

In the opinion of Bond Counsel, under existing statutes, regulations and judicial decisions, interest on the Bonds is excluded from gross income for purposes of federal income taxation and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although in the case of corporations (as defined for federal income tax purposes) such interest is taken into account in determining adjusted current earnings for purposes of such alternative minimum tax. This opinion of Bond Counsel is subject to continuing compliance by the issuer of the Bonds with its covenants in the Indenture and other documents to comply with requirements of the Internal Revenue Code of 1986, as amended, and applicable regulations thereunder.

Bond Counsel is also of the opinion that under the laws of the Commonwealth of Pennsylvania (the "Commonwealth") as presently enacted and construed, the Bonds are exempt from personal property taxes in the Commonwealth and interest on the Bonds is exempt from the Commonwealth's Personal Income Tax and the Commonwealth's Corporate Net Income Tax.

The Bonds are "qualified tax-exempt obligations" for purposes and effect contemplated by Section 265 of the Internal Revenue Code of 1986, as amended (relating to expenses and interest relating to tax-exempt income of certain financial institutions).

For further information concerning Federal and State Tax Matters relating to the Bonds, see "Tax Exemption and Other Tax Matters" herein.

\$2,995,000
RED LION MUNICIPAL AUTHORITY
(York County, Pennsylvania)
Sewer Revenue Bonds - Series of 2012

Bonds Dated: Date of Delivery
Principal Due: December 1, as shown on inside cover
Denominations: Integral multiples of \$5,000

Interest Due: June 1 and December 1
First Interest Payment: December 1, 2012
Form: Book- Entry Only

General: The Sewer Revenue Bonds - Series of 2012 (the "Bonds") are being issued by the Red Lion Municipal Authority (the "Authority") pursuant to the Pennsylvania Municipality Authorities Act 53 Pa. C.S. Ch. 56 (the "Authorities Act"), and a Resolution adopted by the Authority Board on March 28, 2012 (the "Resolution"). The Bonds will be dated the date of their issuance and delivery (the "Delivery Date"), and will bear interest from such date, payable semiannually, on June 1 and December 1 of each year commencing December 1, 2012, at the interest rates set forth on the inside cover hereof. The Bonds will be registered in the name of CEDE & CO., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Beneficial ownership interests in the Bonds will be recorded in book-entry only form in denominations of \$5,000, and integral multiples thereof. Principal of and interest on the Bonds are payable directly to CEDE & CO. for redistribution to DTC Participants and in turn to Beneficial Owners as described herein. Purchasers will not receive physical delivery of certificates representing their ownership interests in Bonds purchased. For a purchaser to be and remain a Beneficial Owner of a Bond, such purchaser must maintain an account with a broker or dealer who is, or acts through, a DTC Participant and receive payment of the principal of and interest on such Bonds. See "Book-Entry Only System" herein.

Redemption: The Bonds are subject to redemption prior to their stated maturity dates as described herein.

Legal Investment for Fiduciaries in Pennsylvania: The Bonds are legal investment for fiduciaries in the Commonwealth of Pennsylvania under the Probate, Estate and Fiduciaries Code, Act of June 30, 1972, No. 164, P.L. 508 as amended and supplemented.

Purpose of the Bonds: Proceeds of the Bonds, together with other available funds, will be used to : (1) currently refund all of the Authority's outstanding Sewer Revenue Bonds - Series of 2005, (2) construct improvements to the Authority's public sanitary sewer system, (3) make a net deposit to the debt service reserve fund, and (4) pay the costs of issuing and insuring the Bonds.

Security: The Bonds are being issued pursuant to a Trust Indenture, dated as of March 15, 2005, as amended by a First Supplemental Indenture, dated the Delivery Date, (together, the "Indenture"), between the Authority and Manufacturers and Traders Trust Company (the "Trustee"), as trustee. The Bonds are secured under the Indenture by an assignment and pledge to the Trustee of the Receipts and Revenues from the Sewer System, as defined in the Indenture.

THE BONDS WILL BE SECURED BY A PLEDGE AND ASSIGNMENT BY THE AUTHORITY TO THE TRUSTEE OF THE RECEIPTS AND REVENUES FROM THE SEWER SYSTEM (AS DESCRIBED HEREIN) AND MONEY HELD BY THE TRUSTEE UNDER THE INDENTURE. THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY AND NEITHER THE CREDIT NOR THE TAXING POWER OF THE BOROUGH OF RED LION, THE COUNTY OF YORK OR THE COMMONWEALTH OF PENNSYLVANIA, IS PLEDGED TO PAY THE BONDS. THE AUTHORITY HAS NO TAXING POWER.

Bond Insurance: The scheduled payment of principal of and interest on the Bonds when due is guaranteed under a municipal bond insurance policy issued concurrently with the delivery of the Bonds by Assured Guaranty Municipal Corp. ("AGM").



The Bonds are offered for delivery when, as and if issued by Authority and received by the Underwriter, subject to the approving legal opinion of Rhoads & Simon LLP, Harrisburg, Pennsylvania, Bond Counsel, to be furnished upon delivery of the Bonds. Certain legal matters will be passed upon by MPL Law Firm, LLP, York, Pennsylvania, Solicitor for the Authority. Financial S&Lutions LLC, Reading, Pennsylvania, has acted as financial advisor to the Authority in connection with the issuance of the Bonds. It is expected that the Bonds will be available for delivery, through the facilities of DTC, on or about April 30, 2012.



RBC Capital Markets®

\$2,995,000
RED LION MUNICIPAL AUTHORITY
(York County, Pennsylvania)
Sewer Revenue Bonds - Series of 2012

Bonds Dated: Date of Delivery

Principal Due: December 1, as shown on inside cover

Denominations: Integral multiples of \$5,000

Interest Due: June 1 and December 1

First Interest Payment: December 1, 2012

Form: Book- Entry Only

Maturity Schedule

| <u>Year</u> | <u>Principal Amount</u> | <u>Interest Rate</u> | <u>Price</u> | <u>Year</u> | <u>Principal Amount</u> | <u>Interest Rate</u> | <u>Price</u> |
|-------------|-------------------------|----------------------|--------------|-------------|-------------------------|----------------------|--------------|
| 2012 | \$170,000 | 1.000% | 100.204% | 2017 | \$150,000 | 1.750% | 99.207% |
| 2013 | 140,000 | 0.900 | 100.000 | 2018 | 150,000 | 2.000 | 99.143 |
| 2014 | 140,000 | 1.000 | 99.492 | 2019 | 155,000 | 2.250 | 98.964 |
| 2015 | 145,000 | 1.250 | 99.972 | 2020 | 155,000 | 2.500 | 98.475 |
| 2016 | 145,000 | 1.500 | 99.471 | | | | |

\$495,000 3.150% Term Bonds due December 1, 2023, priced @ 98.563%

\$545,000 3.500% Term Bonds due December 1, 2026, priced @ 98.870%

\$605,000 3.700% Term Bonds due December 1, 2029, priced @ 98.093%

No dealer, broker, salesman or other person has been authorized by the Authority or the Underwriter to give any information or to make any representation, other than that given or made in this Official Statement, and if given or made, any such other information or representation may not be relied upon as having been authorized by the Authority or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. This Official Statement has been approved by the Authority and, while the information set forth in this Official Statement has been furnished by the Authority and other sources which are believed to be reliable, such information is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Underwriter or, as to information obtained from other sources, by the Authority. The information and expressions of opinion set forth in this Official Statement are subject to change without notice and neither the delivery of this Official Statement nor any sale made under this Official Statement shall, under any circumstances, create any implication that the affairs of the Authority have remained unchanged since the date of this Official Statement.

Assured Guaranty Municipal Corp. (“AGM”) makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading “BOND INSURANCE” and “Appendix E - Specimen Municipal Bond Insurance Policy”.

THE UNDERWRITER HAS PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT. THE UNDERWRITER HAS REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS PART OF, ITS RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITER DOES NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

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**RED LION MUNICIPAL AUTHORITY
(York County, Pennsylvania)**

Authority Board

Eric A. Immel Chairman
Carroll L. Missimer, III. Vice Chairman
Henry P. Herrman Member
Michael C. Poff Member
Bradley D. Smith Member

AUTHORITY SOLICITOR

MPL Law Firm, LLP
York, Pennsylvania

BOND COUNSEL

Rhoads & Sinon LLP
Harrisburg, Pennsylvania

UNDERWRITER

RBC Capital Markets, LLC
Lancaster, Pennsylvania

FINANCIAL ADVISOR

Financial S&Lutions LLC
Reading, Pennsylvania

TRUSTEE

Manufacturers and Traders Trust Company
Harrisburg, Pennsylvania

AUTHORITY ADDRESS

111 East Broadway
Red Lion, Pennsylvania 17356

SUMMARY STATEMENT

This Summary Statement is subject in all respects to more complete information in this Official Statement. No person is authorized to detach this Summary Statement from this Official Statement or otherwise use it without the entire Official Statement.

| | |
|--------------------------------------|--|
| Issuer | Red Lion Municipal Authority |
| Bonds | \$2,995,000 aggregate principal amount of the Issuer's Sewer Revenue Bonds - Series of 2012 (the "Bonds"), dated the date of their delivery, maturing or subject to mandatory sinking fund redemptions in annual principal amounts on December 1 of the years 2012 to 2029, inclusive. Interest is payable semiannually on June 1 and December 1, beginning December 1, 2012. See "DESCRIPTION OF THE BONDS" herein. |
| Redemption Provision | Bonds maturing on and after December 1, 2017, shall be subject to optional redemption in whole or in part prior to maturity on June 1, 2017 or any date thereafter. See "REDEMPTION PROVISIONS" herein. |
| Form | Book-entry only. |
| Application of Proceeds | Proceeds of the Bonds, together with other available funds, will be used to; (1) currently refund all \$2,485,000 of the Authority's outstanding Sewer Revenue Bonds - Series of 2005, (2) construct improvements to the Authority's public sanitary sewer system, (3) make a net deposit to the debt service reserve fund and (4) pay the costs of issuing and insuring the Bonds. |
| Security | The Bonds are limited revenue obligations of the Authority, secured and payable as provided in a Trust Indenture, dated as of March 15, 2005, as amended by a First Supplemental Indenture, to be dated the delivery date of the Bonds, between the Authority and Manufacturers and Traders Trust Company, as trustee. |
| Rating | See "RATINGS" herein. |
| Bond Insurance | The Bonds carry a municipal bond insurance commitment from Assured Guaranty Municipal Corp. ("AGM") which assures payment of the respective principal and interest to the registered owners of the Bonds. See "BOND INSURANCE" herein. |

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OFFICIAL STATEMENT

\$2,995,000

**RED LION MUNICIPAL AUTHORITY
(York County, Pennsylvania)
Sewer Revenue Bonds - Series of 2012**

INTRODUCTION

This Official Statement is furnished by the Red Lion Municipal Authority (the "Authority"), in connection with the offering of its Sewer Revenue Bonds - Series of 2012, to be issued in the aggregate principal amount of \$2,995,000 (the "Bonds" or "2012 Bonds").

The Bonds are being issued pursuant to a Trust Indenture, dated as of March 15, 2005, as amended by a First Supplemental Indenture, to be dated the date the Bonds are issued and delivered (the "Date of Delivery") (together, the "Indenture"), between the Authority and Manufacturers and Traders Trust Company (the "Trustee"), as trustee. The Bonds are secured under the Indenture by an assignment and pledge to the Trustee of the "Receipts and Revenues from the Sewer System" as defined in the Indenture and herein described.

THE BONDS WILL BE SECURED BY A PLEDGE AND ASSIGNMENT BY THE AUTHORITY TO THE TRUSTEE OF THE RECEIPTS AND REVENUES FROM THE SEWER SYSTEM (AS DESCRIBED HEREIN) AND MONEY HELD BY THE TRUSTEE UNDER THE INDENTURE. THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY AND NEITHER THE CREDIT NOR THE TAXING POWER OF THE BOROUGH OF RED LION, THE COUNTY OF YORK OR THE COMMONWEALTH OF PENNSYLVANIA, IS PLEDGED TO PAY THE BONDS. THE AUTHORITY HAS NO TAXING POWER.

The Authority is empowered to issue the Bonds under the Pennsylvania Municipality Authorities Act 53, Pa. C.S. Ch. 56, as amended, (the "Authorities Act") and the Indenture. The Bonds and the Indenture were authorized by a resolution adopted by the Board of the Authority on March 28, 2012 (the "Resolution").

The Bonds shall be issued and held in denominations of \$5,000 and integral multiple thereof. Interest on the Bonds will begin accruing on the date the bonds are issued and delivered (the "Date of Delivery"), and is payable semiannually on June 1 and December 1 of each year, commencing December 1, 2012. All of the Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"), New York, New York. Purchasers of the Bonds (the "Beneficial Owners") will not receive any physical delivery of bond certificates and beneficial ownership of the Bonds will be evidenced only by electronic book entries. See "BOOK-ENTRY ONLY SYSTEM" herein.

The information that follows contains summaries of the Bonds, the Indenture and the Authority's Budget and Financial Statements. Such summaries do not purport to be complete and reference is made to the Bonds, the Indenture and the Authority's Budget and Financial Statements, copies of which are on file and available for examination at the offices of the Authority and the Trustee.

THE AUTHORITY

The Authority is a Pennsylvania municipality authority originally incorporated in 1958 by the Borough of Red Lion, located in York County, Pennsylvania (the “Borough”), in accordance with the Authorities Act. In 1962 the Authority constructed a sewage treatment plant and related collection and transmission facilities and has since constructed various extensions and improvements. The Authority abandoned its sewage treatment plant in 1974 and has since contracted with neighboring Springettsbury Township for bulk sewage treatment services. The Authority has broad powers under the Authorities Act, including the power to enter into leases and other contracts, acquire property, including by the exercise of the power of eminent domain, to hold, operate and maintain properties, including sewer systems, issue bonds and secure their payment by a pledge of general or special revenues, and charge rates, fees and other charges for the use of its facilities. The Authority also owns and manages a public water system and facilities serving the Borough and adjacent municipalities (which are not encumbered by the Bonds or Indenture).

The Authority renders sewer service to approximately 2,891 customers in the Borough, and adjacent portions of York and Windsor Townships including 2,687 (92.9%) residential customers and 146 (5.0%) commercial customers. Authority customers are required by law to remain connected to the Authority’s sewer system under an Ordinance of the Borough, and is empowered to lien properties of owners who fail to timely pay its sewer rates. See “The Sewer System”, herein.

Under the Authority’s Articles of Incorporation and the Authorities Act, the Authority is governed by a five-member Board all appointed by the Council of the Borough for five-year terms on a staggered basis so that one member’s term expires each year. The Authority Board is responsible for managing the business of the Authority, including the establishment of sewer rates and charges. The current members and officers of the Authority Board are as follows:

Members and Officers

| <u>Member or Officer</u> | <u>Title</u> | <u>Term Expires</u> |
|--------------------------|-------------------------------|---------------------|
| Eric A. Immel | Chairman | December 31, 2014 |
| Carroll L. Missimer, III | Vice Chairman | December 31, 2012 |
| Henry P. Herman | Secretary | December 31, 2015 |
| Michael C. Poff | Treasurer | December 31, 2016 |
| Bradley D. Smith | Assistant Secretary/Treasurer | December 31, 2013 |

PREVIOUS AUTHORITY FINANCINGS

On November 15, 1999, the Authority issued \$2,465,000 principal amount of Sewer Revenue Bonds-Series of 1999 (the “1999 Bonds”) to construct capital improvements to the Sewer System. On March 1, 2005, the Authority issued \$3,100,000 principal amount of Sewer Revenue Bonds-Series of 2005 (the “2005 Bonds”) to refund and retire the 1999 Bonds and construct capital improvements to its sanitary sewage collection and treatment system (the “Sewer System”). The 2005 Bonds are to be currently refunded by a portion of the proceeds of the Bonds. Bond proceeds in the approximate amount of \$300,000 will be used by the Authority to construct capital improvements to the Sewer System.

