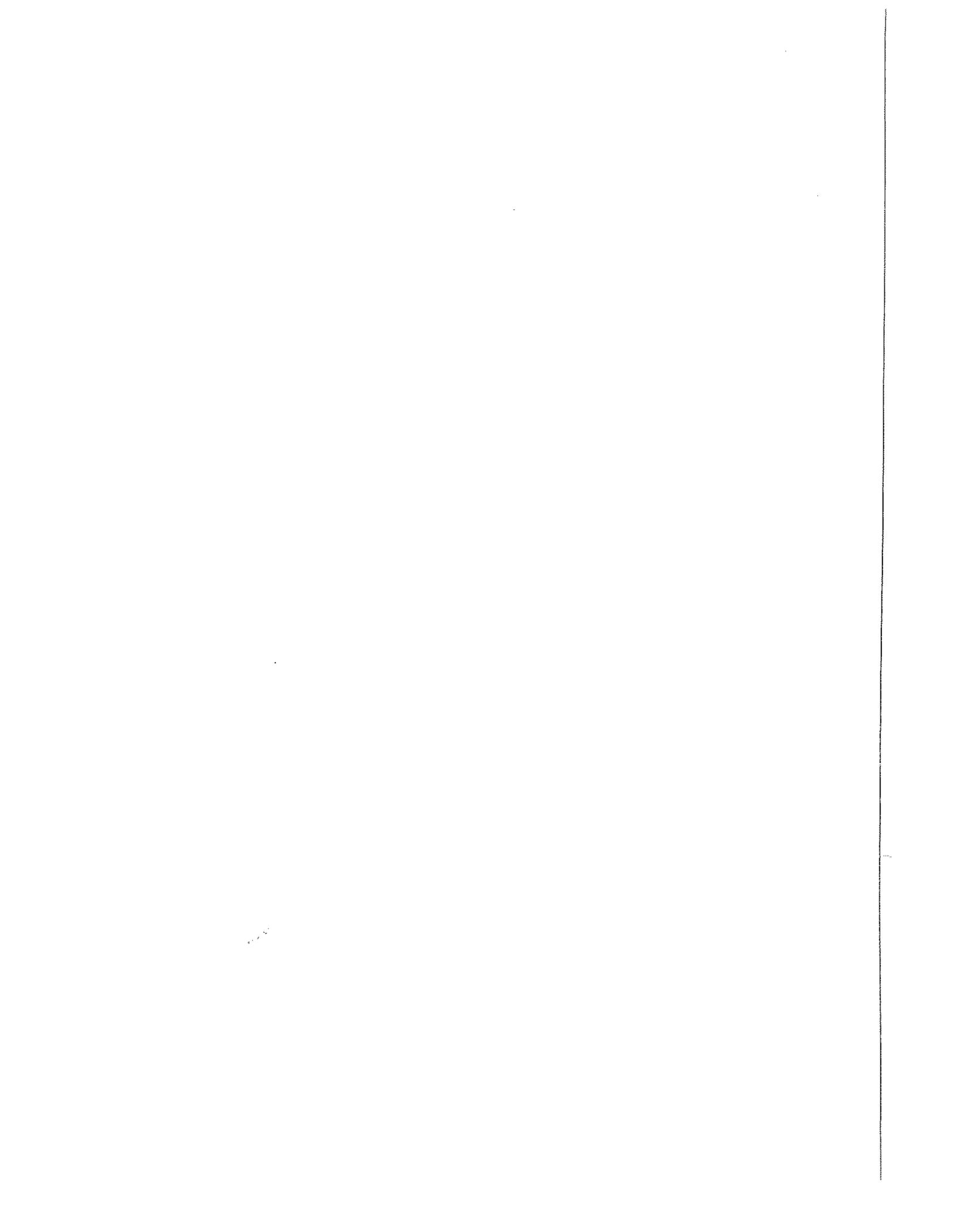


Borough of Avalon
Financial Statements (Modified Cash
Basis) and Required Supplementary and
Additional Information

