At year ended December 31, 2009, the unamortized portion of this loss was \$420,810.

The issuance of the refunding debt at interest rates lower than the previous rates will cause aggregate debt service payments to be reduced by \$348,800. During the year ended December 31, 2010, the Authority defeased these bonds.

### Series 2010 Guaranteed Sewer Revenue Bonds

The Series 2010 bonds were issued to defease the respective outstanding balances of \$2,675,000 and \$4,890,000 on the Series 2004 and Series 2005 bonds and to pay the issuance costs of the Series 2010 bonds. The refunding transaction in connection with the issuance of the Series 2010 bonds resulted in a gain of \$16,899. In accordance with GASB 23, this gain is netted with the long-term portion of the new bonds and is amortized over the life of the new bonds. At year ended December 31, 2010, the unamortized portion of this net loss was \$395,879.

### Pennvest Loan Payable

The Authority borrowed \$700,181 from the Pennsylvania Infrastructure Investment Authority (Pennvest) to provide partial financing of the construction of the Bulltown/Remaley Road Sewer Project. In January 2005, Pennvest and the Authority agreed to adjust the terms of the loan based upon a reduction in principal from the maximum loan available of \$790,000 to the actual amount borrowed of \$700,181. This resulted in the restructuring of the amortization of this loan. The outstanding borrowings under the new note bear interest at the rate of 2.767 percent per annum. Principal and interest shall be payable in 145 consecutive monthly payments commencing on the first day of each month beginning in December 2004. The principal and interest installments for the 145 months shall be \$3,801.65 for all 145 months.

### Pennvest Loan Payable Egg-Digester

The Authority entered into a loan agreement with the Pennsylvania Infrastructure Investment Authority (Pennvest) to provide partial financing of the construction of an egg-digester project. The current amount drawn down on this loan at December 31, 2010, was \$5,766,690.

The outstanding borrowings on this note bear interest at 3.237 percent. The monthly payment is currently \$28,794. This note will mature in 2021 and is secured by the full faith and credit of the Authority.

### National City Bank

The Authority borrowed \$279,769 from National City Bank as a refinancing of the remainder of the loan from Commercial National Bank. The outstanding borrowings under the note will bear interest at 4.40 percent for the life of the loan. The loan will be paid back in 162 consecutive monthly payments of \$2,294.36, reserving the Franklin Township Municipal Sanitary Authority the right to anticipate in part or in full any of the remaining balance due on the note at any regular payment period. The note is secured by various equipment of the Authority.

**NOTE 2: (CONTINUED)**

Wrap-Around Borrowing

During the year ending December 31, 2007, the Authority Entered into a Master Sewer Revenue Note agreement with Manufacturers and Traders Trust Company (M&T Bank). Under this note, the Authority would borrow funds from M&T Bank in incremental amounts under separate loan agreements known as: \$335,000-Series of 2007, \$350,000-Series of 2008, and \$350,000-Series of 2009. All of the above loans bear interest at 4.30 percent per annum. The Series of 2007 loan calls for principal repayments beginning January 1, 2008 through 2022. The Series of 2008 loan calls for principal repayments beginning January 1, 2009 through 2022.

The Series of 2007 loan calls for principal repayments beginning January 1, 2008 through 2022. The Series of 2008 loan calls for principal repayments beginning January 1, 2009 through 2022. The Series of 2009 loan calls for principal repayments beginning January 1, 2010 through 2022. The Authority drew down the \$335,000 Series of 2007 and the \$350,000 Series of 2008 and the \$350,000 Series of 2009 Funds.