In addition to the Bonds offered in connection with this Official Statement, the Authority also has outstanding debt associated with its public water system. Most recently, on January 13, 2005, the Authority issued \$6,650,000 of Water Revenue Bonds-Series of 2005 (\$2,485,000 currently outstanding), which are payable from and are secured by a lien on the receipts and revenues from the Authority’s water system. The Authority is likely to borrow approximately \$13,500,000 within the next 12 months to finance a new drinking water filtration and treatment plant. The Bonds offered in connection with this Official Statement have no security interest in or claim against the Authority water revenues, which are separately pledged to secure the

Authority's water revenue bonds. Likewise, the Authority's water revenue bonds and not secured by revenues derived by the Sewer System.

The Authority allocates certain operating expenses and administrative expenses, including personnel, between its water system and sewer system operations, budgets and revenues.

PURPOSE OF THE ISSUE

Proceeds of the Bonds, together with other available funds, will be used to: (1) currently refund all of the \$2,485,000 outstanding 2005 Bonds, (2) construct improvements to the Sewer System, (3) make a net deposit to the debt service reserve fund and (4) to pay the costs of issuing and insuring the Bonds.

SOURCES AND USES OF FUNDS

Sources of Funds

| | |
|---|-----------------------|
| Proceeds of 2012 Bonds..... | \$2,995,000.00 |
| Plus: Existing Debt Service Reserve Fund..... | 206,610.86 |
| Less: Net Original Issue Discount..... | <u>(33,295.60)</u> |
| Total Sources of Funds..... | <u>\$3,168,315.26</u> |

Uses of Funds

| | |
|---|-----------------------|
| 2005 Bonds Refunding Requirement | \$2,527,830.26 |
| Deposit to the Construction Fund | 300,000.00 |
| Deposit to the Debt Service Reserve Fund..... | 220,040.00 |
| Costs of Issuance ⁽¹⁾ | <u>120,445.00</u> |
| Total Uses of Funds | <u>\$3,168,315.26</u> |

(1) Includes legal fees, financial advisory fees, underwriter's discount, trustee/escrow agent fees, rating fee, municipal bond insurance premium, printing costs and other miscellaneous fees.

REFUNDING PROJECT

Upon the delivery of the Bonds, the Authority will direct Manufacturers and Traders Trust Company, Harrisburg, Pennsylvania, as Trustee for the 2005 Bonds, to apply a portion of the Bonds to redeem the 2005 Bonds, on or within 90 days of the Date of Delivery.

DESCRIPTION OF THE BONDS

General Description

The Bonds are being issued in the aggregate principal amount of \$2,995,000, are dated the Date of Delivery and bear interest initially from that date at the rates shown on the cover page hereof, payable June 1 and December 1 of each year, commencing December 1, 2012 until maturity thereof or earlier call for redemption. The Bonds mature and principal is due on December 1 of the years shown on the cover page hereof. The Bonds initially will be issued in book-entry only form, in denominations of \$5,000 and integral multiples thereof.

The Bonds will all be registered in the name of Cede & Co., as nominee of DTC. Purchases of beneficial interest in the Bonds will be made in "book-entry" form, and purchasers will not receive physical delivery of certificates evidencing ownership of the Bonds. See "Book-Entry Only System" below. If such system is ever discontinued, the provisions below referring to certificated bonds will become applicable.

Payment of Principal and Interest

So long as Cede & Co., as nominee of DTC, is the registered owner of the Bonds, payments of principal of and interest on the Bonds, when due, are to be made to DTC and all such payments shall be valid and effective to satisfy fully and to discharge the obligations of the Authority with respect to, and to the extent of, principal and interest so paid. If the use of the book-entry only system for the Bonds is discontinued for any reason, bond certificates will be issued to the Beneficial Owners of the Bonds and payment of principal and interest on the Bonds shall be made as described in the following paragraphs.

If the use of the Book-Entry Only System for the Bonds is discontinued for any reason, bond certificates will be issued to the Beneficial Owners of the Bonds and payment of principal, redemption premium, if any, and interest on the Bonds shall be made as described in the following paragraphs:

The principal of and premium, if any, on any certificated Bonds will be payable upon surrender thereof at the designated payment office of the Trustee. Interest on the Bonds will be payable from the interest payment date next preceding the date of registration and authentication of such Bond, unless: (a) the Bond is registered and authenticated as of an interest payment date, in which event the Bond shall bear interest from said interest payment date; or (b) the Bond is registered and authenticated after a Record Date (hereinafter defined) and before the next succeeding interest payment date, in which event the Bond shall bear interest from such succeeding interest payment date; or (c) the Bond is registered and authenticated on or prior to the Record Date (hereinafter defined) next preceding December 1, 2012, in which event the Bond shall bear interest from the Date of Delivery; or (d) as shown by the records of the Trustee, interest on the Bond shall be in default, in which event the Bond shall bear interest from the date on which interest was last paid on the Bond. The interest on a certificated Bond will be payable on June 1 and December 1 of each year (the first interest payment date being December 1, 2012), by check mailed to the person in whose name the Bond is registered at the address shown on the registration books of the Authority kept by the Trustee as of the close of business on the fifteenth (15th) day next preceding each interest payment date (the "Record Date"), irrespective of any transfer or exchange of such Bond subsequent to such Record Date, unless the Authority shall be in default in payment of interest due on such interest payment date. In the event of any such default, such defaulted interest shall be payable to the person in whose name the Bond is registered at the close of business on a special record date as established by notice mailed by the Trustee to the registered owners of Bonds not less than fifteen (15) days preceding such special record date. Such notice shall be mailed to the persons in whose names the Bonds are registered at the close of business on the business day preceding the date of mailing.

If the date for the payment of the principal of or interest on any Bonds shall be a Saturday, Sunday, legal holiday or on a day on which banking institutions in the Commonwealth are authorized or required by law or executive order to close, then the date for payment of such principal or interest shall be the next succeeding day which is not a Saturday, Sunday, legal holiday or a day on which such banking institutions are authorized or required to close, and payment on such date shall have the same force and effect as if made on the nominal date established for such payment

Transfer, Exchange and Registration of Bonds

Subject to the provisions described below under "Book-Entry Only System", a certificated Bond may be transferred or exchanged by the registered owners thereof upon surrender of such Bond to the Trustee, at its designated corporate trust office, accompanied by a written instrument or instruments in form, with instructions satisfactory to the Trustee, duly executed by the registered owner of such Bond or his attorney-in-fact or legal representative. The Trustee shall enter any transfer of ownership of such Bonds in the registration books and shall authenticate and deliver at the earliest practicable time in the name of the transferee or transferees a new fully registered bond or bonds of authorized denominations of the same series, maturity date and interest rate for the aggregate principal amount which the registered owner is entitled to receive. The Authority and the Trustee may deem and treat the registered owner of such Bond as the absolute owner thereof

(whether or not a Bond shall be overdue) for the purpose of receiving payment of or on account of principal and interest and for all other purposes, and the Authority and the Trustee shall not be affected by any notice to the contrary.

Bonds may be exchanged for a like aggregate principal amount of Bonds of other authorized denominations of the same series, maturity date and interest rate. The Authority and the Trustee shall not be required to: (i) issue or transfer any Bonds during the period beginning at the opening of business on any Record Date for interest payments and ending at the close of business on such interest payment date; or (ii) issue or transfer any Bonds during a period beginning at the opening of business on the 15th business day next preceding any date of selection of Bonds to be redeemed and ending at the close of business on the date the notice of redemption shall be mailed; or (iii) issue or transfer any Bonds during the period beginning at the opening of business on the first business day next succeeding the business day the Trustee determines the registered owners of Bonds to receive notice of any Special Record Date and the close of business on the Special Record Date; or (iv) issue or transfer any Bonds selected or called for redemption.

REDEMPTION PROVISIONS

Optional Redemption

The Bonds maturing on and after December 1, 2017, shall be subject to redemption prior to maturity, at the option of the Authority, as a whole or in part (and if in part, as selected by the Authority in authorized denominations), on June 1, 2017, or any date thereafter at a price of 100% of the principal amount of such Bonds to be redeemed plus accrued interest thereon to the redemption date. In the event that less than all Bonds of any particular maturity are to be redeemed, the Bonds of such maturity to be redeemed shall be drawn by lot by the Trustee.

Mandatory Redemption

The Bonds stated to mature on December 1, 2023, December 1, 2026 and December 1, 2029 (the "Term Bonds"), are subject to mandatory redemption prior to maturity, in the amounts and on December 1 of the years shown below from money deposited by the Township in the Sinking Fund (as hereafter defined) created pursuant to the Indenture, upon payment of the principal amount thereof together with interest accrued to the date fixed for redemption.

Term Bonds Due December 1, 2023

| <u>Year</u> | <u>Amount</u> |
|-------------|---------------|
| 2021 | \$160,000 |
| 2022 | 165,000 |
| 2023* | 170,000 |

Term Bonds Due December 1, 2026

| <u>Year</u> | <u>Amount</u> |
|-------------|---------------|
| 2024 | \$175,000 |
| 2025 | 180,000 |
| 2026* | 190,000 |

Term Bonds Due December 1, 2029

| <u>Year</u> | <u>Amount</u> |
|-------------|---------------|
| 2027 | \$195,000 |
| 2028 | 200,000 |
| 2029* | 210,000 |

*Maturity

Notice of Redemption

So long as Cede & Co., as nominee of DTC, is the registered owner of the Bonds, however, the Authority and the Trustee shall send redemption notices only to Cede & Co. See “BOOK-ENTRY ONLY SYSTEM” herein for further information regarding conveyance of notices and Beneficial Owners.

If at a time of mailing of a notice of redemption the Authority has not deposited with the Trustee (or, in the case of a refunding, with another bank or depository acting as refunding escrow agent) money sufficient to redeem all Bonds called for redemption, the notice of redemption may state that it is conditional, *i.e.*, that it is subject to the deposit of sufficient redemption money with the Trustee not later than the opening of business on the redemption date, and such notice shall be of no effect unless such money is so deposited.

Notice of any redemption shall be given by depositing a copy of the redemption notice in first class mail not less than thirty (30) days prior to the date fixed for redemption, addressed to each of the registered owners of any certificated Bonds to be redeemed, at the addresses shown on the registration books kept by the Trustee as of the date such Bonds are selected for redemption; provided, however, that failure to give such notice by mailing, or any defect therein or in the mailing thereof, shall not affect the validity of any proceeding for redemption of other Bonds so called for redemption as to which proper notice has been given.

On the date designated for redemption, notice having been provided as aforesaid, and money for payment of the principal and interest being held by the Trustee, interest on the Bonds or portions thereof so called for redemption shall cease to accrue and such Bonds or portions thereof shall cease to be entitled to any benefit or security under the Resolution, and registered owners of such Bonds or portions thereof so called for redemption shall have no rights with respect thereto, except to receive payment of the principal to be redeemed and accrued interest thereon to the date fixed for redemption.

If at the time of mailing the notice of redemption the Authority has not deposited with the Trustee moneys sufficient to redeem all the Bonds called for redemption, such notice may state that it is conditional, that is subject to the deposit of the redemption moneys with the Trustee no later than the opening of business on the redemption date, and such notice shall be of no effect unless such moneys are so deposited.

Manner of Redemption

While Cede & Co., as nominee of DTC, is the registered owner of the Bonds, however, payment of the redemption price shall be made by Cede & Co. in accordance with the existing arrangements by and among the Authority, the Trustee and DTC and, if less than all of the Bonds in a particular maturity are to be redeemed, the amount of the interest of each DTC Participant, Indirect Participant and Beneficial Owner on such Bonds to be redeemed shall be determined by the governing arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. See “BOOK-ENTRY ONLY SYSTEM” herein for further information regarding redemption of Bonds registered in the name of Cede & Co.

If a Bond is of a denomination larger than \$5,000, a portion of such Bond may be redeemed. For the purposes of redemption, a Bond shall be treated as representing the number of Bonds that is equal to the

principal amount thereof divided by \$5,000, each \$5,000 portion of such Bond being subject to redemption. In the case of partial redemption of a certificated Bond, payment of the redemption price shall be made only upon surrender of such Bond in exchange for certificated Bonds of authorized denominations in an aggregate principal amount equal to the unredeemed portion of the principal amount thereof.

If the redemption date for any Bonds shall be a Saturday, Sunday, legal holiday or on a day on which banking institutions in the Commonwealth are authorized or required by law or executive order to close, then the date for payment of such principal, premium, if any, and interest upon such redemption shall be the next succeeding day which is not a Saturday, Sunday, legal holiday or a day on which such banking institutions are authorized or required to close, and payment on such date shall have the same force and effect as if made on the nominal date of redemption.

In the case of any optional redemption of any Term Bonds in part, the Authority shall be entitled to designate whether the principal amount of such Term Bonds to be redeemed shall be credited against the principal amount of such Term Bonds due at the stated maturity or credited against the principal amount of such Terms Bonds scheduled to be called for mandatory redemption on any particular date or dates, in each case in an integral multiple of \$5,000 principal amount.

BOOK-ENTRY ONLY SYSTEM

The information under this heading has been obtained from materials provided by DTC for such purpose. The Authority (herein referred to as the “Issuer”) and the Underwriter do not guaranty the accuracy or completeness of such information and such information is not to be construed as a representation of the Authority or the Underwriter.

DTC, New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for the Bonds of each separate maturity and interest rate, in the aggregate principal amount of such maturity and interest rate, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation all of which are registered clearing agencies. DTCC is owned by the users of its registered subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating: AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each

Series of 2012 Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to DTC. If less than all of the Bonds of a maturity are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC’s MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal, premium, if any, and interest on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and corresponding detail information from the Issuer or the Trustee, on payable date in accordance with their respective holdings shown on DTC’s records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such Participant and not of DTC, the Issuer or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments of principal, premium, if any, and interest on the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Issuer or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, bond certificates are required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

Disclaimer of Liability for Failures of DTC

The Authority and the Underwriter cannot and do not give any assurances that DTC, the Direct and Indirect Participants or others will distribute payments of principal, interest or premium with respect to the Bonds paid to DTC or its nominee as the owner of Bonds, or will distribute any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. The Authority and the Underwriter are not responsible or liable for the failure of DTC or any Participant to make any payment or give any notice to a Beneficial Owner with respect to the Bonds, or any error or delay relating thereto.

SECURITY FOR THE BONDS

The Bonds constitute "Sewer Revenue Bonds" secured under the Indenture by the pledge and first lien on the "Receipts and Revenues from the Sewer System" on a parity basis with other Sewer Revenue Bonds of the Authority. The Indenture permits the Authority to issue "Additional Bonds", constituting parity (pro rata) Sewer Revenue Bonds, which shall be equally and ratably secured with the 2012 Bonds, upon the terms and conditions set forth in the Indenture (See "Summary of Certain Provisions of the Indenture – Additional Bonds", infra). *The Authority has no taxing power.*

Pledge of the Receipts and Revenues from the Sewer System

The Receipts and Revenues from the Sewer System are pledged to the Trustee for the benefit of holders of Sewer Revenue Bonds, including the 2012 Bonds and Additional Bonds.