Year Ended December 31, 2009 with
Independent Auditor's Report



BOROUGH OF AVALON

YEAR ENDED DECEMBER 31, 2009

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BOROUGH OF AVALON

YEAR ENDED DECEMBER 31, 2009

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Independent Auditor's Report

Members of Council
Borough of Avalon

We have audited the accompanying modified cash basis financial statements (financial statements) of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Borough of Avalon (Borough) as of and for the year ended December 31, 2009, which collectively comprise the Borough's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Borough's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 2, the Borough prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The Borough has not included footnote disclosures and required supplementary information with regard to other post employment benefits required by Government Accounting Standards Board (GASB) Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." The effect of excluding these items, although not reasonably determinable, is presumed to be material.

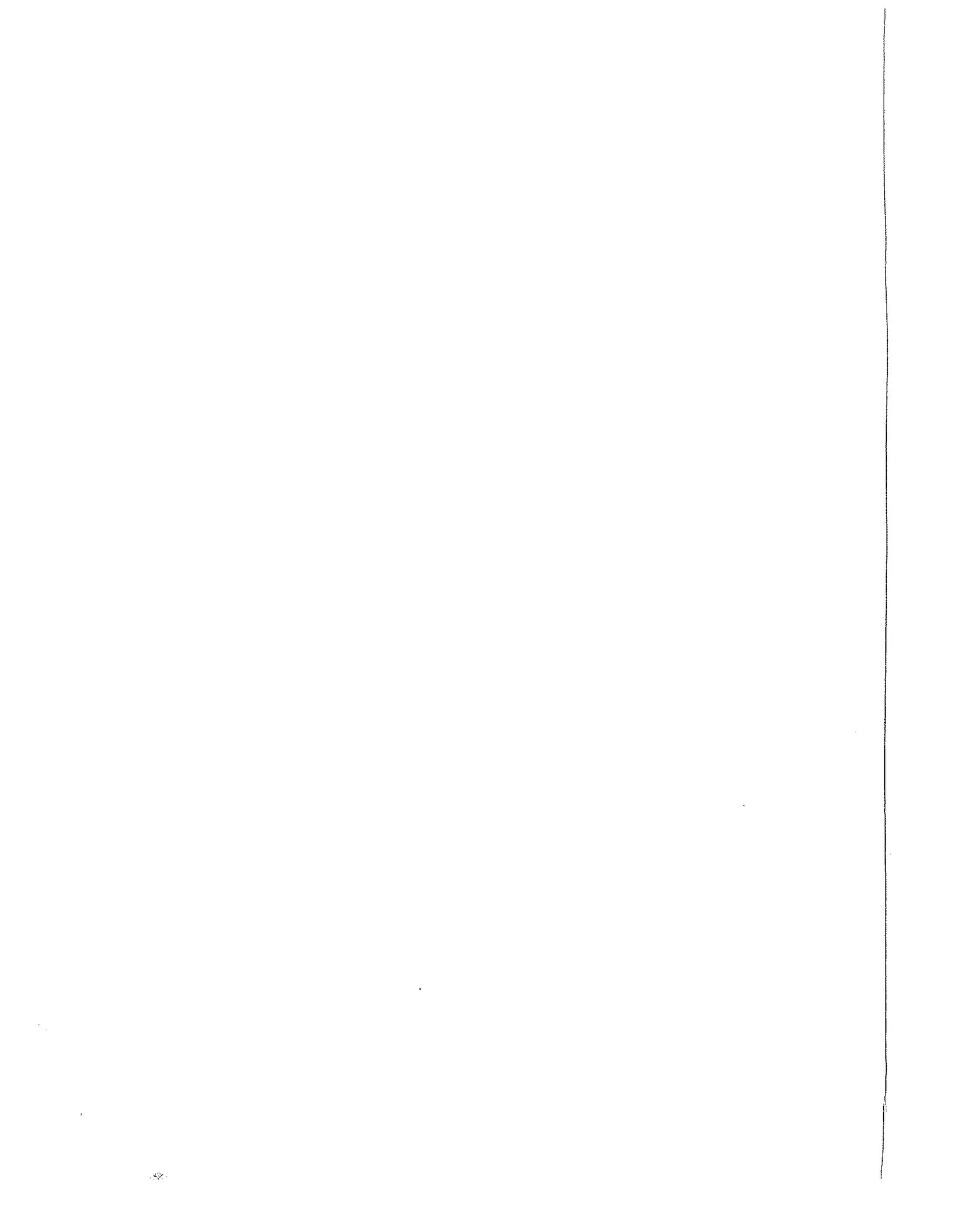
In our opinion, except for the effects of not including the other post employment benefits required supplementary information and disclosures required by GASB Statement No. 45 as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position – modified cash basis of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Borough as of December 31, 2009 and the cash receipts, cash disbursements, changes in fund balance, and the budgetary comparison for the General Fund for the year then ended on the basis of accounting described in Note 2.