The following schedule presents debt service requirements for subsequent years:

Sewer Revenue Bonds – Series 2010

	<u>Interest Rate (%)</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	3.00 – 4.00	\$ 510,000	\$ 389,363	\$ 899,363
2012	4.00	645,000	241,275	886,275
2013	4.00	670,000	215,475	885,475
2014	4.00	700,000	188,675	888,675
2015	4.00	725,000	160,675	885,675
2016-2020	3.00 – 3.75	3,975,000	419,300	4,394,300
Totals		<u>\$7,225,000</u>	<u>\$1,614,763</u>	<u>\$8,839,763</u>

Pennvest Loan #71006

	<u>Interest Rate (%)</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	2.767	\$ 37,963	\$ 7,657	\$ 45,620
2012	2.767	39,243	6,377	45,620
2013	2.767	40,566	5,054	45,620
2014	2.767	41,934	3,686	45,620
2015-2019	2.767	43,348	2,272	45,620
2020	2.767	44,809	810	45,619
		<u>\$247,863</u>	<u>\$ 25,856</u>	<u>\$273,719</u>

**NOTE 2: (CONTINUED)**

Pennvest Loan #71140

	<u>Interest Rate (%)</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	3.237	\$ 264,728	\$119,702	\$ 384,430
2012	3.237	273,425	111,004	384,429
2013	3.237	282,409	102,020	384,429
2014	3.237	291,687	92,742	384,429
2015	3.237	301,270	83,159	384,429
2016-2020	3.237	1,661,490	260,657	1,922,147
2021-2023	3.237	743,529	25,330	768,859
		<u>\$ 3,818,538</u>	<u>\$794,614</u>	<u>\$4,613,152</u>

National City Bank

	<u>Interest Rate (%)</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	4.40	\$ 20,887	\$ 6,645	\$ 27,532
2012	4.40	21,821	5,711	27,532
2013	4.40	22,832	4,700	27,532
2014	4.40	23,872	3,661	27,533
2015	4.40	24,959	2,574	27,533
2016-2017	4.40	43,658	1,744	45,402
		<u>\$158,029</u>	<u>\$25,035</u>	<u>\$183,064</u>

M & T Bank Wraparound Loan Series 2007

	<u>Interest Rate (%)</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	4.30	\$ 5,000	\$ 6,111	\$ 11,111
2012	4.30	5,000	6,014	11,014
2013	4.30	5,000	5,918	10,918
2014	4.30	5,000	5,822	10,822
2015	4.30	5,000	5,726	10,726
2016-2020	4.30	25,000	27,185	52,185
2021-2022	4.30	270,000	7,698	277,698
		<u>\$320,000</u>	<u>\$64,474</u>	<u>\$384,474</u>

NOTE 2: (CONTINUED)

M & T Bank Wraparound Loan Series 2008

	<u>Interest Rate (%)</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	4.30	\$ 5,000	\$ 6,488	\$ 11,488
2012	4.30	5,000	6,392	11,392
2013	4.30	5,000	6,296	11,296
2014	4.30	5,000	6,200	11,200
2015	4.30	5,000	6,104	11,104
2016-2020	4.30	25,000	29,078	54,078
2021-2022	4.30	290,000	8,267	298,267
		<u>\$340,000</u>	<u>\$68,825</u>	<u>\$408,825</u>

M & T Bank Wraparound Loan Series 2009

	<u>Interest Rate (%)</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	4.30	\$ 5,000	\$ 6,499	\$ 11,499
2012	4.30	215,000	4,381	219,381
2013	4.30	5,000	2,262	7,262
2014	4.30	5,000	2,166	7,166
2015	4.30	5,000	2,070	7,070
2016-2020	4.30	25,000	8,905	33,905
2021-2022	4.30	85,000	2,214	87,214
		<u>\$345,000</u>	<u>\$28,497</u>	<u>\$373,497</u>

**NOTE 2: (CONTINUED)**

The following is a summary of debt transactions of the Authority for the year ended December 31, 2010:

	Balance January 1, 2010	New Issues	Retirements	Balance December 31, 2010	Less Current Portion	Less Unamortized Discount/Expense	Less Unamortized Loss on Refunding	Long Term Portion
<b>Bonds Payable:</b>								
Series 2004	\$ 2,675,000	\$ -	\$ 2,675,000	\$ -	\$ -	\$ -	\$ -	\$ -
Series 2005	5,230,000	-	5,230,000	-	-	-	-	-
Series 2010	-	7,680,000	455,000	7,225,000	510,000	174,523	395,879	6,144,598
<b>Total Bonds</b>	<b>7,905,000</b>	<b>7,680,000</b>	<b>8,360,000</b>	<b>7,225,000</b>	<b>510,000</b>	<b>174,523</b>	<b>395,879</b>	<b>-</b>
<b>Notes Payable:</b>								
National City Bank	178,032	-	20,003	158,029	20,887	-	-	137,142
Pennvest Loan #71006*	284,587	-	36,724	247,863	37,963	-	-	209,900
Pennvest Loan #71140	4,074,845	-	256,307	3,818,538	264,728	-	-	3,553,810
M&T Bank Wrap Around Loans Series 2007	325,000	-	5,000	320,000	5,000	-	-	315,000
M&T Bank Wrap Around Loans Series 2008	340,000	-	-	340,000	5,000	-	-	335,000
M&T Bank Wrap Around Loans Series 2009	345,000	-	-	345,000	5,000	-	-	340,000
<b>Total Notes Payable</b>	<b>5,574,658</b>	<b>\$ -</b>	<b>\$ 318,034</b>	<b>\$ 5,229,430</b>	<b>\$ 338,578</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,890,852</b>

\* = New issue is per modification of note and accompanying amortization schedule provided by Pennvest.

**NOTE 3: DEVELOPERS' ESCROW**

The Authority has agreed to accept from developers additional dwelling units into the system. As a condition thereto, the developer is required to deposit with the Authority monies to be used by the Authority in the payment of engineering and legal fees and for the inspection of the construction of the sewer system and for the payment of all application and recording fees with respect to the securing of the necessary permits from the various agencies of the Commonwealth of Pennsylvania.

If, after the completion of the sanitary sewer by the developer and the acceptance thereof by the Authority, there remains any monies not spent by the Authority, such monies shall be returned to developer. In the event the initial deposit is insufficient for the purposes herein provided and, at any time thereafter, the developer will, at the request of the Authority, deposit with the Authority additional funds to defray such additional costs and expense. An itemized accounting of all such monies shall be supplied to the developer. For the year ended December 31, 2010, amounts in escrow exceeded amounts charged to developers.

**NOTE 4: COMPENSATED ABSENCES**

It is the Authority's policy to recognize the cost of compensated absences when incurred. Consequently, no accrual for compensated absences has been made.

**NOTE 5: PENSION PLAN**

A. Plan Description

General - The Franklin Township Municipal Sanitary Authority pension plan is a single-employer defined benefit pension plan controlled by the provisions of Resolution Dated October 16, 1997, adopted pursuant to Act 15. The plan participates in the Pennsylvania Municipal Retirement System (PMRS) which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Comprehensive Annual Financial Report (CAFR). A copy of the CAFR can be obtained by contacting the PMRS accounting office.

Plan Membership - Membership of the plan consisted of the following at December 31, 2009, (date of the most recent actuarial valuation):

Active plan members	18
Retirees and beneficiaries currently receiving benefits	1
Terminated plan members entitled to but not yet receiving benefits	2
Total	<u>21</u>

**NOTE 5: (CONTINUED)**

Benefit Provisions- The plan provides retirement, disability, and death benefits to plan members and their beneficiaries. Cost-of-living allowances are provided at the discretion of the plan.

**B. Summary of Significant Accounting Policies**

Basis of Accounting - The plan's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due, in accordance with Act 205, as amended. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments - Investments are reported at fair value. The plan's assets with PMRS are pooled for investment purposes and, therefore, do not represent specific identifiable investment securities. Disclosures required by Statement No. 3 of the Governmental Accounting Standards Board for aggregate PMRS investments are included in PMRS's separately issued CAFR.

**C. Contributions**

Act 205 requires that annual contributions be based upon the plan's minimum municipal obligation (MMO). The MMO is based upon the plan's biennial actuarial valuation.

In accordance with the plan's governing Resolution, members may, but are not required to contribute to the plan. For the year ended December 31, 2010, the employees contributed three percent of their gross wages to the plan for a total employee contribution of \$37,264.