"Sewer Revenue Bonds" are defined under the Indenture to mean, collectively, the Series of 2012 Bonds and Additional Bonds that shall be payable as to principal, premium, if any, and interest only from the Receipts and Revenues from the Sewer System and certain other receipts, revenues and money of the Authority available for such purposes, as is provided and is set forth in the Indenture;

"Additional Bonds" are defined under the Indenture to mean Sewer Revenue Bonds of any series authorized under the Indenture, other than the 2012 Bonds, and duly executed, authenticated, issued and delivered pursuant to provisions of the Indenture, but shall not refer or apply to (1) debt obligations issued under any other indenture or document of the Authority with respect to any project or facilities of the Authority other than the Sewer System or with respect to any money or funds not encumbered hereby, or (2) any (subordinate) debt obligations authorized under Section 3.06 of the Indenture. (See "Nonparity (Subordinate) Debt" below).

"Receipts and Revenues from the Sewer System" are defined under the Indenture to mean:

- A. All sewer rentals, rates and other charges collected by the Authority from owners of improved property which shall be connected to the Sewer System for use thereof and for services rendered by the Authority in connection therewith; and
- B. All other receipts, revenues and money derived in any manner, from any source, from or in connection with the Sewer System, including Receipts from Tapping Fees, excepting, however: (1) money derived from tapping fees or connection fees charged by the Authority in those cases and to the extent that the Authority agrees to refund, or is required by law to refund, such tapping or connection fees or any part thereof to any person who has paid for the construction of any part of the Sewer System which was constructed by the Authority or constructed by such person; and (2) Receipts from Assessments, to the extent that such shall be necessary to pay

costs and expenses, including legal fees, engineering fees and administrative costs and expenses, of charging and collecting assessments, filing municipal claims or liens therefore and collecting such claims or liens and to satisfy the prior lien of Sewer Assessment Revenue Bonds; and (3) money derived from Tapping Fees and/or Receipts from Assessments to the extent which such Tapping Fees and/or Receipts from Assessments have been pledged as security for any borrowing by the Authority for the purposes of payment of Costs, Costs of Acquisition or Costs of Construction related to the Sewer System or Capital Additions; Provided, however, that the proceeds of such borrowing shall have been deposited in the Construction Fund and earmarked for such purpose; and

- C. Subject to the prior payment of costs and expenses, including legal fees, engineering fees and administrative costs and expenses, of charging and collecting assessments, filing municipal claims or liens therefore and collecting such claims or liens and to the prior lien of Sewer Assessment Revenue Bonds, the Receipts from Assessments and borrowings contemplated by subparagraph (b)(3) above.

110% Rate Covenant

Under the Indenture, the Authority has covenanted that sewer rentals, rates and other charges imposed and in effect at any given time shall be at least such that the estimated amounts to be received therefrom by the Authority, together with other estimated Receipts and Revenues from the Sewer System to be received by the Authority, and together with money otherwise estimated to be available for that purpose, will be sufficient to pay Administrative and Operating Expenses and 110% of Debt Service Requirements on all Outstanding Sewer Revenue Bonds (See Appendix A: “Summary of Certain Provisions of the Indenture – Authority’s Sewer Rate Covenant”, *infra*). The Authority covenants in the Indenture to enforce, at all times, its then effective sewer rentals, rates and other charges, duly and promptly to collect the same, and, if the same are not paid, to take all reasonable and proper steps to enforce payment. The Authority also covenants, from time to time, as often as it shall appear necessary, to revise its sewer rentals, rates and other charges so as to meet requirements of the rate covenant and to eliminate any deficiencies of the prior fiscal year or fiscal years.

In determining, for any Fiscal Year, whether or not the Authority is or will be, as applicable, in compliance with the foregoing rate covenant, the requirements for such Fiscal Year shall be decreased by the aggregate amount or amounts, if any, of Receipts and Revenues from the Sewer System received by the Authority in any prior Fiscal Years that was or were in excess of the aggregate amount or amounts required to be collected in such prior Fiscal Years pursuant to the foregoing covenant, but only to the extent that such excess Receipts and Revenues from the Sewer System at such time shall be available in the Clearing Fund, the Bond Redemption and Improvement Fund, or in the operating account(s) of the Authority for the purposes set forth above.

Debt Service Reserve Fund

A Debt Service Reserve Fund has been created under the Indenture for the benefit of all Sewer Revenue Bonds Outstanding under the Indenture, including the 2012 Bonds and any future (parity) Additional Bonds. Upon issuing the 2012 Bonds, the sum of \$220,040, equal to the maximum annual debt service requirements on the 2012 Bonds (the only Sewer Revenue Bonds outstanding under the Indenture) will be deposited in the Debt Service Reserve Fund, net of funds deposited therein when the 2005 Bonds were issued. Such funds shall be applied by the Trustee to pay principal and interest, from time to time, becoming payable on the 2012 Bonds, and any Additional Bonds issued and outstanding under the Indenture, to the extent that the Debt Service Fund shall be deficient for such purposes. The Debt Service Reserve Fund shall be maintained in an amount equal to *the lesser of* (i) 10% of the original stated principal amounts of all Sewer Revenue Bonds issued, and any portion of which shall remain Outstanding, (ii) the Maximum Annual Debt Service Requirements on all Sewer Revenue Bonds then Outstanding, or (iii) 125% of the Average Annual Debt Service Requirements on all Sewer Revenue Bonds then Outstanding.

Remedies

The remedies available to Registered Owners of the Bonds upon any failure to pay principal or interest when due, including acceleration, are described in the Indenture and in the section herein titled “CERTAIN PROVISIONS OF THE INDENTURE.”

Enforcement of a claim for payment of principal and interest on the Bonds may be subject to the provisions of the federal bankruptcy laws and to the provisions of other statutes enacted by the Congress or the General Assembly of the Commonwealth of Pennsylvania or case law developed by competent courts having jurisdictions extending the time for payment or imposing other restraints upon enforcement insofar as such laws may be constitutionally applied. Payment of principal of and interest on the Bonds when due is guaranteed by an insurance policy to be issued by the bond insurer AGM (defined below). *As a result of any such payment, AGM will be fully subrogated to the rights of the Bondholders, and may control remedies available to the Trustee under the Indenture with respect to the 2012 Bonds.* See also the section herein titled “Bond Insurance” and Appendix D – “Specimen of Municipal Bond Insurance Policy.”

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. ("AGM") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement. The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Assured Guaranty Municipal Corp.

AGM is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Assured Guaranty Municipal Holdings Inc. ("Holdings"). Holdings is an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO". AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. No shareholder of AGL, Holdings or AGM is liable for the obligations of AGM.

AGM's financial strength is rated "AA-" (stable outlook) by Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and "Aa3" (on review for possible downgrade) by Moody's Investors Service, Inc. ("Moody's"). An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings

On March 20, 2012, Moody's issued a press release stating that it had placed AGM's "Aa3" insurance financial strength rating on review for possible downgrade. AGM can give no assurance as to any further

ratings action that Moody's may take. Reference is made to the press release, a copy of which is available at www.moodys.com, for the complete text of Moody's comments

On November 30, 2011, S&P published a Research Update in which it downgraded AGM's financial strength rating from "AA+" to "AA-". At the same time, S&P removed the financial strength rating from CreditWatch negative and changed the outlook to stable. AGM can give no assurance as to any further ratings action that S&P may take. Reference is made to the Research Update, a copy of which is available at www.standardandpoors.com, for the complete text of S&P's comments.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

Capitalization of AGM

At December 31, 2011, AGM's consolidated policyholders' surplus and contingency reserves were approximately \$3,107,919,136 and its total net unearned premium reserve was approximately \$2,171,861,791, in each case, in accordance with statutory accounting principles.

AGM's statutory financial statements for the fiscal year ended December 31, 2011, which have been filed with the New York State Department of Financial Services and posted on AGL's website at <http://www.assuredguaranty.com>, are incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Incorporation of Certain Documents by Reference

Portions of the following document filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2011 (filed by AGL with the SEC on February 29, 2012).

All information relating to AGM included in, or as exhibits to, documents filed by AGL pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

Any information regarding AGM included herein under the caption "BOND INSURANCE – Assured Guaranty Municipal Corp." or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

Miscellaneous Matters

AGM or one of its affiliates may purchase a portion of the Bonds or any uninsured bonds offered under this Official Statement and may hold such Bonds or uninsured bonds for investment or may sell or otherwise dispose of such Bonds or uninsured bonds at any time or from time to time.

AGM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading “BOND INSURANCE”.

BOND INSURANCE RISK FACTORS

In the event of default of the payment of principal or interest with respect to the Bonds when all or some becomes due, any owner of the Bonds shall have a claim under the Policy against the Bond Insurer AGM for payment of such amount in default. However, if the date for payment of such principal or interest was advanced by reason of mandatory or optional redemption of Bonds or an acceleration of Bonds (or any portion thereof) resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund redemption, payments under the Policy are to be made in such amounts and at such times as the defaulted principal or interest would have been due had there not been any such advancement. The Policy does not insure the payment of any redemption premium. Any payment of principal and interest in connection with mandatory or optional redemption of the Bonds by the Authority which is recovered from the bond owner as a voidable preference under applicable bankruptcy law is covered by the Policy, however, the AGM is not obligated to make payment of the amounts so recovered except at such times and in such amounts as the recovered principal and interest would have been due in the absence of such redemption.

The AGM may direct and must consent to any remedies that the Trustee exercises and the AGM’s consent may be required in connection with amendments to the Indenture and the AGM may be deemed the Holder of the Bonds.

In the event the AGM is unable to make payment of principal and interest as such payments become due under the Policy, the Bonds are payable solely from the money received by the Trustee pursuant to the Indenture. In the event the AGM becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds.

The long-term ratings on the Bonds are dependent in part on the financial strength of the AGM and its claims-paying ability. The AGM’s financial strength and claims-paying ability are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of the AGM and of the ratings on the Bonds insured by the AGM will not be subject to downgrade, and such event could adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds. See “Ratings” herein.

The obligations of the AGM under the Policy are general obligations of the AGM, and in an event of default by the AGM, the remedies available to the Bondholders may be limited by applicable bankruptcy law or other similar laws related to insolvency.

Neither the Authority nor the Underwriter has made any independent investigation into the claims paying ability of the AGM, and no assurance or representation regarding the financial strength or projected financial strength of the AGM is given.

TAX EXEMPTION AND OTHER MATTERS

Federal Income Tax Matters

On the date of delivery of the Bonds, Rhoads & Sinon LLP will issue an opinion to the effect that under existing statutes, regulations and judicial decisions, interest on the Bonds is excluded from gross income for purposes of federal income taxation and is not an item of tax preference for purposes of the federal

alternative minimum tax imposed on individuals and corporations, but that in the case of corporations (as defined for federal income tax purposes) such interest is taken into account in determining adjusted current earnings for purposes of such alternative minimum tax. This opinion of Bond Counsel will assume the accuracy of certifications made by the Authority and will be subject to the condition that the Authority will comply with all requirements of the Internal Revenue Code of 1986, as amended (the “Code”), that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, and continues to be, excluded from gross income for federal income tax purposes. The Authority has covenanted to comply with all such requirements, which include, among others, restrictions upon the yield at which proceeds of the Bonds and other money held for the payment of the Bonds and deemed to be “proceeds” thereof may be invested and the requirement to calculate and rebate any arbitrage that may be generated with respect to investments allocable to the Bonds. Failure to comply with such requirements could cause the interest on the Bonds to be included in gross income retroactive to the date of issuance of the Bonds.

Certain maturities of the Bonds may be sold to the public in the initial offering at a price less than the stated redemption price of such Bonds at maturity (that is, at less than par or the stated principal amount), the difference being “original issue discount.” Generally, original issue discount accruing on a tax-exempt obligation is treated as interest excludable from gross income for federal income tax purposes. In addition, original issue discount that has accrued on a tax-exempt obligation is treated as an adjustment to the issue price of the obligation for the purpose of determining taxable gain upon sale or other disposition of such obligation prior to maturity. The Code provides specific rules for the accrual of original issue discount on tax-exempt obligations for federal income tax purposes. Prospective purchasers of Bonds being sold with original issue discount should consult their tax advisors for further information.

Ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain Subchapter S corporations with substantial passive income and Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the Bonds. Bond Counsel will express no opinion as to such collateral tax consequences, and prospective purchasers of the Bonds should consult their tax advisors.

No representation is made or can be made by the Authority or any other party associated with the issuance of the Bonds as to whether or not any legislation now or hereafter introduced and enacted will be applied retroactively so as to subject interest on the Bonds to inclusion in gross income for Federal income tax purposes or so as to otherwise affect the marketability or market value of the Bonds. Enactment of any legislation that subjects the interest on the Bonds to inclusion in gross income for federal income tax purposes or otherwise imposes taxation on the Bonds or the interest paid thereon may have an adverse effect on the market value or marketability thereof.

Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The disclosures and opinions expressed herein are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds, and no opinion is expressed as of any date subsequent thereto or with respect to any proposed or pending legislation, regulatory initiatives or litigation.

Proposed and Future Federal Tax Legislation

From time to time, there are Presidential proposals, proposals of various federal committees, and legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to herein or adversely affect the marketability or market value of the Bonds or otherwise prevent holders of the Bonds from realizing the full benefit of the tax exemption of interest on the Bonds. Further, such proposals may impact the marketability or market value of the Bonds simply by being proposed. It cannot be predicted whether or in what form any such proposals might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to

time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value, marketability or tax status of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds would be impacted thereby.

Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The disclosures and opinions expressed herein are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds, and no opinion is expressed as of any date subsequent thereto or with respect to any proposed or pending legislation, regulatory initiatives or litigation.

Pennsylvania Tax Matters

On the date of delivery of the Bonds, Bond Counsel will issue an opinion to the effect that under the laws of the Commonwealth as presently enacted and construed, the Bonds are exempt from personal property taxes within the Commonwealth and the interest on the Bonds is exempt from the Commonwealth's Personal Income Tax and the Commonwealth's Corporate Net Income Tax.

Profits, gains or income derived from the sale, exchange or other disposition of the Bonds are subject to state and local taxation within the Commonwealth, in accordance with Pennsylvania Act 1993-68.

Certain maturities of the Bonds may be sold to the public in the initial offering at a price less than their stated redemption price at maturity (that is, at an "original issue discount"). For Pennsylvania Personal Income Tax purposes, original issue discount on publicly offered obligations is treated under current regulations of the Pennsylvania Department of Revenue as interest and, for purposes of determining taxable gain upon sale or other distribution of an obligation the interest on which is exempt from income taxation by the Commonwealth, as an adjustment to basis. For Pennsylvania Corporate Net Income Tax purposes, original issue discount is to be accorded similar treatment, according to a Private Letter Ruling issued by the Office of the Chief Counsel of the Pennsylvania Department of Revenue dated December 2, 1993.

Prospective purchasers of Bonds issued with original issue discount should consult their tax advisors for further information and advice concerning the reporting of profits, gains or other income related to a sale, exchange or other disposition of such bonds for Pennsylvania tax purposes.