The Borough has not presented a Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not to be a part of, the financial statements.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Borough's basic financial statements. The additional information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Borough. The additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Maher Duessel

Pittsburgh, Pennsylvania
July 12, 2010



BOROUGH OF AVALON

STATEMENT OF NET ASSETS (MODIFIED CASH BASIS)

DECEMBER 31, 2009

	<u>Primary Government Governmental Activities</u>	<u>Component Unit Avalon Public Library</u>
Assets		
Cash and cash equivalents	\$ 606,399	\$ 56,742
Other assets	12,499	-
Total Assets	<u>618,898</u>	<u>56,742</u>
Liabilities		
Due to Pension Fund	<u>83,831</u>	<u>-</u>
Total Liabilities	<u>83,831</u>	<u>-</u>
Net Assets		
Restricted for:		
Highway aid	21,842	-
Unrestricted	<u>513,225</u>	<u>56,742</u>
Total Net Assets	<u>\$ 535,067</u>	<u>\$ 56,742</u>

See accompanying notes to financial statements (modified cash basis).

BOROUGH OF AVALON

STATEMENT OF ACTIVITIES (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2009

Functions/Programs	Program Receipts			Net (Disbursements) Receipts and Changes in Net Assets		
	Disbursements	Charges for Services	Operating Grants	Capital Grants	Primary Government Governmental Activities	Component Unit Avalon Public Library
Primary Government:						
Governmental activities:						
General government	\$ 510,232	\$ 53,795	\$ -	\$ 10,444	\$ (445,993)	\$ -
Public safety	968,952	185,995	23,887	-	(759,070)	-
Public works - sanitation	3,305,049	985,263	-	613,599	(1,706,187)	-
Public works - highway and streets	559,311	31,257	94,395	-	(433,659)	-
Culture and recreation	227,911	54,507	-	-	(173,404)	-
Debt service	279,260	-	-	-	(279,260)	-
Total governmental activities	<u>\$ 5,850,715</u>	<u>\$ 1,310,817</u>	<u>\$ 118,282</u>	<u>\$ 624,043</u>	<u>(3,797,573)</u>	<u>-</u>
Component Unit:						
Avalon Public Library	<u>\$ 164,244</u>	<u>\$ 11,312</u>	<u>\$ 129,437</u>	<u>\$ -</u>	<u>(23,495)</u>	<u>-</u>

General receipts:

Taxes:

Real estate	1,360,097	-
Earned income	423,245	-
Real estate transfer	35,030	-
Local services tax	38,323	-
Other taxes	139,808	-
Investment income, rents, and royalties	18,015	2,178
Net proceeds from debt	1,884,684	-
Miscellaneous	26,376	4,335
Refund of prior years disbursements (receipts), net	(33,732)	-
Total general receipts	<u>3,891,846</u>	<u>6,513</u>
Change in Net Assets	<u>94,273</u>	<u>(16,982)</u>

Net Assets:

Beginning of year	73,724
End of year	<u>\$ 535,067</u>
	<u>\$ 56,742</u>

See accompanying notes to financial statements (modified cash basis).