The plan may also be eligible to receive an allocation of state aid from the General Municipal Pension System State Aid Program which must be used for pension funding. Any funding requirements established by the MMO in excess of employee contributions and state aid must be paid by the municipality in accordance with Act 205.

Administrative costs, including the investment manager, custodial trustee, and actuarial services, are charged to the plan and funded through investment earnings.

The payroll for employees covered by the plan for the year ended December 31, 2009, was \$996,729 which was 100 percent of total payroll.

For the year ended December 31, 2009, the Authority's pension plan expense was \$131,735, which includes the annual required contribution of \$127,943.

**NOTE 5: (CONTINUED)**

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS**

<u>Actuarial Valuation Date</u>	<u>(a) Actuarial Value of Assets</u>	<u>(b) Actuarial Accrued Liability (AAL) Entry Age</u>	<u>(b-a) Unfunded AAL (UAAL)</u>	<u>(a/b) Funded Ratio</u>	<u>(c) Covered Payroll</u>	<u>((b-a)/c) UAAL as a Percentage of Covered Payroll</u>
01/01/99	\$ 397,869	\$ 595,796	\$197,927	66.78%	\$ 645,997	30.64%
01/01/01	706,543	913,441	\$206,898	77.35%	744,916	27.77%
01/01/03	985,618	1,118,880	\$133,262	88.09%	762,637	17.47%
01/01/05	1,351,306	1,501,803	\$150,497	89.98%	899,668	16.73%
01/01/07	1,783,997	2,621,180	\$837,183	68.06%	961,508	87.07%
01/01/09	\$2,393,347	\$2,863,802	\$470,455	83.57%	\$1,005,261	46.80%

**REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF  
CONTRIBUTIONS FROM THE EMPLOYER(S) AND OTHER  
CONTRIBUTING ENTITIES**

<u>Year Ended December 31</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
1998	\$ 50,674	100%
1999	51,876	100%
2000	53,245	100%
2001	68,745	100%
2002	70,570	100%
2003	87,787	100%
2004	88,147	100%
2005	96,209	100%
2006	93,594	100%
2007	116,551	100%
2008	127,943	107%
2009	200,989	100%
2010	\$208,034	100%

**NOTE 5: (CONTINUED)**

**NOTES TO SUPPLEMENTARY SCHEDULES**

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date follows:

Actuarial Valuation Date	January 1, 2009
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar, closed
Remaining Amortization Period	13.10 Years
Asset Valuation Method	Fair Value
Actuarial Assumptions:	
Investment rate of return	6.0%
Projected salary increases	5.2%

**STATEMENT OF PLAN NET ASSETS  
AS OF DECEMBER 31, 2009**

Assets:

Investments at fair value:	
Assets with PMRS	\$2,549,585
Employer contributions receivable	-
Total Assets	<u>2,549,585</u>

Liabilities:

Net assets held in trust for pension benefits	<u>\$2,549,585</u>
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NOTE 5: (CONTINUED)

STATEMENT OF CHANGES IN PLAN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2009

Additions:	
Contributions	
Employer	\$201,180
Commonwealth	-
Member	36,656
Municipal for Member	-
Total Contributions	<u>237,836</u>
Investment Income:	
Interest	141,818
Excess Interest	-
Net Investment Income	<u>141,818</u>
Total Additions	<u>379,654</u>
Deductions:	
Refund of Member Contributions	-
Benefits	222,995
Administrative Expense	420
Allocated Insurance Premiums	-
Miscellaneous	-
Total Deductions	<u>223,415</u>
Net Increase	156,239
Net Assets Held in Trust for Pension Benefits:	
Beginning of Year	2,393,346
End of Year	<u>\$2,549,585</u>

**NOTE 6: MUNICIPAL RISK MANAGEMENT WORKMEN'S COMPENSATION  
POOLED TRUST**

The Authority entered into an agreement as of May 1, 1992, on the execution date of June 18, 1992, to join the Municipal Risk Management Workmen's Compensation Pooled Trust for the purpose of indemnifying itself against liability for certain coverages mandated under the Pennsylvania Workmen's Act and Pennsylvania Occupational Disease Act by pooling liabilities with other participants through a trust fund.