No representation can be made by the Authority or any other party associated with issuance of the Bonds as to whether or not any legislation now hereafter introduced and enacted will be applied retroactively so as to subject interest on the Bonds to state and local taxation in Pennsylvania or so as to otherwise affect the marketability or market value of the Bonds. Enactment of any legislation that subjects the interest on the Bonds to state and local taxation in Pennsylvania or otherwise imposes taxation on the Bonds or the interest paid thereon may have an adverse effect on the market value or marketability of the Bonds.

Federal Income Tax Interest Expense Deductions for Financial Institutions

Under the Code, financial institutions are disallowed 100 percent of their interest expense deductions that are allocable, by a formula, to tax-exempt obligations acquired after August 7, 1986. An exception, which reduces the amount of the disallowance, is provided for certain tax-exempt obligations that are designated or "deemed designated" by the issuer as "qualified tax-exempt obligations" under Section 265 of the Code.

The Bonds have been designated as "qualified tax-exempt obligations" for purposes and effect contemplated by Section 265 of the Code (relating to expenses and interest relating to tax-exempt income of certain financial institutions).

Financial institutions intending to purchase Bonds should consult with their professional tax advisors to determine the effect of the interest expense disallowance on their federal income tax liability.

MUNICIPAL BANKRUPTCY LAW

The rights and remedies of Bondholders are subject to the provisions of Chapter 9 of the Federal Bankruptcy Code. In general, that chapter permits, under prescribed circumstances (but only after an authorization by the applicable state legislature or by a governmental officer or organization empowered by state law to give such authorization), a political subdivision of a state to file a petition for relief in a bankruptcy court of the United States if it is insolvent or unable to meet its debts as they mature and desires to effect a plan to adjust its debt. Such plan may, on being approved by a certain percentage of creditors and the court, include provisions modifying or altering the rights of creditors.

The United States Bankruptcy Court for the Western District of Pennsylvania has twice ruled that Pennsylvania law does not authorize a municipality authority incorporated under the Municipality Authorities Act to be a Chapter 9 Debtor; In re: Carroll Township Authority, 199 Bank Rptr. 61 (W.D. Pa. 1990); In re: North and South Shenango Joint Municipal Authority, 80 Bank Rptr. 57 (W.D. Pa. 1982).

LITIGATION

There is no litigation of any nature pending or, to the knowledge of Authority officials, threatened against the Authority at the date of this Official Statement seeking to restrain or enjoin the issuance, sale, execution or delivery of the Bonds, or, in any way contesting or affecting the validity of the Bonds or any proceedings of the Authority taken with respect to the issuance of the sale thereof, or the pledge or application of any moneys or security provided for the payment of the Bonds, or the existence or powers of the Authority.

FUTURE FINANCING

The Authority has no plans to incur additional long term indebtedness payable from the Receipts and Revenues from the Sewer System during the next five years.

LEGAL MATTERS

The Bonds are offered with the approving legal opinion of Rhoads & Sinon LLP of Harrisburg, Pennsylvania, Bond Counsel. Certain legal matters will be passed upon for the Authority by MPL Law Firm, LLP, Solicitor, York, Pennsylvania.

LEGALITY FOR INVESTMENT

Applicable laws of the Commonwealth of Pennsylvania provide that the Bonds are legal investments for funds held by, among others, banks, savings banks, trust companies, insurance companies or associations and fiduciaries. The Bonds are authorized security for deposits of funds of the Commonwealth of Pennsylvania and any political subdivision thereof.

CONTINUING DISCLOSURE UNDERTAKING

In accordance with the requirements of the Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission (the "SEC"), the Authority will agree to provide the following to the Municipal Securities Rulemaking Board (the "MSRB") in an electronic format as prescribed by the MSRB, either directly or indirectly through a designated agent:

- (A) Annually,

- (1) not later than 210 days following the end of each fiscal year, beginning with the Authority's fiscal year ending December 31, 2011, the following financial information and operating information for the Authority:
 - the Authority's Sewer System financial statements for the most recent fiscal year, prepared in accordance with generally accepted accounting principles for local government units
 - a copy or a summary of the Authority's Sewer System budget for the current fiscal year, and
- (B) If not submitted as part of the annual financial information of the Authority, then when and if available, audited financial statements of the Authority for the most recent fiscal year;
- (C) In a timely manner not in excess of ten (10) business days after the occurrence of the event, notice of the occurrence of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other material events affecting the tax-exempt status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the Authority; (13) the consummation of a merger, consolidation, or acquisition involving the Authority or the sale of all or substantially all of the assets of the Authority, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; and
- (D) in a timely manner, notice of a failure of the Authority to provide the required annual financial information specified above, on or before the date specified above.

With respect to the filing of annual financial and operating information, the Authority reserves the right to modify from time to time the specific types of information provided or the format of the presentation of such information to the extent necessary or appropriate as a result of a change in legal requirements or a change in the nature of the Authority or its or their operations or financial reporting, but the Authority will agree that any such modification will be done in a manner consistent with the Rule.

The events listed in (C) above are those specified in the Rule, not all of which may be relevant to the Bonds. The Authority may from time to time choose to file notice of the occurrence of other events, in addition to the events listed in (C) above, but the Authority does not commit to provide notice of the occurrence of any events except those specifically listed in (C) above.

The Authority acknowledges that its undertaking pursuant to the Rule described herein is intended to be for the benefit of the holders and beneficial owners of the Bonds and shall be enforceable by the holders and beneficial owners of the Bonds, but the right of the holders and beneficial owners of the Bonds to enforce the provisions of the Authority's continuing disclosure undertaking shall be limited to a right to obtain specific enforcement, and any failure by the Authority to comply with the provisions of the undertaking shall not be an event of default with respect to the Bonds.

The Authority's obligations with respect to continuing disclosure described herein shall terminate upon the prior redemption or payment in full of all of the Bonds or if and when the Authority is no longer an "obligated person" with respect to the Bonds, within the meaning of the Rule.

The MSRB has been designated by the SEC to be the central and sole repository for continuing disclosure information filed by issuers of municipal securities since July 1, 2009. Information and notices filed by municipal issuers (and other "obligated persons" with respect to municipal securities issues) are made available through the MSRB's Electronic Municipal Market Access (EMMA) System, which may be accessed on the internet at <http://www.emma.msrb.org>.

During the past five (5) years, the Authority has been in compliance with respect to all prior written undertakings under the Rule to provide continuing disclosure with respect to its outstanding securities. (Prior to the issuance of the Bonds described herein, the Authority was not an "obligated person" with respect to more than \$10,000,000 of outstanding securities and, therefore, was not obligated to make annual information filings with the MSRB or, previously, any of the "nationally recognized municipal securities information repositories" designated by the SEC under the Rule.)

RATINGS

At the Authority's request, S&P is expected to rate the Bonds AA- (Stable Outlook), with the understanding that the Bond Insurer will issue the Policy insuring the payment when due of the principal of, accreted value and interest on the Bonds simultaneously with the initial issuance and delivery of the Bonds, See "BOND INSURANCE".

At the Authority's request, S&P has assigned an underlying rating to the Bonds of "A" (Stable Outlook), (that is, the rating that would apply to the Bonds if the Bond Insurer's Policy was not issued).

Such ratings reflect only the view of the particular rating agency assigning such rating and any desired explanation of the significance of such rating should be obtained from the particular rating agency furnishing the same. Further explanation of the significance of such ratings may be obtained from S&P. The rating is not a recommendation to buy, sell or hold any of the Bonds. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by S&P, if in its judgment, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds. The Authority and the Underwriter have not undertaken any responsibility to maintain any particular rating on the Bonds or to advise owners of the Bonds of any change in the ratings assigned to the Bonds, except that the Township has agreed to provide notice of rating changes as described herein under the caption "Continuing Disclosure".

MISCELLANEOUS

Underwriting

RBC Capital Markets, LLC (the "Underwriter") has agreed, subject to certain conditions, to purchase the Bonds from the Authority at an aggregate purchase price of \$2,936,995.65 (which reflects \$24,708.75 in Underwriter's discount and \$33,295.60 in net original discount) plus accrued interest, if any, from the principal amount of the Bonds. The Underwriter's obligation is subject to certain conditions precedent, and the Underwriter will be obligated to purchase all of the Bonds if any such Bonds are purchased. The Bonds may be offered and sold to certain dealers and others (including dealers depositing such Bonds into investment trusts) at prices lower than the public offering prices. Any such public offering prices may be changed, from time to time, by the Underwriter.

Financial Advisor

Financial S&Lutions LLC, Reading, Pennsylvania, has served as financial advisor (the “Financial Advisor”) to the Authority in connection with the issuance and sale of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification, or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. Financial S&Lutions LLC is an independent financial advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

CERTAIN MATTERS

The execution and delivery of this Official Statement has been duly authorized by the Authority. Concurrently with the delivery of the Bonds, the Authority will furnish a certificate to the effect that nothing has come to the Authority's attention that would lead the Authority to believe that the Official Statement, in final form, contains any untrue statements of a material fact or omits to state any information required to be stated in the Official Statement or necessary to make the statements in the Official Statement, in light of the circumstances under which they were made, not misleading. Certain information contained in this Official Statement has been obtained from sources other than the Authority. All of the summaries and references of the provisions of the Bonds and the Indenture contained in this Official Statement and all other summaries and references to the Authorities Act, federal and state tax laws and to other materials not purporting to be quoted in full, are only brief outlines of certain provisions thereof, and do not constitute complete statements. For a complete statement of the provisions of the Indenture reference is made to the documents constituting the Indenture in their entirety, a copy of which will be on file at the principal corporate trust office of the Trustee after delivery of the Bonds.

Use of the words “shall,” “will,” “must,” or other words of similar import or meaning in summaries of documents or law in this Official Statement to describe future events or continuing obligations is not intended as a representation that such event will occur or such obligations will be fulfilled, but only that the document or law requires or contemplates such event to occur or such obligation to be fulfilled.

This Official Statement is not to be construed as a contract or agreement between the Authority and the Underwriter or the purchasers or holders of any of the Bonds. Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as opinions and not as representations of fact. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority since the date hereof. The information contained in the Official Statement that has been obtained from sources other than the Authority is not guaranteed as to accuracy or completeness.

RED LION MUNICIPAL AUTHORITY
York County, Pennsylvania

By: /s/ Eric A. Immel
Chairman, Authority Board

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APPENDIX A

Summary of the Indenture

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SUMMARY OF THE INDENTURE

Introduction:

The Sewer Revenue Bonds - Series of 2012 (the “Bonds” or “2012 Bonds”) of the Red Lion Municipal Authority (the “Authority”), will be issued under and secured by the Indenture as a series of “Sewer Revenue Bonds”, as defined thereunder. Under the Indenture, a number of special Funds and Accounts are created and provisions made for the deposit, investment and withdrawal of money of and by the Authority. The Indenture also provides for the issuance of Additional Bonds of the Authority on a parity basis with the 2012 Bonds and defines certain rights of the holders of the 2012 Bonds and of any Additional Bonds for an Event of Default on the part of the Authority.

A SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE FOLLOWS. IT IS QUALIFIED IN ALL RESPECTS BY SPECIFIC REFERENCE TO THE ENTIRE INDENTURE, A COPY OF WHICH MAY BE REVIEWED AT THE OFFICES OF THE AUTHORITY OR THE TRUSTEE.

CAPITALIZED TERMS AND PHRASES NOT OTHERWISE DEFINED HEREIN SHALL HAVE THE MEANINGS ASCRIBED TO THEM IN THE INDENTURE.

General:

The Indenture creates, shall be and shall constitute a continuing and irrevocable first lien upon and pledge of the Receipts and Revenues from the Sewer System to secure the principal of, premium, if any, and interest on Sewer Revenue Bonds that, from time to time, may be executed, authenticated, issued and delivered under the Indenture (including the 2012 Bonds), to the extent provided under the Indenture. Except as otherwise provided under the Indenture, all Sewer Revenue Bonds, inter sere, shall be equally and ratably secured thereby.

Indenture Funds:

Settlement Fund:

The amount to be received by the Authority from sale of the 2012 Bonds, including accrued interest, if any, and other available money from corresponding Funds created under the Indenture. The Trustee, upon the Order of the Authority, promptly shall pay from the Settlement Fund all costs, fees and expenses incurred or to be incurred in connection with issuance of the 2012 Bonds, shall invest or apply the amount required to retire the Series of 2005 Bonds, and shall transfer money to the various Funds established under the Indenture in the amounts specified in an Officers’ Certificate executed and delivered by the Authority on the day of settlement for the 2012 Bonds. The balance remaining in the Settlement Fund, or subsequently deposited therein, shall be transferred to the Construction Fund and applied to construct the 2012 Capital Project.

Construction Fund:

The Construction Fund shall initially consist of any funds deposited therein by the Trustee pursuant to the Officers’ Certificate executed and delivered by the Authority on the day of settlement for the 2012 Bonds and applied to the payment of costs and expenses of the 2012 Capital Project. The Trustee is required, pursuant to the Indenture, to establish and maintain, as a trust account of the Authority, a Construction Fund for the payment of Costs, Costs of Acquisition and Costs of Construction relating to the Sewer System including Capital Additions, as defined in the Indenture. Proceeds of any Additional Bonds may be deposited in the Construction Fund pursuant to a supplemental indenture or may be drawn by the Authority and advanced by a lender, from time to time, in accordance with a loan agreement or other borrowing instrument, and shall be applied to Costs, Costs of Acquisition and Costs of Construction of Capital Additions in accordance with the terms of such supplemental indenture, loan agreement or other borrowing instrument.

The Authority shall deposit in the Construction Fund any money received by it (after deduction of all costs, fees and expenses incurred in connection with recovery thereof) from any contractor or any surety under any bid, performance, completion or penalty bond, and any amounts otherwise received by the Authority by virtue of a cause of action arising from any bid or contract relating to acquisition or construction or other work with regard to the Sewer System; Provided, however, that if the Construction Fund shall not be open with respect to the appropriate project at the time such money shall be received by the Trustee, such money shall be deposited by the Trustee in the Bond Redemption and Improvement Fund. The Authority shall also deposit in the Construction Fund any money contributed or advanced by any Person, including any governmental agency or body, for application for and toward Costs, Costs of Acquisition or Costs of Construction relating to property that, upon completion of construction, acquisition or other work, shall constitute a part of the Sewer System.

Under the Indenture, all money held in the Construction Fund and other Funds created under the Indenture, to the extent that the same are not insured by the Federal Deposit Insurance Corporation, may be invested in Permitted Investments.

Clearing Fund:

Upon receipt, from time to time, the Authority shall pay the Receipts and Revenues from the Sewer System to the Trustee, which shall be deposited in the "Clearing Fund" created under the Indenture.

The Authority, from time to time, in addition to the foregoing, may make deposits into the Clearing Fund from any other legally available funds. In addition, the Trustee shall make deposits in and transfers to the Clearing Fund at the times and in the manner set forth in any other Sections of the Indenture.

Money from time to time in the Clearing Fund held by the Trustee, shall be invested and shall be applied for purposes set forth below and, pending such application, such money shall be subject to a lien and charge in favor of Holders of Sewer Revenue Bonds and for the further security of such Holders to the extent appropriate under the Indenture.