BOROUGH OF AVALON

BALANCE SHEET (MODIFIED CASH BASIS)

GOVERNMENTAL FUNDS

DECEMBER 31, 2009

	General Fund	Health and Sanitation Fund	Highway Aid Fund	Sewer Surcharge Fund	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 97,470	\$ 25,593	\$ 21,842	\$ 461,494	\$ 606,399
Other assets	12,499	-	-	-	12,499
Total Assets	<u>\$ 109,969</u>	<u>\$ 25,593</u>	<u>\$ 21,842</u>	<u>\$ 461,494</u>	<u>\$ 618,898</u>
Liabilities and Fund Balance					
Liabilities:					
Due to Pension Trust Fund	\$ 83,831	\$ -	\$ -	\$ -	\$ 83,831
Fund Balance:					
Unreserved:					
Undesignated, major governmental funds	26,138	25,593	21,842	461,494	535,067
Total Liabilities and Fund Balance	<u>\$ 109,969</u>	<u>\$ 25,593</u>	<u>\$ 21,842</u>	<u>\$ 461,494</u>	<u>\$ 618,898</u>

See accompanying notes to financial statements (modified cash basis).

BOROUGH OF AVALON

BUDGETARY COMPARISON SCHEDULE (MODIFIED CASH BASIS)

GENERAL FUND

YEAR ENDED DECEMBER 31, 2009

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Operating Cash Receipts:				
Taxes:				
Real estate	\$ 1,299,213	\$ 1,299,213	\$ 1,360,097	\$ 60,884
Earned income	420,000	420,000	423,245	3,245
Real estate transfer	25,000	25,000	35,030	10,030
Local services tax	27,500	27,500	38,323	10,823
Per capita	3,500	3,500	2,570	(930)
Sales	120,000	120,000	137,238	17,238
Licenses, permits, and fees	105,800	105,800	107,845	2,045
Fines, forfeitures, and penalties	56,000	56,000	52,883	(3,117)
Investment income, rents, and royalties	19,000	19,000	16,414	(2,586)
Intergovernmental	94,500	94,500	34,331	(60,169)
Charges for services	412,088	412,088	164,826	(247,262) *
Miscellaneous	30,000	30,000	26,376	(3,624)
Total operating cash receipts	<u>2,612,601</u>	<u>2,612,601</u>	<u>2,399,178</u>	<u>(213,423)</u>
Operating Cash Disbursements:				
Current:				
General government	346,130	346,130	372,228	(26,098)
Public safety	1,003,553	1,003,553	968,952	34,601
Public works - sanitation	673,488	673,488	8,460	665,028 **
Public works - highway and streets	872,292	872,292	559,311	312,981
Culture and recreation	219,484	219,484	227,911	(8,427)
Miscellaneous	90,300	90,300	111,269	(20,969)
Debt service				
Principal	127,000	127,000	85,000	42,000
Interest	158,995	158,995	152,872	6,123
Total operating cash disbursements	<u>3,491,242</u>	<u>3,491,242</u>	<u>2,486,003</u>	<u>1,005,239</u>
Excess (Deficiency) of Operating Cash				
Receipts over Operating Cash Disbursements	<u>(878,641)</u>	<u>(878,641)</u>	<u>(86,825)</u>	<u>791,816</u>
Other Financing Sources (Uses):				
Proceeds from tax anticipation note	300,000	300,000	300,000	-
Repayment of tax anticipation note	(300,000)	(300,000)	(300,000)	-
Transfers in	-	-	135,448	135,448
Refund of prior years expenditures	30,000	30,000	4,588	(25,412)
Refund of prior years receipts	(43,800)	(43,800)	(38,320)	5,480
Total other financing sources (uses)	<u>(13,800)</u>	<u>(13,800)</u>	<u>101,716</u>	<u>115,516</u>
Excess (Deficiency) of Operating Cash Receipts and Other Financing Sources over Operating Cash Disbursements and Other Financing Uses				
	<u>\$ (892,441)</u>	<u>\$ (892,441)</u>	<u>14,891</u>	<u>\$ 907,332</u>
Fund Balance:				
Beginning of year			<u>11,247</u>	
End of year			<u>\$ 26,138</u>	

* Receipts for the charges for services related to the sewer system were budgeted in the General Fund, but the actual receipts of approximately \$255,000 for charges for services were received in (and reported in) the Sewer Surcharge Fund.