In consideration of the promises and the mutual covenants contained herein, and intending to be legally bound hereby, the participants (Authority) do hereby give and assign in trust the initial sums set forth in the Premium Schedule and all income and profits therefrom, and such other sums, income and profits as hereinafter may be made part of the trust, to the trustees, and the trustees hereby accept the trusts herein contained and declare that they will administer, manage, collect, receive, dispose of, and distribute such trust property for the benefit of the participants.

**Obligations, Duties, and Liabilities of Participants**

- (a) Each participant agrees to jointly and severally assume and discharge the liabilities arising under the Workmen's Compensation Act and Occupational Disease Act of each and every participant of this trust agreement.
- (b) Each participant agrees to fulfill all obligations and duties set forth in this agreement. The withdrawal or expulsion of any participant pursuant to this Article II shall not affect this agreement nor the trusts created herein, except where otherwise expressly provided.
- (c) Each participant is liable under this agreement for the payment of premiums, contributions, and assessments when due.
- (d) Each participant agrees to institute any and all reasonable safety regulations and loss prevention procedures that may be required by the administrator for the purpose of minimizing or eliminating hazards or risks that could contribute to losses.
- (e) Each participant agrees that it will cooperate fully with the trust's service agent(s), attorneys, claims adjusters and any other agent or employee of the trust in relation to the purpose and powers of the trust, including, but not limited to, the investigation, defense and settlement of claims. No participant shall encourage, aid or abet any person to file a claim against the participant, except as specifically required by the Workmen's Compensation Act or case law.
- (f) The participants will furnish to the trustees such underwriting information as may be required by the trust prior to or during any trust year, and any other information which may be requested by the administrator.
- (g) Participants agree that the by-laws of the Fund as amended are and shall be binding on each participant. No by-law shall be in conflict with or inconsistent with any provision of this agreement.

**NOTE 6: (CONTINUED)**

**Purposes of Trust** - The purpose and objectives of the trust are as follows:

- (a) To provide adequate and affordable coverage for each participant at the lowest possible cost by the pooling or sharing of certain liability risks.
- (b) To reduce the amount and frequency of losses incurred by each participant by utilizing loss control procedures.
- (c) To minimize costs incurred by participants in the handling and litigation of claims.
- (d) To protect each participant from the volatility and high premiums of the commercial insurance markets.
- (e) To take whatever other action which may be necessary to preserve and protect the fiscal and actuarial integrity of the trust, as required in the trust agreement and by-laws.

**Powers of Trustees** - The trustees shall have the power to control and manage the trust and to perform such acts, enter into such contracts, engage in such proceedings, and generally to exercise any and all rights and privileges, although not specifically mentioned herein, as the trustees may deem necessary or advisable to administer the trust or to carry out the purposes of this agreement. Any determination made by the trustees in the exercise of these powers shall be binding upon all participants. In addition to the powers set forth elsewhere in this agreement, the powers and duties of the trustees in connection with their managing and controlling the trust shall include, but shall not be limited to, the following:

- (a) To receive, hold, manage, invest, reinvest, and control all monies at any time forming part of the trust.
- (b) To purchase contracts of insurance or reinsurance through such broker or brokers as the Trustees may choose and to pay premiums on such policies.
- (c) To hold cash, uninvested, for such length of time as the trustees may determine without liability for interest thereon.
- (d) To employ suitable agents, advisors and other persons as the trustees may deem necessary and advisable for the efficient operation and administration of the trust, to delegate duties and powers hereunder to such agents, advisors and employees and to charge the expense thereof to the trust. Trustees are entitled to rely upon and may act upon the opinion or advice of any attorney or Service Agent approved by the trustees in the exercise of reasonable care. Trustees shall not be responsible for any loss or damage resulting from any action or non-action made in good faith reliance upon such opinion or advice.
- (e) To construe and interpret this trust agreement and any related documents, including the Participation Application and by-laws.