Authority's Sewer System Operating Account (Non-Trustee Funds):

The Trustee, from time to time, shall transfer to the Authority, from the Clearing Fund, upon Requisition of the Authority, such amounts as shall be necessary to pay or to reimburse the Authority for all reasonable Administrative Expenses and Operating Expenses. Each Requisition of the Authority shall be approved by a Consulting Engineers' Certificate, shall contain an itemized statement of the budgeted expenses of the Sewer System for such purposes in reasonable detail or, in lieu thereof, may have attached thereto copies of vouchers, invoices or statements for such expenses, and shall certify that amounts requisitioned are reasonable and that the aggregate of amounts then requisitioned, plus amounts previously so requisitioned during the Fiscal Year do not exceed the estimate in the then current annual budget filed with the Trustee; Provided, however, that such Requisitions may include such amounts as may be determined by a Certified Resolution to be required to maintain working capital of the Authority at a reasonable amount for the proper operation and maintenance of the Sewer System in an amount not to exceed 100% of the Authority's estimated annual Operating Expenses and Administrative Expenses as shown by the then current annual budget filed with the Trustee.

All money transferred to the Authority under this Section shall be deemed to be trust funds under the Indenture until used by the Authority for the purposes for which it was requisitioned.

Debt Service Fund:

The Authority shall deposit in the Debt Service Fund the following amounts at the following times:

- A. On or before December 1, 2012, and on or before December 1 of each Fiscal Year thereafter so long as any 2012 Bonds shall remain Outstanding, an amount which is sufficient to pay the semiannual installment of interest due on the 2012 Bonds on such December 1;
- B. On or before June 1, 2013, and on or before June 1 of each Fiscal Year thereafter so long as any 2012 Bonds shall remain Outstanding, an amount which is sufficient to pay the initial or semiannual, as applicable, installment of interest due on the 2012 Bonds on such June 1;
- C. On or before December 1, 2012, and on or before June 1 and on or before December 1, respectively, of each Fiscal Year thereafter, to and including on or before December 1, 2029, an amount equal to one-half (1/2) the aggregate principal amount of 2012 Bonds then Outstanding, stated to mature or being subject to mandatory redemption on the next succeeding or such December 1; and
- D. In case of issuance of Additional Bonds constituting Sewer Revenue Bonds, additional deposits shall be made in such amounts and at such times as may be necessary and as may be required by the supplement to the Indenture executed and delivered in connection with their issuance to pay the principal of and interest on such Additional Bonds constituting Sewer Revenue Bonds.

Debt Service Reserve Fund:

The Debt Service Reserve Fund initially shall consist of the sum of \$220,040, including any amounts to be transferred thereto from the Settlement Fund upon settlement for the 2012 Bonds, which sum shall be transferred by the Trustee without further direction of the Authority pursuant to the Indenture.

If, for any reason, the amount on deposit in the Debt Service Reserve Fund at any time shall be less than the lesser of (i) 10% of the original stated principal amounts of all Sewer Revenue Bonds issued, and any portion of which shall remain Outstanding under the Indenture, (ii) the Maximum Annual Debt Service Requirements on all Sewer Revenue Bonds then Outstanding, or (iii) 125% of the Average Annual Debt Service Requirements on all Sewer Revenue Bonds then Outstanding, then and in that event, on or before December 2 of each Fiscal Year, after all transfers currently required to be made from the Clearing Fund under Section 6.02 and Section 6.03, respectively, shall have been made, the Trustee, without further direction from the Authority, shall withdraw from the Clearing Fund and shall deposit in the Debt Service Reserve Fund the balance then remaining in the Clearing Fund or so much thereof as shall be necessary to increase the Debt Service Reserve Fund to the required amount; Provided, however, that in the event that the Trustee shall apply money in the Debt Service Reserve Fund toward payment of principal and interest from time to time becoming payable on Sewer Revenue Bonds, as provided for in the next succeeding paragraph, the Debt Service Reserve Fund balance shall be restored to the required amount no later than twenty-four (24) months following the date of such withdrawal.

The Trustee, without further direction from the Authority, shall apply money in the Debt Service Reserve Fund toward payment of principal and interest from time to time becoming payable on Sewer Revenue Bonds to the extent that the Debt Service Fund at any time shall be deficient for such purpose. Money in the Debt Service Reserve Fund at any time which shall not be required to maintain the Debt Service Reserve Fund at the amount at the time required shall be transferred, subject to provisions of the Indenture, to the Clearing Fund.

Money and investments in the Debt Service Reserve Fund shall be held by the Trustee, in trust, for benefit of Holders of Sewer Revenue Bonds for which such shall be a reserve and shall be and is pledged irrevocably as security for payment of principal of and interest on such Sewer Revenue Bonds until disbursed as herein authorized; Subject, however, to provisions of the Indenture with respect to the transfer of certain interest and income to be received from investments and/or deposits of money in the Debt Service Reserve Fund upon direction of the Authority. If the market value of the securities in the Debt Service Reserve Fund on a valuation date is more than the amount as at the time shall be required, then and in that event the Authority may direct the transfer of such excess to the Clearing Fund.

In the event of issuance of Additional Bonds, the supplemental indenture then to be executed shall provide for such transfers or deposits, if any, as shall be made to the credit of the Debt Service Reserve Fund and for the amount thereafter to be held therein; Provided, however, that so long as the 2012 Bonds shall remain Outstanding, the supplemental indenture then to be executed shall provide that payments or deposits into the Debt Service Reserve Fund at the time of issuance of such Additional Bonds shall be in such amounts so that the total on deposit in the Debt Service Reserve Fund on the date of issuance of such Additional Bonds and thereafter shall satisfy the requirements described above.

Bond Redemption and Improvement Fund:

After making the required transfers as described above, the Trustee shall, on or before December 2, 2012, and on or before December 2, of each Fiscal Year thereafter, transfer to the Bond Redemption and Improvement Fund any money remaining in the Debt Service Fund not required to be transferred to the Sewer System operating account of the Authority, Debt Service Fund or the Debt Service Reserve Fund. Withdrawals from the Bond Redemption and Improvement Fund shall be made to make up deficiencies in any of the other Funds, to pay the costs of Capital Additions or Extraordinary Repairs, and to pay indebtedness, including any subordinate (non-parity) lien obligations of the Authority incurred with respect to the Sewer System.

Additional (Parity) Bonds:

The Authority may issue additional series of Sewer Revenue Bonds constituting “Additional Bonds”, from time to time, secured on a parity (first lien) basis with the 2012 Bonds, for the purpose of constructing Capital Additions to the Sewer System, reimbursing expenditures for the Sewer System, or refunding part or all of any outstanding indebtedness with respect to such purposes. In order to issue Additional Bonds, the Indenture requires, among other things, a Consulting Engineer’s Certificate stating that the estimated Receipts and Revenues from the Sewer System, together with money otherwise available for the purposes, will be sufficient to satisfy the sewer rate covenant in the Indenture (See “Authority’s Sewer Rate Covenant” herein) giving effect to the issuance of such Additional Bonds and any additional customers or sewer rate increases following such issuance.

Nonparity (Subordinate) Debt:

The Authority, from time to time, may issue bonds, notes or other indebtedness which shall not rank on a parity with and which shall be subordinate to Bonds issued under the Indenture, for the purpose of raising funds to be used for and toward costs of Extraordinary Repairs, as such phrase is defined in the Indenture, or for and toward Costs, Costs of Acquisition or Costs of Construction of Capital Additions; Provided, however, that the aggregate principal and interest due on such bonds, notes or other indebtedness outstanding from time to time shall not exceed the amount that, in the opinion of either the Consulting Engineers (as evidenced by a Consulting Engineers’ Certificate) or the Certified Public Accountant, will be available, from time to time, in the Bond Redemption and Improvement Fund, in the Construction Fund, or other available funds, as applicable, to pay the principal of and interest (if not funded otherwise) on the same, as due and payable; Provided further, however, that borrowings in anticipation of the receipt of Tapping Fees or Receipts from Assessments related to any Capital Additions may be secured by a separate pledge and hypothecation of such

Tapping Fees or Receipts from Assessments, any interest to be earned thereon and proceeds of issuance of any such borrowings, in which event the same shall be excluded from Receipts and Revenues from the Sewer System and shall be excluded from the lien and pledge of the Indenture. No other borrowings shall be entitled to any lien on the Receipts and Revenues from the Sewer System or any Fund created under the Indenture except subordinate to the lien of the Indenture.

Investment of Funds:

Money held by the Trustee in the Construction Fund, in the Debt Service Fund, in the Debt Service Reserve Fund, or in the Bond Redemption and Improvement Fund may be retained uninvested as trust funds or, upon request of the Authority, may be invested and reinvested by the Trustee in Permitted Investments, which may include direct obligations of the United States of America, obligations of certain agencies of the United States that are backed by the full faith and credit of the United States, certain insured or collateralized bank deposit accounts, certificates of deposit and money market funds or pre-refunded municipal obligations.. all as more fully set forth in the Indenture and permitted by laws of the Commonwealth. Money held by the Authority or the Borough in the Operating Account also may be invested in Permitted Investments.

Authority's Sewer Rate Covenant:

The 2012 Bonds are secured under the Indenture by an assignment and pledge under the Indenture to the Trustee of the Receipts and Revenues from the Sewer System to the extent, with the priority and in the manner provided in the Indenture.

“Receipts and Revenues from the Sewer System” is defined in the Indenture as follows:

- A. All sewer rentals, rates and other charges collected by the Authority from owners of improved properties which shall be connected to the Sewer System for use thereof and fix services rendered by the Authority in connection therewith; and
- B. All other receipts, revenues and money derived in any manner, from any source, from or in connection with the Sewer System, by the Authority or in behalf of the Authority, including Receipts from Tapping Fees, excepting and excluding, however: (1) money derived from Tapping Fees charged by the Authority in those cases and to the extent that the Authority agrees to refund such Tapping Fees or any part thereof to a Person who has paid for the construction of any part of the Sewer System that was constructed by the Authority or that was constructed by such Person under the supervision of the Authority, as may be permitted by law; and (2) Receipts from Assessments, to the extent that such shall be necessary to pay costs and expenses, including legal fees, engineering fees and administrative costs and expenses, of charging and collecting assessments, filing municipal claims or liens therefor and collecting such claims or liens or collecting other Receipts from Assessments; and (3) money derived from Tapping Fees and/or Receipts from Assessments to the extent to which such Tapping Fees and/or Receipts from Assessments have been pledged as security for any borrowing by the Authority for the purposes of payment of Costs, Costs of Acquisition or Costs of Construction related to the Sewer System or Capital Additions; Provided, however, that the proceeds of such borrowing shall have been deposited in the Construction Fund and earmarked for such purpose; and
- C. Subject to the prior payment of costs and expenses, including legal fees, engineering fees and administrative costs and expenses, of charging and collecting assessments, filing municipal claims or liens therefor and collecting such claims or liens or collecting other Receipts from Assessments and borrowings contemplated by subparagraph B.(3) above, the Receipts from Assessments.

The Authority has covenanted in the Indenture that it has adopted a resolution or resolutions fixing and charging Sewer rentals, rates and other charges upon owners of improved property that shall be connected to the Sewer System for use thereof and for services rendered by the Authority in connection therewith. The Authority also covenants in the Indenture to keep such resolution or subsequent similar resolution or resolutions in full force and effect continuously during the time any Bonds shall remain outstanding.

The Authority covenants that such Sewer rentals, rates and other charges imposed pursuant to the resolution in effect at the time shall be at least such that the estimated amounts to be received by the Authority therefrom, together with other estimated Receipts and Revenues from the Sewer System to be received by the Authority, and together with money otherwise estimated to be available under provisions thereof for the purposes, will be sufficient:

- A. To pay the reasonable Administrative Expenses of the Authority in connection with the Sewer System and the Bonds issued under the Indenture, in each Fiscal Year, to the extent that such Administrative Expenses otherwise shall not be provided for under the Indenture; and
- B. To pay reasonable Operating Expenses of the Authority, in each Fiscal Year, to the extent that such Operating Expenses otherwise shall not be provided for under the Indenture; and
- C. To provide an amount, in each Fiscal Year, so long as the 2012 Bonds shall remain outstanding, beginning with the Fiscal Year ending December 31, 2012, equal to at least 110% of the Debt Service Requirements, as such phrase is defined in the Indenture, in such Fiscal Year, on the 2012 Bonds then Outstanding, and not less than 100% of total Debt Service Requirements in such Fiscal Year, to the extent that such Debt Service Requirements otherwise shall not be provided for under the Indenture; and
- D. If the Trustee shall have withdrawn any money from the Debt Service Reserve Fund to cure any deficiency in the Debt Service Fund, to provide an amount that, together with investment income on money remaining in the Debt Service Reserve Fund and other money available or to become available in the Clearing Fund or in the Bond Redemption and Improvement Fund for the purpose, will be sufficient to restore the money so withdrawn to the Debt Service Reserve Fund at or before the end of twenty-four (24) months following the date of such withdrawal; and
- E. To provide an amount, in each Fiscal Year in which Additional Bonds constituting Sewer Revenue Bonds shall be Outstanding, beginning with the first such Fiscal Year in which Debt Service Requirements on such Additional Bonds shall be payable solely from such Receipts and Revenues from the Sewer System, equal to at least 110% of such Debt Service Requirements, in such Fiscal Year, on such Additional Bonds constituting Sewer Revenue Bonds, and not less than 100% of total Debt Service Requirements in such Fiscal Year, plus mandatory payments, if any, required to be made in such Fiscal Year to any fund created under the Indenture (including under any supplement thereto in accordance with provisions thereof), to the extent that such Debt Service Requirements or such mandatory payments otherwise shall not be provided for under the Indenture.

Provided, however, that in determining, for any Fiscal Year, whether or not the Authority is or will be, as applicable, in compliance with the foregoing covenant, the requirements for such Fiscal Year shall be decreased by the aggregate amount or amounts, if any, of Receipts and Revenues from the Sewer System received by the Authority in any prior Fiscal Year or Fiscal Years that was or were in excess of the aggregate amount or amounts required to be collected in such prior Fiscal Year or Fiscal Years pursuant to the foregoing covenant, but only to the extent that such excess Receipts and Revenues from the Sewer

System at such time shall be available in the Clearing Fund, the Bond Redemption and Improvement Fund or in the Sewer System operating account(s), for the purposes set forth above.

Certain Additional Covenants of the Authority:

Consulting Engineer. The Authority will continuously employ consulting engineers to inspect the Sewer System and recommend improvements thereto and to perform all the other services of the Consulting Engineer under the Indenture.

Property Insurance. The Authority shall keep the Sewer System insured by one or more responsible insurance companies against such risks and in such amounts as are usual with respect to similar properties. Any insurance proceeds resulting from a loss shall be deposited with the Trustee and applied as provided for in the Indenture.

Financial Reporting. The Authority shall continuously employ a Certified Public Accountant to perform the accounting and auditing functions and duties required by the Municipality Authorities Act and the Indenture.

Ownership of the Sewer System. The Authority shall not sell, lease, pledge or otherwise dispose of or encumber the Sewer System, or any part thereof, or any revenues derived therefrom, except as provided for in the Indenture and as will not impair use or operation of the Sewer System.

Operation and Maintenance. The Authority will provide for the continuous operation of the Sewer System and the performance of all repair, renewals, replacements and improvements thereto necessary to maintain adequate service.