** Disbursements for public works - sanitation line of approximately \$665,000 were budgeted in the General Fund, but the actual disbursements were made from (and are reported in) the Sewer Surcharge Fund.

See accompanying notes to financial statements (modified cash basis).

BOROUGH OF AVALON

STATEMENT OF FIDUCIARY NET ASSETS (MODIFIED CASH BASIS)

FIDUCIARY FUNDS

DECEMBER 31, 2009

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Agency Funds</u>
Cash and cash equivalents	\$ 14,339	\$ 1,405
Investments (at fair value):		
Equity securities	954,669	-
Mutual funds	631,541	-
Due from Police Plan	9,450	-
Due from General Fund	83,831	-
Total Assets	<u>1,693,830</u>	<u>1,405</u>
<u>Liabilities</u>		
Escrow liabilities	-	1,405
Due to General Employees' Plan	9,450	-
Total Liabilities	<u>9,450</u>	<u>1,405</u>
Net Assets Held in Trust for Pension Benefits:	<u>\$ 1,684,380</u>	<u>\$ -</u>
(A schedule of funding progress for each plan is presented on page 23)		

See accompanying notes to financial statements (modified cash basis).

BOROUGH OF AVALON

COMBINED STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS (MODIFIED CASH BASIS)

FIDUCIARY FUNDS

YEAR ENDED DECEMBER 31, 2009

Additions:

Contributions:	
Employee	\$ 12,435
Employer	70,701
	<hr/>
Total contributions	83,136
	<hr/>
Investment income:	
Net appreciation in fair value of investments	164,375
Interest and dividends	21,285
	<hr/>
Total investment income	185,660
	<hr/>
Total additions	268,796

Deductions:

Benefits	81,863
Administrative expense	15,308
	<hr/>
Total deductions	97,171

Increase in Plan Net Assets 171,625

Net Assets Held in Trust for Pension Benefits:

Beginning of year, as restated	1,512,755
	<hr/>
End of year	\$ 1,684,380

See accompanying notes to financial statements (modified cash basis).

BOROUGH OF AVALON

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2009

1. THE REPORTING ENTITY

The Borough of Avalon (Borough) located in Allegheny County, Pennsylvania was established in 1875. The Borough is governed by a mayor and a nine-member Council and provides services to residents, including general government, public safety, highway maintenance, health, and welfare.

In evaluating the Borough as a primary government, management has addressed all potential component units. Component units are to be included within the financial reporting entity of the Borough based upon the significance of their operation or financial relationships with the Borough.

Discretely Presented Component Unit

The discretely presented component unit is a governmental fund type and is reported in a separate column in the combined financial statements to emphasize it is legally separate from the government. The discretely presented component unit has a December 31 year-end.

Avalon Public Library

The Avalon Public Library (Library) is a non-profit educational institution. The Library is primarily funded through public donations and annual subsidies from the Borough and the Commonwealth of Pennsylvania. The Library Executive Board is made up of no more than seven (7) members, all of whom must be approved and appointed by the Council. The Library facility is owned by the Borough. The Borough contributed \$56,879 to the Library during 2009. Separate financial statements are available at the Library, 317 South Home Avenue, Avalon, Pennsylvania, 15202.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets (modified cash basis) and the statement of activities (modified cash basis)) report information on all of the non-fiduciary activities of the Borough and its component unit. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, (of which the Borough has none) which rely to a significant extent on fees and charges for support. Likewise, the Borough is reported separately from the component unit for which the Borough is financially accountable.

BOROUGH OF AVALON

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2009

The statement of activities (modified cash basis) demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements and the governmental fund financial statements are reported using the current financial resources measurement focus and the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Accordingly, receipts are generally recognized when cash is received and expenditures are generally recognized when cash is disbursed. Short term borrowings are recognized as a liability when due. Assets and liabilities arising from payroll withholdings are recognized on the payroll date.