## NOTE 6: (CONTINUED)

- (f) To purchase as a general administrative expense of the trust so-called directors' and officers' liability insurance and any other types of insurance for the benefit of the trust, the trustees, trust employees, or agents, including provision of workmen's compensation benefits.
- (g) To pay or contest any claim or to settle a claim by or against the trust or any of its participants by negotiation, compromise, arbitration, or otherwise.
- (h) To determine the proper contributions, assessments and annual premiums in consultation with the Trust Actuary and to provide for the proper invoicing, collection and imposition of appropriate late payment charges, termination premiums, enforcement procedures and related matters necessary to protect the fiscal and actuarial integrity of the trust.
- (i) To purchase an employee fidelity bond covering the trustees, the administrator and such others as the trustees may determine.
- (j) To appoint for a fee or otherwise, a trust administrator who shall act at the direction of the trustees to implement the decisions of the trustees and to have direct responsibility for the operation and supervision of the trust.
- (k) To employ counsel to advise and represent the trustees on legal matters relating to the operation and administration of the trust, and to employ such other legal counsel as may be necessary to represent participants in the defense of claims or litigation.
- (l) To do all acts, whether or not expressly authorized herein, which the trustees may deem necessary in the best interests of the trust.

**Limitation of Liability** - Liability of the trust to any participant is specifically limited to those coverages provided in the Pennsylvania Workmen's Compensation Act and Occupational Disease Act.

The Authority treats dividends received from the trust as a reduction of costs during the year received. During the year ended December 31, 2010, the Authority paid premiums to the trust in the amount of \$37,264 and received dividends from the trust in the amount of \$12,938.

## NOTE 7: RECENT ACCOUNTING PRONOUNCEMENTS

The GASB has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective for periods beginning after June 15, 2010. The objective of this statement is to enhance the usefulness of the fund balance information by providing cleaner fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The Authority has not yet determined the effect that the adoption of GASB Statement No. 54 may have on the financial statements.

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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***

Board of Directors  
Franklin Township Municipal  
Sanitary Authority  
3001 Meadowbrook Road  
Murrysville, Pennsylvania 15668

We have audited the financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of Franklin Township Municipal Sanitary Authority, as of and for the year ended December 31, 2010, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated February 25, 2011. 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 Franklin Township Municipal Sanitary 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 internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Franklin Township Municipal Sanitary Authority's internal control over financial reporting.

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 Franklin Township Municipal Sanitary Authority's internal control.

Our consideration of 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 the 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 with Other Matters.

As part of obtaining reasonable assurance about whether Franklin Township Municipal Sanitary Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report intended solely for the information and use of management, Board of Directors, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

*Sarp & Company*

Sarp & Company  
CERTIFIED PUBLIC ACCOUNTANTS

Greensburg, Pennsylvania  
February 25, 2011

**SUPPLEMENTARY INFORMATION**

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# SARP & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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210 Toll Gate Hill Road  
Greensburg, PA 15601  
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FAX: 724-834-5969

**John F. Sarp, CPA, Managing Partner**  
**Jared C. Ewing, CPA**

**Retired**  
**Donald R. Sarp, CPA**  
**Jerome R. Yasher, CPA**

**Lawrence J. Nicolette, CPA**  
**1943 - 1991**

## INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

Our audit report of the basic financial statements presented in the preceding section of this report was made primarily to report on such financial statements taken as a whole. Supplementary information, contained in the following pages, is not considered essential for the report of the financial position of the Franklin Township Municipal Sanitary Authority or the results of its operations. However, the following data were subjected to the auditing procedures applied to the basic financial statements, and are fairly stated in all material respects in relation to such statements taken as a whole.