Arbitrage. The Authority covenants that the proceeds of the 2012 Bonds will not be used in a manner which would cause the obligations to be arbitrage bonds within the meaning of Section 103(b)(2) of the Internal Revenue Code of 1986, as amended. and any regulations thereunder.

Defaults and Remedies:

The Authorities Act provides remedies to registered owners of the 2012 Bonds for an Event of Default, including the failure on the part of the Authority to fulfill its Indenture covenants.

An Event of Default, as defined in the Indenture, includes the failure promptly to pay principal of or interest on the 2012 Bonds or the 2012 Bonds when due, or failure of the Authority to fulfill any other covenant in the 2012 Bonds or the Indenture within 30 days after receipt of written notice of such deficit from the Trustee.

Upon happening and during continuance of any Event of Default, ***in every such case following receipt of the prior written consent of AGM or other applicable Bond Insurer***, the Trustee may declare, by written notice delivered to the Authority, the principal of all Bonds then Outstanding (if not then due and payable) and the interest accrued thereon to be due and payable immediately; and upon such declaration the same shall become and shall be due and payable immediately at the place of payment provided therein, anything herein or in Bonds contained to the contrary notwithstanding.

The Bond Insurer, acting alone, shall have the right to direct all remedies for an Event of a Default applicable to the 2012 Bonds. The Bond Insurer shall be recognized as the sole holder of the 2012 Bonds for the purposes of exercising all rights and privileges available to Bondholders. The Bond Insurer shall have the right to institute any suit, action, or proceeding at law or in equity under the same terms as a Holder of a Series of 2012 Bond, in accordance with applicable provisions of the Indenture. The Bond Insurer shall constitute an

intended third party beneficiary under the Indenture. For a more complete statement of rights and remedies of Bondholders and of the limitations thereon reference is made to the Indenture and the Act.

Modifications:

The Authority and the Trustee may enter into supplemental indentures in connection with the issuance of Additional Bonds (see “Additional Bonds”), *or with the prior written consent of AGM or other applicable Bond Insurer insuring the affected Bonds*, make technical changes in the terms of and procedures established under the Indenture, without the consent of the bondholders. All other supplemental indentures require the consent and approval of the Municipal Bond Insurer, or the consent and approval of the registered owners of not less than 66 2/3% in aggregate principal amount of all Bonds then Outstanding, but no such supplemental indenture shall, without the approval of the registered owners of 100% in principal amount of Bonds Outstanding, (1) change the maturity, principal, interest rate or redemption provisions of the Bonds; (2) permit creation of any lien or encumbrance prior to or on a parity with the lien thereof, (3) affect the rights of holders of less than all Bonds; or (4) reduce the percentage of registered owners required for modification as aforesaid.

Discharge of Indenture:

The lien of the Indenture may be terminated by the Authority by depositing with the Trustee funds sufficient for payment, when due, of all principal of and interest on, or redemption price of, the 2012 Bonds and any Additional Bonds. Such requirements may be satisfied, at the option of the Authority, by deposit with the Trustee of a sum which, together with interest to be earned thereon when invested in Defeasance Obligations (consisting of cash or direct obligations of the United States), will be sufficient for such payment and redemption. Such Defeasance Obligations shall mature as to principal and interest in such amounts, at such times and upon such other terms as shall assure the availability of sufficient moneys to provide the required sums as stated above as and when such sums are due either on the due dates for payment of principal of and interest on the 2012 Bonds and any Additional Bonds or on the redemption date or dates thereof.

APPENDIX B

Description and Summaries of Financial Factors Regarding the Sewer System

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THE SEWER SYSTEM

General

The Authority’s Sewer System serves residents of the Borough of Red Lion, as well as small portions of York and Windsor Townships. Originally constructed in 1962-63, the Sewer System is comprised of eight pump stations, approximately 117,000 lineal feet of gravity sewer mains, and 22,500 lineal feet of force mains.

Summary of the Sewage Treatment Agreement with Springettsbury Township

Sewage treatment and transportation is now provided to the Authority on a bulk basis by the Springettsbury Township Regional Treatment Facility, under Articles of Agreement for Treatment and Transmission dated January 23, 2003, by and among the Springettsbury Township, Red Lion Borough, Dallastown Borough, Yoe Borough, Windsor Borough, Windsor Township, Spring Garden Township and York Township. The agreement provided for upgrade and expansion of the regional treatment facility and further provides for the allocation of capacity among treatment, shared interceptor and shared pumping facilities operated by Spingettsbury Township for the benefit of the neighboring municipalities. The agreement provides for the allocation and payment of costs associated with the shared treatment, interceptor and pumping facilities, together with a formula for making payments to a capital reserve for future upgrades and expansion. Debt service, treatment and transportation costs are allocated pro rata based on equivalent dwelling units calculated using base actual flows and projected five-year flows through the system. Each municipality pays projected costs on a quarterly basis followed by an end of year audit adjustment.

The Authority also pays for the transmission of its sewage through the Mill Creek Interceptor System located in and operated by York Township under Articles of Agreement dated June 26, 1973, and various supplemental agreements. Costs and expenses for the Mill Creek Interceptor System are allocated on an equivalent dwelling unit basis and paid quarterly. In 2012, the municipalities sharing the Mill Creek Interceptor System began working on a comprehensive update to the original Articles of Agreement. Any such update is expected to take at least 1-2 years to complete.

Description of Existing Sewer System Customers and Rates

The table below shows the historical breakdown of customers by type for the years 2006 through 2011:

Historical Usage – Totals are for Residential Customers Only

| | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> |
|------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Total Customers | 2,677 | 2,685 | 2,685 | 2,685 | 2,686 | 2,687 |

Source: Authority Officials.

Customer Characteristics-2011

| <u>Customers</u> | |
|----------------------------|-------|
| Residential | 2,687 |
| Commercial | 146 |
| Industrial | 31 |
| Institutional | 27 |
| Totals | 2,891 |

Source: Authority Officials.

Largest Sewer System Customers

The largest customers, by metered consumption of water, and their annual billings are listed below:

| <u>Customer</u> | <u>Type of Business</u> | <u>Annual Water Consumption (gallons)</u> | <u>2011 Annual Billings</u> |
|------------------------|--------------------------------|--|------------------------------------|
| General Dynamics | Factory | 11,244,000 | \$49,665 |
| Red Lion Senior High | Public Education | 1,610,000 | 7,179 |
| White Dove Cat Wash | Car Wash | 1,216,000 | 5,442 |
| White Dove Laundromat | Laundromat | 1,140,000 | 5,107 |
| Red Lion Junior High | Public Education | 879,000 | 4,035 |
| Steven Flickinger | Mobile Home Park | 857,000 | 5,355 |
| Charles St. Apartments | Apartments | 789,000 | 5,973 |

Source: Authority Officials. The largest customer billings comprise 10% of the total annual billings for 2011.

Current Rate Schedule(Effective January 1, 2012)

| <u>Quarterly Consumption in Gallons</u> | <u>Existing Rate per 1,000 Gallons per Month</u> |
|--|---|
| First 1,000 | \$12.64 |
| 1,100 – 4,000 | 6.70 |
| Over 4,000 | 5.95 |

Source: Authority Officials.

Billing Collection History

The Sewer System's billing collection history for the past five years is as follows:

| <u>Year</u> | <u>Amount Billed</u> | <u>Amount Collected</u> | <u>Percentage Collected</u> |
|-------------|----------------------|-------------------------|-----------------------------|
| 2007 | \$760,977.93 | \$760,977.77 | 99.90% |
| 2008 | 894,502.36 | 894,230.30 | 99.97 |
| 2009 | 953,601.59 | 945,174.39 | 99.10 |
| 2010 | 908,149.49 | 847,846.95 | 93.36* |
| 2011 | 825,925.22 | 817,835.97 | 99.02 |

Source: Authority Officials. * Drop in collections due to the closing of Yorktown Kitchens factory.

Summary Of Balance Sheet Of The Sewer System

| | <u>Year Ending December 31,</u> | | | |
|--|---------------------------------|----------------------------|----------------------------|-----------------------------|
| | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> |
| ASSETS | | | | |
| Current Assets | | | | |
| Cash-Operating Funds | \$ 50,148 | \$ 48,818 | \$ 46,793 | \$ 80,924 |
| Accounts Receivable | 197,935 | 218,052 | 155,432 | 144,230 |
| Trust Fund Assets | 515,235 | 483,379 | 651,590 | 651,590 |
| Other Assets | | | | |
| Cash Collection Account | 12,404 | 32,629 | 27,401 | |
| Bond Issuance Costs | 83,053 | 79,278 | 75,503 | |
| Prepaid Interest | 95,539 | 91,196 | 86,855 | |
| Bond Discount | 58,631 | 55,966 | 53,301 | |
| Property, Plant and Equipment | 7,765,643 | 7,829,167 | 7,890,386 | 8,346,295 |
| Revenue Fund | <u>188,960</u> | <u>188,960</u> | <u>188,960</u> | <u> </u> |
| TOTAL ASSETS | \$ 8,967,548 | \$ 9,026,775 | \$ 9,176,221 | \$ 9,355,256 |
| LIABILITIES AND FUND EQUITY | | | | |
| Current Liabilities: | | | | |
| Accounts Payable | \$ 1,300 | \$ 0 | \$ 0 | \$ 73,588 |
| Accrued Interest | 9,506 | 9,319 | 9,109 | 8,786 |
| Due to Water Fund | 0 | 2,245 | 0 | 0 |
| Revenue Bonds Payable - | | | | |
| Current | 85,000 | 85,000 | 90,000 | 100,000 |
| Long Term Debt | <u>2,765,000</u> | <u>2,680,000</u> | <u>2,585,000</u> | <u>2,485,000</u> |
| Total Liabilities | \$ 2,860,806 | \$ 2,776,564 | \$ 2,684,109 | \$ 2,667,374 |
| Fund Equity | | | | |
| Retained Earnings | <u>6,106,742</u> | <u>6,250,211</u> | <u>6,492,112</u> | <u>6,687,882</u> |
| TOTAL LIABILITIES AND FUND EQUITY | <u>\$ 8,967,548</u> | <u>\$ 9,026,775</u> | <u>\$ 9,176,221</u> | <u>\$ 9,355,256</u> |

Summary Of Receipts And Disbursements Of The Sewer System

The following is a Summary of Cash Receipts and Disbursements of the Sewer System:

| | Year Ending December 31, | | | |
|---|---------------------------------|--------------------|--------------------|--------------------|
| | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> |
| RECEIPTS | | | | |
| Fees and Charges | \$ 819,113 | \$ 941,951 | \$ 893,604 | \$ 919,964 |
| Refund of Prior Year Expenditure | 0 | 0 | 0 | 0 |
| Miscellaneous Income | <u>2,357</u> | <u>4,217</u> | <u>23,212</u> | <u>22,367</u> |
| Total Operating Income | \$ 821,470 | \$ 946,168 | \$ 916,816 | \$ 942,331 |
| EXPENSES | | | | |
| Operating Expenses: | | | | |
| Personnel Services | \$ 77,927 | \$ 86,576 | \$ 84,574 | \$ |
| Sanitary Sewers | 37,348 | 42,702 | 42,610 | |
| Sewage Disposal | 358,541 | 453,406 | 347,530 | |
| Insurance | 22,993 | 39,362 | 1,959 | |
| Authority Rental | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total Operating Expense | <u>\$ 496,809</u> | <u>\$ 622,046</u> | <u>\$ 476,673</u> | <u>\$ 442,701</u> |
| Net Operating Income (Loss) | \$ 324,661 | \$ 324,122 | \$ 440,143 | \$ 499,630 |
| General and Administrative Expenses: | | | | |
| Salaries | \$ 16,295 | \$ 18,498 | \$ 22,148 | \$ 155,812 |
| Employee Benefits | 9,064 | 6,365 | 7,825 | 80,818 |
| Supplies | 6,315 | 6,815 | 11,161 | |
| Communications | 1,148 | 1,583 | 1,687 | |
| Professional Fees | 8,747 | 11,092 | 8,411 | |
| Transportation | 109 | 105 | 0 | |
| Advertising and Printing | 353 | 1,625 | 905 | |
| Dues and Subscriptions | 70 | 0 | 0 | |
| Repair and Maintenance Service | 2,856 | 3,760 | 4,256 | |
| Capital Purchases | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total General and Administrative Expenses | <u>\$ 44,957</u> | <u>\$ 49,843</u> | <u>\$ 56,393</u> | <u>\$ 287,932</u> |
| Net Income (Loss) From Operations | \$ 279,704 | \$ 274,279 | \$ 383,750 | \$ 211,698 |
| Other Income (Expense) - Net | (104,809) | (130,809) | (141,849) | (119,150) |
| Net Income (Loss) for the Year | <u>\$ 174,895</u> | <u>\$ 143,470</u> | <u>\$ 241,901</u> | <u>\$ 92,548</u> |

Source: Authority Financial Statements, 2007-2010.

Summary Of Projected Revenues and Expenditures of The Sewer System

The following is a summary of the projected revenues and expenditures for fiscal year 2011 and the 2012 budget for the Sewer System:

| | <u>Year Ending December 31,</u> | |
|------------------------------------|---------------------------------|---------------------|
| | <u>2011</u> | <u>2012</u> |
| REVENUES | | |
| Interest and Rents | \$ 10 | \$ 0 |
| Sewer Charges | 885,529 | 1,147,875 |
| Miscellaneous Income | <u>56</u> | <u>100</u> |
| Total Operating Income | \$ 885,594 | \$ 1,147,975 |
| EXPENDITURES | | |
| Administration | \$ 51,022 | \$ 66,572 |
| Supplies | 735 | 1,100 |
| Professional Fees | 21,906 | 30,829 |
| Communications | 1,175 | 11,500 |
| Transportation | 6,139 | 5,000 |
| Advertising and Printing | 1,088 | 6,795 |
| Dues and Subscriptions | 0 | 0 |
| Capital Purchases | 8,928 | 7,000 |
| Repair and Maintenance Service | 41,066 | 13,500 |
| Personnel Service | 86,153 | 82,634 |
| Sanitary Sewers | 49,321 | 50,399 |
| Sewerage Disposal | 490,960 | 626,000 |
| General Obligation Bond | 201,828 | 217,390 |
| Insurance | <u>14,815</u> | <u>15,069</u> |
| Total Expenditure Sewer Operations | <u>\$ 975,136</u> | <u>\$ 1,133,788</u> |
| Net Income (Loss) for the Year | <u>\$ (89,541)</u> | <u>\$ 14,187</u> |

Source: Authority's internal 2011 calculations and 2012 approved budget.

Debt Service Coverage

Below is the historical and projected debt service coverage of the Authority's Sewer System.

| | <u>Actual</u> <u>2007</u> | <u>Actual</u> <u>2008</u> | <u>Actual</u> <u>2009</u> | <u>Actual</u> <u>2010</u> | <u>Estimated</u> <u>2011</u> | <u>Budget</u> <u>2012</u> |
|------------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|---------------------------------|------------------------------|
| Net Available for Debt Service (1) | 468,664 | 463,239 | 572,710 | 400,658 | 444,717 | 483,417 |
| Debt Service (\$) | 201,163 | 199,080 | 201,828 | 199,308 | 201,828 | 217,390 |
| Debt Service Coverage | 2.33 | 2.33 | 2.84 | 2.01 | 2.20 | 2.22 |

(1) Equals Net Income from Operations and carryover of Revenue Fund from prior fiscal year.