The Borough reports the following major governmental funds:

The General Fund is the principal operating fund of the Borough, which is used to account for all financial transactions except those accounted for in other funds.

The Health and Sanitation Fund accounts for the financial activities related to the collection of solid waste disposal fees from Borough residents.

The Highway Aid Fund accounts for state aid revenues (liquid fuels tax) used for street lighting, and building and improving roads and bridges.

The Sewer Surcharge Fund is used to account for financial resources to be used for the improvement of sanitary sewer lines.

Additionally, the Borough reports the following fiduciary fund type:

BOROUGH OF AVALON

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2009

Pension Trust Funds are used to account for assets held by the Borough in a trustee capacity for its employees. These include the Police Pension Fund and the General Employees' Pension Fund.

Agency Funds are used to account for assets held by the Borough in a trustee capacity for the Tri-Boro community agreement with two other local municipalities.

Budgets and Budgetary Accounting

Budgetary information in the accompanying financial statements has been reclassified to conform to the financial statement presentation. The Borough follows these procedures in establishing this budgetary data:

- a. Formal budgetary integration is employed as a management control device during the year for the General Fund. The budget is adopted annually on the modified cash basis.
- b. In accordance with the Borough Code, beginning at least 30 days prior to the adoption of the budget, which shall not be later than December 31, a proposed budget for the ensuing year shall be prepared. The proposed budget shall be kept on file with the Borough secretary and made available for public inspection for a period of ten days. Notice that the proposed budget is available for inspection is published in a newspaper of general circulation. After expiration of the ten days, Council makes such revisions in the budget as deemed advisable and shall adopt the budget by motion.
- c. Transfers of budget amounts are authorized between departments within any fund. However, any revisions that alter the total appropriations of any fund must be approved by the Council.
- d. Unused appropriations for annually budgeted funds lapse at the end of the year.
- e. The budget amounts shown in the financial statements are the original and final amounts for the year ended December 31, 2009.

Annual appropriated budgets are not adopted for all funds reported in these financial statements. For the year ended December 31, 2009, cash disbursements in the General Fund exceeded appropriations in the general government, culture and recreation, and miscellaneous. These overages were funded by excess revenues and, to the extent available, fund balance.

BOROUGH OF AVALON

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2009

Investments

Investments are stated at their fair value. Securities are valued at the last reported sales price at current exchange rates.

Net Assets

As required by the Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis - for State and Local Governments," the Borough classifies net assets into three components - invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt - This component of net assets consists of capital assets net of accumulated depreciation and is reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. This classification is not used, as fixed assets and debt is not reported using the modified cash basis of accounting.
- Restricted - This component of net assets consists of constraints placed on net asset use through external restrictions. Highway aid proceeds are classified as restricted net assets because their use is restricted for state liquid fuels tax projects.
- Unrestricted - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Restatement

Beginning net assets in the General Employees pension plan have been restated from \$360,165 to \$260,165 to reflect the proper investment balance as of December 31, 2008.

3. DEPOSITS AND INVESTMENTS

Pennsylvania statutes limit investment of governmental funds into certain authorized investment types including: U.S. Treasury Bills, short-term U.S. Government or Agency obligations, deposits in savings accounts, time deposits or share accounts, obligations of the United States or any of its agencies or instrumentalities, obligations of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities, and shares of any investment company which invests only in the above or certificates of deposit. Fiduciary fund investments may also be made in corporate stocks and bonds, real estate, and other investments consistent with sound business practice.

BOROUGH OF AVALON

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2009

The deposit and investment policy of the Borough adheres to state statutes. There were no deposit or investment transactions during the year that were in violation of either the state statutes or the policy of the Borough.

The following is a description of the Borough's deposit risks:

Custodial Credit Risk – For a deposit, custodial credit risk is the risk that in the event of a bank failure, the Borough's deposits may not be returned to it. The Borough does not have a formal deposit policy for custodial credit risk.