*Sarp & Company*

Sarp & Company  
CERTIFIED PUBLIC ACCOUNTANTS

Greensburg, Pennsylvania  
February 25, 2011

FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY  
SCHEDULE OF OPERATING REVENUES  
YEARS ENDED DECEMBER 31,

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Sewer Rentals	\$ 3,898,853	\$ 3,821,827	\$ 3,821,219	\$ 3,625,426	\$ 3,226,019
Penalties	26,788	24,669	24,422	23,401	21,756
Total Operating Revenues	<u>\$ 3,925,641</u>	<u>\$ 3,846,496</u>	<u>\$ 3,845,641</u>	<u>\$ 3,648,827</u>	<u>\$ 3,247,775</u>

FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY  
SCHEDULE OF OPERATING EXPENSES  
YEARS ENDED DECEMBER 31,

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Collection:					
Labor	\$ 180,889	\$ 170,121	\$ 167,353	\$ 160,363	\$ 153,677
Employee Benefits	89,612	78,461	62,414	54,424	54,322
Payroll Taxes	14,344	13,335	13,137	12,575	12,138
Utilities	27,811	26,836	24,412	22,956	20,744
Supplies and Expense	8,003	9,998	7,594	10,200	6,109
Repairs and Maintenance	54,802	73,340	74,340	69,753	87,844
Infiltration Collection	-	785	-	764	68
Other	10,914	-	-	-	-
	<u>386,375</u>	<u>372,876</u>	<u>349,250</u>	<u>331,035</u>	<u>334,902</u>
Treatment and Transportation:					
Labor	672,184	606,537	592,481	586,234	562,559
Employee Benefits	357,089	314,676	247,249	228,206	222,977
Payroll Taxes	53,755	47,756	47,343	46,181	44,712
Chemicals	58,798	39,245	48,181	38,446	33,604
Supplies and Expense	24,904	21,599	22,954	16,401	18,414
Repairs and Maintenance	173,997	130,009	219,898	145,786	155,215
Utilities	321,922	263,588	234,336	211,723	209,880
Sludge Disposal	104,034	93,347	82,488	107,258	94,616
	<u>1,766,683</u>	<u>1,516,757</u>	<u>1,494,930</u>	<u>1,380,235</u>	<u>1,341,977</u>
General and Administrative:					
Salaries	227,984	220,071	199,132	201,173	193,327
Employee Benefits	94,403	79,419	58,152	55,233	53,790
Payroll Taxes	18,280	17,418	15,867	16,117	15,620
Billing and Collection	29,420	27,035	25,652	29,628	26,132
General Insurance	66,014	70,048	76,579	71,800	66,278
Utilities	15,912	13,387	13,211	13,840	13,222
Other Administrative Expense	5,630	6,923	12,906	13,156	22,197
Supplies and Expense	26,874	25,285	30,370	20,524	21,984
Legal	23,091	20,506	29,255	29,973	13,467
Engineering	4,960	10,332	11,730	3,188	18,992
Audit	11,000	10,050	9,500	8,975	8,500
Trustee Fees	\$ -	\$ 700	\$ 700	\$ 600	\$ 2,800

FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY  
SCHEDULE OF OPERATING EXPENSES  
YEARS ENDED DECEMBER 31  
(CONTINUED)

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Board Member Expense	\$ 2,925	\$ 3,425	\$ 3,325	\$ 3,075	\$ 2,800
Dues and Subscriptions	3,205	3,429	3,120	3,001	3,061
Professional Services	1,080	1,050	14,420	955	2,155
Depreciation on Plant and System	1,369,331	1,345,047	1,327,669	1,327,669	1,313,946
Depreciation on Plant Fixed Assets	19,415	15,098	16,714	16,563	79,633
	<u>1,919,524</u>	<u>1,869,223</u>	<u>1,848,302</u>	<u>1,815,470</u>	<u>1,857,904</u>
Total Operating Expenses	<u>\$ 4,072,582</u>	<u>\$3,758,856</u>	<u>\$3,692,482</u>	<u>\$3,526,740</u>	<u>\$3,534,783</u>

FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY  
SCHEDULE OF NONOPERATING REVENUES  
YEARS ENDED DECEMBER 31,

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Interest Earned on Investments	\$ 255	\$ 3,313	\$ 26,312	\$ 27,201	\$ 39,661
Interest Earned on Delinquent Sewer Charges	3,762	3,073	2,440	2,324	2,009
Miscellaneous Income	49,466	72,291	67,867	173,501	60,134
Discounts	150	145	-	-	-
Equipment Rental	-	6,864	-	-	-
Inspection Fees	31,500	-	-	-	-
Total Nonoperating Revenues	<u>\$ 85,133</u>	<u>\$ 85,686</u>	<u>\$ 96,619</u>	<u>\$ 203,026</u>	<u>\$ 101,804</u>

FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY  
SCHEDULE OF NONOPERATING EXPENSES  
YEARS ENDED DECEMBER 31.