Billing and Nonpayment Procedure

Sewer bills are sent out quarterly by the Authority at the end of February, May, August and November. These bills are due to be paid within 20 days. If payment is not received, a water shut-off warning is mailed and a ten percent penalty is imposed. If payment is not received during the next 30 days, the Authority proceeds to shut-off water service (also provided by the Authority in most cases) subject to compliance with restrictions and limitations of Pennsylvania law. The Authority believes that 95% of users pay before collection procedures are initiated and that almost all users pay before their water service is shut off.

Labor Relations and Pension Plans

The Authority has a total of 16 full-time and 6 part-time municipal employees. Seven of the employees are in a bargaining unit, with a contract which expires December 31, 2013.

APPENDIX C

Descriptions of the Sewer System Service Area

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General

The Sewer System serves the Borough of Red Lion, as well as small portions of two adjacent townships, York and Windsor. The Service Area is located in central York County (the “County”), approximately seven miles southeast of the City of York.

The County enjoys the advantage of being located at the intersection of two major traffic routes. Interstate 83 and U.S. Route 30 intersect just north of York City. The Pennsylvania Turnpike also passes through the northern end of the county. Access to these routes from the service area is provided by several medium duty roads. As a result, the area is accessible to several metropolitan areas including Harrisburg (located approximately 30 miles to the north), the Baltimore-Washington metropolitan area (located approximately 60 miles to the south), Philadelphia (located approximately 100 miles to the east) and Pittsburgh (approximately 200 miles to the west).

Historically, the Service Area has been primarily residential in character, but it also serves as a local commercial center for the surrounding areas.

Demographic Characteristics

The following tables provide population trends, age, wealth and housing indices for the Township, York County and the Commonwealth of Pennsylvania.

| | Population | | |
|------------------|-------------------|-------------|-------------|
| | <u>2010</u> | <u>2000</u> | <u>1990</u> |
| Red Lion Borough | 6,384 | 6,149 | 6,130 |
| Windsor Township | 16,771 | 12,807 | 9,424 |
| York Township | 27,225 | 23,637 | 19,231 |
| York County | 428,175 | 381,751 | 339,574 |
| Commonwealth | 12,612,705 | 12,281,054 | 11,881,643 |

Source: 1990 and 2000 Penn State Data Center, 2010 US Census Bureau

| | Age Composition (2010) | | |
|------------------|-----------------------------------|-----------------|-------------------|
| | <u>Under 18</u> | <u>19 to 64</u> | <u>65 or Over</u> |
| Red Lion Borough | 25.1% | 61.4% | 13.5% |
| Windsor Township | 24.8 | 62.1 | 13.1 |
| York Township | 21.6 | 60.2 | 18.2 |
| York County | 24.6 | 61.9 | 13.5 |
| Commonwealth | 23.8 | 60.6 | 15.6 |

Source: US Census Bureau

**Family Income
(2010)**

| | <u>Median Family Income</u> | <u>Families Below Poverty Level</u> |
|------------------|-----------------------------|---|
| Red Lion Borough | \$55,051 | 3.7% |
| Windsor Township | 78,962 | 4.0 |
| York Township | 77,264 | 3.7 |
| York County | 67,624 | 6.3 |
| Commonwealth | 63,364 | 8.5 |

Source: US Census Bureau

**Occupied Housing
(2010)**

| | Total Housing <u>Units</u> | Occupied Housing <u>Units</u> | <u>(%)</u> | Owner-Occupied Housing <u>Units</u> | <u>(%)</u> |
|------------------|----------------------------------|-------------------------------------|------------|---|------------|
| Red Lion Borough | 2,722 | 2,649 | 97.3 | 1,485 | 56.1 |
| Windsor Township | 6,503 | 6,303 | 96.9 | 5,694 | 90.3 |
| York Township | 11,796 | 11,379 | 96.5 | 7,940 | 69.8 |
| York County | 176,312 | 166,600 | 94.5 | 127,342 | 76.1 |
| Commonwealth | 5,577,308 | 4,940,581 | 89.2 | 3,508,612 | 71.0 |

Source: US Census Bureau

Medical Facilities

There are three general acute care hospitals, one rehabilitation hospital and one specialty hospital that serve York County. The hospitals, their licensed bed capacities and number of employees (full and part-time as of 2010) are as follows:

| <u>Institution</u> | <u>Location</u> | <u>Licensed Beds</u> | <u>Staff</u> |
|---|-----------------|----------------------|--------------|
| Hanover Hospital Inc. | Hanover | 116 | 1,437 |
| Memorial Hospital | York | 100 | 1,038 |
| York Hospital | York | 558 | 4,280 |
| HealthSouth Rehabilitation Hospital of York | York | 71 | 256 |
| Select Specialty Hospital of Central Pennsylvania | York | 23 | 72 |

Source: Pennsylvania Department of Health, Bureau of Health Statistics, 2008 reporting period.

Utilities and Communications

Water: The Authority serves approximately 100% of Red Lion Borough residents and less than 20% of residents of Windsor Township and 5% of residents of York Township. The Authority also has a bulk water sales agreement with Dallastown-Yoe and Windsor Authority which represents approximately 50% of its water revenues. York Water Company and private well service the rest of the surrounding Townships.

Sewers: Sanitary sewage collection services in Red Lion Borough are provided by the Authority. The York Township Water and Sewer Authority provides sewage collection service elsewhere in the Service Area. All sewage collected in the Authority's Service Area is processed by the Springettsbury Municipal Authority Treatment Plant.

Electricity and Gas: Electricity for the Service Area is provided by the Metropolitan Edison Company. Gas is provided by Columbia Gas of Pennsylvania, Inc.

Education

The Service Area is within the Red Lion Area School District and the Dallastown Area School District.

Major Employers in York County

The following is a list of the top employers in York County, their product or service, and their approximate number of employees.

| <u>Employer</u> | <u>Services/Products</u> | <u>Number of Employees</u> |
|-------------------------------------|--------------------------|----------------------------|
| York Hospital | Healthcare | 7,402 |
| Federal Government | Federal Government | 3,444 |
| Wal-Mart Associates, Inc. | Retail Sales | 2,783 |
| York County Government | County Government | 2,503 |
| Harley Davidson Motor Company, Inc. | Motorcycles | 2,475 |
| BAE Systems | Electronics | 2,020 |
| Giant Food Stores LLC | Retail Supermarket | 2,000 |
| Kinsley Construction, Inc. | Construction | 1,320 |
| Hanover General Hospital | Healthcare | 1,300 |
| Utz Quality Food, Inc. | Snack Foods | 1,295 |

Source: PA Department of Labor and Industry; Center for Workforce Information and Analysis, 2010.

ECONOMY

Real Estate Valuation

Market values of real property, as reported by the Pennsylvania State Tax Equalization Board.

Red Lion Borough

| <u>Year</u> | <u>Assessed Valuation</u> | <u>Market Value</u> | <u>Common Level Ratio</u> |
|-------------|---------------------------|---------------------|---------------------------|
| 2007 | 199,209,800 | 244,940,140 | 122.96% |
| 2008 | 223,730,100 | 244,600,630 | 109.33 |
| 2009 | 245,155,982 | 224,355,300 | 109.27 |
| 2010 | 244,191,923 | 240,148,710 | 101.68 |

Source: Pennsylvania State Tax Equalization Board

Windsor Township

| <u>Year</u> | <u>Assessed Valuation</u> | <u>Market Value</u> | <u>Common Level Ratio</u> |
|-------------|---------------------------|---------------------|---------------------------|
| 2007 | 992,341,695 | 862,710,700 | 115.03% |
| 2008 | 1,032,918,990 | 1,000,149,900 | 103.28 |
| 2009 | 1,064,421,127 | 1,034,259,500 | 102.92 |
| 2010 | 1,077,816,390 | 1,091,980,728 | 98.70 |

Source: Pennsylvania State Tax Equalization Board

York Township

| <u>Year</u> | <u>Assessed Valuation</u> | <u>Market Value</u> | <u>Common Level Ratio</u> |
|-------------|---------------------------|---------------------|---------------------------|
| 2007 | 1,916,953,393 | 1,718,269,500 | 111.56% |
| 2008 | 1,975,806,522 | 1,983,933,200 | 99.59 |
| 2009 | 2,001,354,542 | 2,012,151,800 | 99.56 |
| 2010 | 2,015,924,672 | 2,115,670,599 | 95.29 |

Source: Pennsylvania State Tax Equalization Board

Trends in York County Employment and Unemployment

| <u>Year</u> | <u>Percentage Unemployed</u> | | |
|-----------------|------------------------------|---------------------|-------------|
| | <u>County</u> | <u>Pennsylvania</u> | <u>U.S.</u> |
| 2004 | 4.5% | 5.4% | 5.4% |
| 2005 | 4.2 | 5.0 | 4.7 |
| 2006 | 4.0 | 4.5 | 4.4 |
| 2007 | 3.8 | 4.3 | 4.9 |
| 2008 | 4.7 | 5.3 | 7.6 |
| 2009 | 8.1 | 8.0 | 10.8 |
| 2010 | 8.8 | 8.7 | 10.2 |
| 2011 (December) | 7.1* | 7.2* | 9.0 |

Source: Pennsylvania Department of Labor & Industry.

* Preliminary calculations.

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Classification of York County Employment

The following is a breakdown of employment in York County for 2008, projected for 2018 and the percentage change from the Pennsylvania Department of Labor & Industry.

| | <u>2008</u> <u>Estimated</u> <u>Employment</u> | <u>2018</u> <u>Projected</u> <u>Employment</u> | <u>Total</u> <u>2008-2018</u> <u>Employment</u> <u>Change</u> | <u>Annual Avg.</u> <u>Percent</u> <u>Change</u> | <u>Total</u> <u>Percent</u> <u>Change</u> |
|---|--|--|--|---|---|
| TOTAL EMPLOYMENT, ALL JOBS | 192,080 | 194,430 | 2,350 | 0.12% | 1.20% |
| Agriculture, Forestry, Fishing & Hunting | 1,900 | 1,940 | 40 | 0.21% | 2.10% |
| Mining | 430 | 420 | -10 | -0.24% | -2.30% |
| Utilities | 1,390 | 1,210 | -180 | -1.38% | -13.00% |
| Construction | 11,240 | 11,740 | 500 | 0.44% | 4.50% |
| Food Mfg | 5,310 | 5,330 | 20 | 0.04% | 0.40% |
| Beverage & Tobacco Product Mfg | *** | *** | *** | *** | *** |
| Textile Mills | *** | *** | *** | *** | *** |
| Textile Product Mills | *** | *** | *** | *** | *** |
| Apparel Mfg | 490 | 220 | -270 | -7.70% | -55.10% |
| Wood Product Mfg | 480 | 430 | -50 | -1.09% | -10.40% |
| Paper Mfg | 2,850 | 2,270 | -580 | -2.25% | -20.40% |
| Printing & Rel. Support Activities | 2,990 | 2,850 | -140 | -0.48% | -4.70% |
| Petroleum & Coal Products Mfg | *** | *** | *** | *** | *** |
| Chemical Mfg | 540 | 540 | 0 | 0.00% | 0.00% |
| Plastics & Rubber Products Mfg | 1,200 | 1,130 | -70 | -0.60% | -5.80% |
| Nonmetallic Mineral Product Mfg | *** | *** | *** | *** | *** |
| Primary Metal Mfg | 1,010 | 860 | -150 | -1.59% | -14.90% |
| Fabricated Metal Product Mfg | 5,390 | 4,950 | -440 | -0.85% | -8.20% |
| Machinery Mfg | 5,320 | 5,010 | -310 | -0.60% | -5.80% |
| Computer & Electronic Product Mfg | 1,240 | 1,010 | -230 | -2.03% | -18.60% |
| Electrical Equip. & Appliance Mfg. | 910 | 720 | -190 | -2.31% | -20.90% |
| Transportation Equipment Mfg | 6,040 | 5,540 | -500 | -0.86% | -8.30% |
| Furniture & Rel. Product Mfg | 1,400 | 1,110 | -290 | -2.29% | -20.70% |
| Miscellaneous Mfg | 1,630 | 1,630 | 0 | 0.00% | 0.00% |
| Wholesale Trade | 6,180 | 6,270 | 90 | 0.14% | 1.50% |
| Retail Trade | 22,310 | 22,280 | -30 | -0.01% | -0.10% |
| Transportation | 7,550 | 7,480 | -70 | -0.09% | -0.90% |
| Information | 2,080 | 1,960 | -120 | -0.59% | -5.80% |
| Finance & Insurance | 4,030 | 3,960 | -70 | -0.18% | -1.70% |
| Real Estate & Rental & Leasing | 1,670 | 1,610 | -60 | -0.37% | -3.60% |
| Professional & Technical Services | 5,560 | 5,400 | -160 | -0.29% | -2.90% |
| Management Of Companies & Enterprises | 3,090 | 3,260 | 170 | 0.54% | 5.50% |
| Administrative & Waste Services | 7,940 | 7,550 | -390 | -0.50% | -4.90% |
| Educational Services | 12,380 | 13,060 | 680 | 0.54% | 5.50% |
| Health Care & Social Assistance | 21,800 | 24,360 | 2,560 | 1.12% | 11.70% |
| Arts, Entertainment & Recreation | 2,020 | 2,350 | 330 | 1.52% | 16.30% |
| Accommodation & Food Services | 12,990 | 13,950 | 960 | 0.72% | 7.40% |
| Other Services, Except Public Admin. | 7,280 | 7,780 | 500 | 0.67% | 6.90% |
| Government | 10,090 | 10,820 | 730 | 0.70% | 7.20% |

Source: Pennsylvania Department: of Labor & Industry.

Financial Factors and Ratios (Red Lion Borough)

| | |
|---|----------------|
| STEB Assessed Valuation of Real Estate (2010) | \$ 244,191,923 |
| STEB Market Valuation of Real Estate (2010) | \$ 240,148,710 |
| Ratio of Assessed to Market Value (Common Level)..... | 101.68% |
| Population: 2010 Census | 6,384 |
| Assessed Valuation of Real Estate Per Capita | \$38,251 |
| Market Valuation of Real Estate Per Capita | \$37,617 |

Overlapping Debt

| | |
|--|------------------|
| Obligations of the Residents of the Borough | |
| Borough General Obligation and Lease Rental Debt | \$ 0 |
| Red Lion Municipal Authority Outstanding Debt (Sewer Revenue Debt) ... | 2,995,000 |
| Red Lion Municipal Authority Outstanding Debt (Water Revenue Debt) ... | 2,555,000 |
| School District (1) | 10,250,064 |
| York County (2) | <u>5,392,225</u> |
| Total Obligations | \$21,192,289 |

| | |
|---|------------|
| Ratio of Total Obligations to: | |
| Market Valuation of Real Estate | 8.82% |
| Assessed Valuation of Real Estate | 8.68% |
| Population (2010) | \$3,319.59 |

- (1) Based on the Borough's percentage (11.88%) of the outstanding general obligation debt of the Red Lion Area School District (\$86,280,000) as reported by the Pennsylvania Department of Community and Economic Development March 2012.
- (2) Based on the Borough's percentage (1.47%) of the outstanding general obligation debt of the County of York (\$366,818,000) as reported by the Pennsylvania Department of Community and Economic Development March 2012.