As of December 31, 2009, \$520,088 of the Borough's \$672,610 bank balance was insured by the Federal Depository Insurance Corporation. The remaining bank balance of \$152,522 was exposed to custodial credit risk, which is collateralized in accordance with Act 72 of the Pennsylvania state legislature which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution's name. These deposits have carrying amounts of \$606,399 as of December 31, 2009.

The entire Agency Fund deposit balance of \$1,405 as of December 31, 2009 was exposed to custodial credit risk.

Pension

The Pension Trust Funds are used to account for assets held by the Borough in a trustee capacity for future payment of retirement benefits to employees or former employees. The Pension Trust Funds' investments are held separately from those of other Borough funds. Assets in the Pension Trust Funds are stated at fair value. Any premiums or discounts are recognized as a gain or loss upon disposition. The Pension Trust Funds have no investment policy.

The Pension Trust Funds are invested in various types of financial instruments. This diversification of the investment portfolio serves to assist in mitigating the various types of risks associated with different types of financial instruments. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments could occur in the near term and that such a change could materially affect the amount reported on the statement of fiduciary net assets (modified cash basis).

As of December 31, 2009, the Borough had the following investments in its Pension Trust Funds:

BOROUGH OF AVALON

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2009

<u>Cash or Investment Type</u>	<u>Fair Market Value</u>
Cash and cash equivalents - money market	\$ 14,339
Mutual funds	631,541
Equity securities	954,669
Total pension trust fund investments	<u>\$ 1,600,549</u>

Pension Trust Funds' investments in money markets and equity mutual funds are not exposed to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form.

The following is a description of the Pension Trust Funds' deposit and investment risks:

Credit risk – For investments, the risk that an issuer or other counterparty to an investment will not fulfill its obligations is called credit risk. The Borough has no formal investment policy that would limit its investment choices based on credit ratings by nationally recognized statistical rating organizations. As of December 31, 2009, the Borough's investments in bond mutual funds are unrated.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the value of investments. The Pension Trust Funds do not have a formal deposit or investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The average maturity of all cash equivalents was less than three months.

Cash of the Library was entirely insured by the Federal Depository Insurance Corporation.

4. PENSION PLANS

Plan Descriptions

The Borough administers two single-employer defined benefit pension plans covering substantially all full-time employees: Police Pension and Welfare Plan (Police Plan) and Employees' Pension and Welfare Plan (General Employees' Plan). Both plans provide retirement benefits and special provisions for death benefits to plan members.

Plan provisions are established by municipal ordinance with the authority for municipal contributions required by Act 205 of the Commonwealth of Pennsylvania (Act). Employee

BOROUGH OF AVALON

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2009

contributions have been eliminated subject to the plans meeting certain financial conditions. The plans do not issue separate reports.

At January 1, 2007, the date of the most recent valuation, participants in the plans were as follows:

	<u>Police</u>	<u>General Employees</u>
Participants:		
Retirees and beneficiaries	4	1
Deferred vested	-	-
Active employees:		
Vested	3	2
Nonvested	3	2

Summary of Significant Accounting Policies

Financial information of the Borough's plans is presented on the modified cash basis of accounting. Employer contributions to each plan are recognized the earlier of when cash is received by the plan or the Borough. Benefits and refunds are recognized when cash is disbursed.

Investments of the plans are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on national exchanges are valued at the last reported sales price.

At December 31, 2009, no individual pension investment constituted more than 5% of any of the plan net assets available for benefits. The plans did not have any investment transactions with related parties during the year.

Contributions and Funding Policy

The Act requires that annual contributions be based upon the calculation of the Minimum Municipal Obligation (MMO). The MMO calculation is based upon the biennial actuarial valuation. Employees are not required to contribute under the Act; such contributions are subject to collective bargaining. The Commonwealth of Pennsylvania allocates certain funds to assist in pension funding. Any financial requirement established by the MMO, which exceeds the Commonwealth of Pennsylvania allocation must be funded by the Borough (and could include employee contributions).