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Amortization of Bond Issue Costs	\$ 35,922	\$ 120,529	\$ 60,194	\$ 82,810	\$ 98,308
Bond Interest Expense	289,732	297,794	350,933	352,395	377,068
Loan Interest Expense	164,302	166,518	164,045	93,955	99,819
Uncollectible Charges	-	-	1,419	-	-
Total Nonoperating Expenses	<u>\$ 489,956</u>	<u>\$ 584,841</u>	<u>\$ 576,591</u>	<u>\$ 529,160</u>	<u>\$ 575,195</u>

FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY  
SCHEDULE OF CONTRIBUTIONS AND TRANSFERS  
FOR THE YEAR ENDED DECEMBER 31, 2010

Tap-In Revenue	\$298,746
Assessments Revenue	-
Contributions from Customers	80,242
Total Contributions and Transfers	<u>\$378,988</u>

FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY  
SCHEDULE OF LOAN PAYABLE-M & T BANK  
(BOND WRAP AROUND LOAN SERIES OF 2007)  
DECEMBER 31, 2010

<u>To Mature</u> <u>January 1</u>	<u>Interest Rate</u> <u>(%)*</u>	<u>Principal</u>
2011	4.30	\$ 5,000
2012	4.30	5,000
2013	4.30	5,000
2014	4.30	5,000
2015	4.30	5,000
2016	4.30	5,000
2017	4.30	5,000
2018	4.30	5,000
2019	4.30	5,000
2020	4.30	5,000
2021	4.30	5,000
2022	4.30	265,000
		<u>\$ 320,000</u>

\* Interest Payable January and July 1

FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY  
SCHEDULE OF LOAN PAYABLE-M & T BANK  
(BOND WRAP AROUND LOAN SERIES OF 2008)  
DECEMBER 31, 2010

<u>To Mature</u> <u>January 1</u>	<u>Interest Rate</u> <u>(%)*</u>	<u>Principal</u>
2011	4.30	\$ 5,000
2012	4.30	5,000
2013	4.30	5,000
2014	4.30	5,000
2015	4.30	5,000
2016	4.30	5,000
2017	4.30	5,000
2018	4.30	5,000
2019	4.30	5,000
2020	4.30	5,000
2021	4.30	5,000
2022	4.30	285,000
		<u>\$ 340,000</u>

\* Interest Payable January and July 1

FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY  
SCHEDULE OF LOAN PAYABLE-M & T BANK  
(BOND WRAP AROUND LOAN SERIES OF 2009)  
DECEMBER 31, 2010

<u>To Mature</u> <u>January 1</u>	<u>Interest Rate</u> <u>(%)*</u>	<u>Principal</u>
2011	4.30	\$ 5,000
2012	4.30	215,000
2013	4.30	5,000
2014	4.30	5,000
2015	4.30	5,000
2016	4.30	5,000
2017	4.30	5,000
2018	4.30	5,000
2019	4.30	5,000
2020	4.30	5,000
2021	4.30	5,000
2022	4.30	80,000
		<u>\$ 345,000</u>

\* Interest Payable January and July 1

FRANKLIN TOWNSHIP MUNICIPAL SANITARY AUTHORITY  
SCHEDULE OF BONDS PAYABLE - SERIES 2010  
DECEMBER 31, 2010

To Mature <u>July 1</u>	Interest Rate <u>(%)*</u>	<u>Principal</u>
2011	3.00	\$ 510,000
2012	4.00	645,000
2013	4.00	670,000
2014	4.00	700,000
2015	4.00	725,000
2016	4.00	745,000
2017	3.00	770,000
2018	3.00	795,000
2019	3.25	820,000
2020	3.50	845,000
		<u>\$7,225,000</u>

\* Interest Payable January and July 1