APPENDIX D

**Financial Audit of the Authority
for Year Ending December 31, 2010**

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RED LION MUNICIPAL AUTHORITY
A COMPONENT UNIT OF
RED LION BOROUGH
ANNUAL REPORT AND
INDEPENDENT AUDITORS' REPORT
DECEMBER 31, 2010

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| NOTES | 9 |

INDEPENDENT AUDITORS' REPORT

To Red Lion Municipal Authority Members

We have audited the accompanying Commonwealth of Pennsylvania's Annual Report (Form DCED-CLGS-04) of Municipal Authorities of the Red Lion Municipal Authority, a component unit of Red Lion Borough, as of, and for the year ended, December 31, 2010, as listed in the table of contents. The component unit annual report is the responsibility of the Red Lion Municipal Authority's management. Our responsibility is to express an opinion on the component unit annual report based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the component unit annual report is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the component unit annual report. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall component unit annual report presentation. We believe that our audit provides a reasonable basis for our opinion.

The Authority has prepared the component unit annual report using accounting practices permitted by the Commonwealth of Pennsylvania and the Department of Community and Economic Development, which practices differ from accounting principles generally accepted in the United States of America. The effects on the component unit annual report of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the Authority's policy to prepare its component unit annual report on the basis of accounting discussed in the third paragraph, the component unit annual report referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Red Lion Municipal Authority, as of December 31, 2010 and the changes in financial position for the year then ended.

INDEPENDENT AUDITORS' REPORT - continued

In our opinion, the annual report referred to in the first paragraph presents fairly, in all material respects, the financial position of the Red Lion Municipal Authority, a component unit of Red Lion Borough, as of December 31, 2010, and the respective changes in financial position, thereof for the year then ended in conformity with the accounting practices prescribed by the Commonwealth of Pennsylvania and the Department of Community and Economic Development.

This report is intended solely for the information and use of the governing body and management of Red Lion Municipal Authority, and for filing with the Commonwealth of Pennsylvania. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Stambaugh Ness, PC

York, Pennsylvania
June 29, 2011

RED LION MUNICIPAL AUTHORITY
OPERATING AUTHORITIES BALANCE SHEET
FISCAL YEAR ENDING DECEMBER 2010

| | | |
|--|--------------------|---------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | <u>\$ 174,004</u> | |
| Investment | <u>113,880</u> | |
| Accounts receivable | <u>452,278</u> | |
| Inventories | <u>-</u> | |
| Other current assets | <u>31,168</u> | |
| TOTAL CURRENT ASSETS | | <u>\$ 771,330</u> |
| RESTRICTED ASSETS/TRUST FUNDS | | <u>3,335,139</u> |
| DEFERRED CHARGES | | <u>199,511</u> |
| FIXED ASSETS | | |
| Property, plant & equipment, at cost | <u>18,923,304</u> | |
| Less accumulated depreciation | <u>(5,589,637)</u> | |
| Construction work in progress | <u>12,863,242</u> | |
| Other fixed assets | <u>-</u> | |
| NET FIXED ASSETS | | <u>26,196,909</u> |
| TOTAL ASSETS | | <u>\$30,502,889</u> |
| LIABILITIES AND FUND EQUITY | | |
| Accounts payable | <u>170,163</u> | |
| Accrued payroll & withholdings | <u>-</u> | |
| Accrued interest payable | <u>17,675</u> | |
| Current portion of long-term debt | <u>780,000</u> | |
| Other current liabilities | <u>5,805</u> | |
| TOTAL CURRENT LIABILITIES | | <u>973,643</u> |
| LONG-TERM DEBT - less current portion | | <u>5,040,000</u> |
| TOTAL LIABILITIES | | <u>6,013,643</u> |
| FUND EQUITY | | |
| CONTRIBUTED CAPITAL | | |
| Government grants | <u>-</u> | |
| Other contributions | <u>136,300</u> | |
| TOTAL CONTRIBUTED CAPITAL | | <u>136,300</u> |
| RETAINED EARNINGS | | |
| Reserved | <u>3,335,139</u> | |
| Unreserved | <u>21,017,807</u> | |
| TOTAL RETAINED EARNINGS | | <u>24,352,946</u> |
| TOTAL FUND EQUITY | | <u>24,489,246</u> |
| TOTAL LIABILITIES & FUND EQUITY | | <u>\$30,502,889</u> |

RED LION MUNICIPAL AUTHORITY
SEWER
OPERATING AUTHORITIES
STATEMENT OF INCOME AND EXPENDITURES

| | | |
|--|-------------------|-----------------------|
| OPERATING REVENUES | | |
| Sale of Services/user charges | <u>\$ 919,964</u> | |
| Operating Grants - State | <u>-</u> | |
| - Federal | <u>-</u> | |
| Local government operating subsidies | <u>-</u> | |
| Interest income | <u>23</u> | |
| Other operating revenues | <u>-</u> | |
| TOTAL OPERATING REVENUES | | <u>\$ 919,987</u> |
| OPERATING EXPENSES | | |
| Cost of sales and services | <u>442,701</u> | |
| Administration - Salaries | <u>155,812</u> | |
| - Other costs | <u>35,265</u> | |
| Depreciation | <u>51,302</u> | |
| Other operating expenses | <u>45,553</u> | |
| TOTAL OPERATING EXPENSES | | <u>730,633</u> |
| OPERATING INCOME (LOSS) | | <u>\$ 189,354</u> |
| NONOPERATING REVENUES | | |
| Capital Grants - State | <u>-</u> | |
| - Federal | <u>-</u> | |
| Proceeds of sale of fixed assets | <u>-</u> | |
| Proceeds of borrowings | <u>-</u> | |
| Other nonoperating revenues | <u>22,344</u> | |
| TOTAL NONOPERATING REVENUES | | <u>22,344</u> |
| NONOPERATING EXPENSES | | |
| Debt service payments (interest only) | <u>119,150</u> | |
| Constructions/extension of system | <u>-</u> | |
| Major equipment purchased | <u>-</u> | |
| Other nonoperating expenses | <u>-</u> | |
| TOTAL NONOPERATING EXPENSES | | <u>119,150</u> |
| TOTAL NONOPERATING REVENUE (LOSS) | | <u>(96,806)</u> |
| NET INCOME BEFORE EXTRAORDINARY ITEMS | | <u>92,548</u> |
| EXTRAORDINARY GAIN (LOSS) | | <u>-</u> |
| NET INCOME | | <u>92,548</u> |
| RETAINED EARNINGS (beginning of year) - restated | | <u>6,595,334</u> |
| RETAINED EARNINGS (end of year) | | <u>\$ 6,687,882</u> |

RED LION MUNICIPAL AUTHORITY
WATER
OPERATING AUTHORITIES
STATEMENT OF INCOME AND EXPENDITURES

| | | |
|--|--------------------|-------------------------|
| OPERATING REVENUES | | |
| Sale of Services/user charges | <u>\$2,726,639</u> | |
| Operating Grants - State | <u>-</u> | |
| - Federal | <u>-</u> | |
| Local government operating subsidies | <u>-</u> | |
| Interest income | <u>38</u> | |
| Other operating revenues | <u>125,278</u> | |
| TOTAL OPERATING REVENUES | | <u>\$ 2,851,955</u> |
| OPERATING EXPENSES | | |
| Cost of sales and services | <u>878,197</u> | |
| Administration - Salaries | <u>909,450</u> | |
| - Other costs | <u>188,483</u> | |
| Depreciation | <u>169,748</u> | |
| Other operating expenses | <u>-</u> | |
| TOTAL OPERATING EXPENSES | | <u>2,145,878</u> |
| OPERATING INCOME (LOSS) | | <u>\$ 706,077</u> |
| NONOPERATING REVENUES | | |
| Capital Grants - State | <u>-</u> | |
| - Federal | <u>-</u> | |
| Proceeds of sale of fixed assets | <u>-</u> | |
| Proceeds of borrowings | <u>-</u> | |
| Other nonoperating revenues | <u>79,039</u> | |
| TOTAL NONOPERATING REVENUES | | <u>79,039</u> |
| NONOPERATING EXPENSES | | |
| Debt service payments (interest only) | <u>144,481</u> | |
| Constructions/extension of system | <u>-</u> | |
| Major equipment purchased | <u>-</u> | |
| Other nonoperating expenses | <u>3,772</u> | |
| TOTAL NONOPERATING EXPENSES | | <u>148,253</u> |
| TOTAL NONOPERATING REVENUE (LOSS) | | <u>(69,214)</u> |
| NET INCOME BEFORE EXTRAORDINARY ITEMS | | <u>636,863</u> |
| EXTRAORDINARY GAIN (LOSS) | | <u>636,863</u> |
| NET INCOME | | <u>636,863</u> |
| RETAINED EARNINGS (beginning of year) - restated | | <u>17,164,501</u> |
| RETAINED EARNINGS (end of year) | | <u>\$ 17,801,364</u> |

RED LION MUNICIPAL AUTHORITY
OPERATING AUTHORITIES
NOTES/COMMENTS

The Red Lion Municipal Authority is in compliance with the Trust Indenture-Series of 2005 (Sewer).

The Red Lion Municipal Authority is in compliance with the Trust Indenture-Series of 2005 (Water).

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APPENDIX E

Specimen of Municipal Bond Insurance Policy

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MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer

APPENDIX F

Form of Opinion of Bond Counsel

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[Letterhead of Bond Counsel]

FILE NO: 6792/12

[Date of Closing]

**Re: \$2,995,000 Red Lion Municipal Authority
Sewer Revenue Bonds - Series of 2012**

OPINION

We have acted as Bond Counsel to the Red Lion Municipal Authority (the “Authority”) in connection with its authorization, sale and issuance of its Sewer Revenue Bonds - Series of 2012, in the aggregate principal amount of \$2,995,000 (the “Bonds”). The Authority is a municipality authority incorporated by appropriate action of the Borough of Red Lion, in York County, Pennsylvania (the “Borough”), and existing under the Municipality Authorities Act, 53 Pa. C.S. Chapter 56 (the “Act”), of the Commonwealth of Pennsylvania (the “Commonwealth”).

The Authority, pursuant to authority vested in it by law has acquired and constructed sanitary sewage collection, transmission, treatment and disposal system facilities, which facilities, together with all appurtenant facilities and contract rights are referred to herein as the “Sewer System”.

The Authority entered into a Trust Indenture, dated as of March 15, 2005 (the “Original Indenture”) with Manufacturers and Traders Trust Company (the “Trustee”), as trustee, under which all Receipts and Revenues from the Sewer System, as that phrase is defined in the Original Indenture, were assigned, transferred, and pledged to the Trustee, its successors in the trust and its assigns, as security for Sewer Revenue Bonds, as such term is defined in the Original Indenture, of the Authority issued thereunder.

The Authority initially issued a series of Sewer Revenue Bonds under the Original Indenture, known generally as the “Sewer Revenue Bonds - Series of 2005,” dated as of March 1, 2005, in the original aggregate principal amount of \$3,100,000 (the “Series of 2005 Bonds”), for the purposes specified in the Original Indenture.

The Authority, pursuant to authority vested in it by law, has determined to undertake the acquisition and construction of Capital Additions, as such phrase is defined in the Original Indenture, which will become part of the Sewer System.

The Original Indenture permits the Authority to issue additional (parity) Sewer Revenue Bonds thereunder and under indentures supplemental thereto for purposes therein set forth, which includes refunding the Series of 2005 Bonds and the Capital Additions.

The Authority has authorized the issuance of the Bonds, the proceeds of which will be used, together with other money made available for the purposes, to: (i) currently refund the Series of 2005 Bonds, (ii) undertake Capital Additions to the Sewer System, (iii) make the debt service reserve fund deposit required by the Original Indenture, and (iv) pay the costs and expenses of issuing the Bonds. The Bonds constitute a series of additional (parity) Sewer Revenue Bonds issued under the Original Indenture, as amended and supplemented by a First Supplemental Indenture, dated the date of the Bonds (the "First Supplemental Indenture"), collectively referred to herein as the "Indenture."

The Indenture contains covenants of the Authority to comply with the Internal Revenue Code of 1986, as amended (the "Code"), and applicable regulations promulgated thereunder, to preserve the federal income tax exemption of the interest on the Bonds. The Authority has designated the Bonds as "qualified tax-exempt obligations," as defined in Section 265(b)(3)(B) of the Code.

As Bond Counsel, we have examined, among other things: a certified photostatic copy of Articles of Incorporation and related documents and a Subsistence Certificate, of the Authority, as issued by the Secretary of the Commonwealth; the executed documents constituting the Indenture; certain documents required by the Indenture to be furnished to the Trustee as conditions precedent to the authentication and delivery by the Trustee of the Bonds; certifications of no litigation; a non-arbitrage and rebate compliance certificate of the Authority; and usual and required closing certificates and documents. We also have examined a specimen of an executed Bond and assume that all of the Bonds have been similarly executed and that all Bonds will be issued in registered form as required by the Indenture.

As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify such facts by independent investigation.

Based on our examination, we are of the opinion that:

1. The Authority is existing validly under laws of the Commonwealth and has power to issue the Bonds and to own and operate the Sewer System.

2. The documents constituting the Indenture duly have been authorized, executed, and delivered by the Authority to the Trustee and are valid and enforceable instruments.

4. The principal of and the interest on the Bonds are payable only from the Receipts and Revenues from the Sewer System, as that phrase is defined in the Original Indenture, and from other receipts, revenues and money available for such purposes, as is provided in the Indenture.

5. Under the laws of the Commonwealth as presently enacted and construed, the Bonds are exempt from personal property taxes within the Commonwealth and the interest on the Bonds is exempt from the Commonwealth's Personal Income Tax and the Commonwealth's Corporate Net Income Tax.

6. The Bonds do not pledge the credit or taxing power of the Commonwealth or any political subdivision thereof, including the Borough.

7. The Bonds, upon authentication thereof by the Trustee, are valid and binding obligations of the Authority and are enforceable in accordance with the terms thereof and of the Indenture.

8. Assuming investment and application of the proceeds of the Bonds as set forth in the Indenture and the aforementioned non-arbitrage and rebate compliance certificate, the Bonds are not presently "arbitrage bonds," as described in Section 103(b)(2) and Section 148 of the Code and applicable regulations promulgated thereunder.

9. Each of the Bonds is a "qualified tax-exempt obligation" for purposes and effect contemplated by Section 265 of the Code (concerning expenses and interest relating to tax-exempt income of certain financial institutions). The opinion expressed in the preceding sentence is subject to the condition that interest on the Bonds is, and continues to be, excluded from gross income for federal income tax purposes under the Code.

10. Under existing statutes, regulations and judicial decisions, interest on the Bonds is excluded from gross income for purposes of federal income taxation and is not an item of tax preference for purposes of the federal alternative minimum tax on individuals and corporations, although it should be noted that in the case of corporations (as defined for federal income tax purposes) such interest is taken into account in determining adjusted current earnings for purposes of such alternative minimum tax. The opinions expressed in this paragraph are subject to the condition that the Authority comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, or continue to be, excluded from gross income for federal income tax purposes, as the Authority has covenanted to do in the Indenture and other aforementioned documents. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income retroactive to the date of issuance of the Bonds.

We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

[Date of Closing]

Page 4

It is to be understood that rights of holders of the Bonds and the enforceability of the Bonds and of the Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights heretofore or hereafter enacted and that their enforcement may be subject to the exercise of judicial discretion in accordance with general principles of equity.

Very truly yours,