BOROUGH OF AVALON

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2009

For 2009, the only employee group required to contribute were the police, based upon the financial requirements established by their collective bargaining contract. In 2009, the police contribution rate was 3.5%. Municipal employees were not required to contribute to their plan.

The Borough received no State Aid in 2009. The Borough did not contribute the required amounts of \$54,758 for the Police Plan and \$5,012 for the General Employees Plan for the year ended December 31, 2009. Accordingly, the General Fund recognizes an additional liability of \$54,758 for the Police Plan and \$5,012 for the General Employees Plan, in addition to amounts described below.

A contribution of \$74,300 was required for the Police Plan for the year ended December 31, 2007, but the Borough remitted only \$50,239, and as such did not meet the MMO requirement for 2007. This deficit has not been funded by the General Fund since that time, and accordingly, the General Fund continues to recognize a liability of \$24,061 to the Police Plan.

Administrative costs, including investment, custodial trustee, and actuarial services are charged to the appropriate Plan and funded from investment earnings.

The Borough's annual pension cost and related information (assuming payment of amounts due to the plans) for each plan is as follows:

BOROUGH OF AVALON

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2009

	Police	General Employees
Annual pension cost	\$ 55,158	\$ 5,412
Contributions made/accrued	\$ 54,758	\$ 5,012
Actuarial valuation date	1/1/2007	1/1/2007
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level Dollar Open	Level Dollar Open
Asset valuation method	4 - Year Smoothing	4 - Year Smoothing
Amortization period	17 years	17 years
Actuarial assumptions:		
Investment rate of return	7.5%	7.5%
Projected salary increases	5.5%	4.5%
Underlying inflation rate	3.0%	3.0%

The Borough's net pension asset (a negative net pension obligation (NPO)) as of December 31, 2009 is calculated as follows:

	Police	General Employees
Annual required contribution	\$ 54,758	\$ 5,012
Interest on NPO	(923)	(922)
Adjustment to the ARC	1,323	1,322
Annual pension cost	55,158	5,412
Contribution made/accrued	(54,758)	(5,012)
Change in NPO	400	400
NPO, 12/31/2008	(12,303)	(12,301)
NPO, 12/31/2009	\$ (11,903)	\$ (11,901)

The net pension asset is not recorded on the modified cash basis government-wide financial statements.

BOROUGH OF AVALON

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2009

Three-Year Trend Information

	<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>
<u>Police:</u>	12/31/2007	\$ 75,617	66%
	12/31/2008	73,977	99%
	12/31/2009	55,158	99%
<u>General Employees:</u>	12/31/2007	\$ 4,627	92%
	12/31/2008	3,514	93%
	12/31/2009	5,412	93%

Certain pension information and calculations are based upon an actuarial valuation performed as of January 1, 2007. The next actuarial valuation will be performed as of January 1, 2009 and will take into account subsequent declines in the market value of investments being held in the Pension Trust Funds. While the exact impact is not known, it is expected that the market declines will negatively impact the funding status of the Pension Trust Funds and increase the future funding requirements of the Pension Trust Funds. The Borough is aware of these declines, and will continue to closely monitor these changes in market value.

5. REAL ESTATE TAXES

Real estate taxes based on assessed valuations provided by Allegheny County (County) are levied on April 1 of the taxable year. The 2009 assessed value of real estate property totaled \$151,894,571 which represents approximately 100% of market value. Real estate taxes are billed and collected by an elected tax collector. Taxes paid by June 30 are given a 2% discount. Amounts paid after August 31 are assessed a 10% penalty. Any uncollected balances at the end of the year following the taxable year are collected by an outside service.

Under the Borough Code, the Borough is permitted to levy real estate taxes up to 30 mills for general purposes. In addition, additional taxes may be levied for certain specified purposes. Borough real estate taxes were levied at the rate of 9.01 mills for general purposes during 2009.

6. LONG-TERM DEBT

As of December 31, 2009, long-term debt consists of the following:

BOROUGH OF AVALON

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2009

2005 AIM loan - payable in five yearly principal installments of \$15,000. Interest is calculated at the rate of 2.67% per annum. Final payment is due in 2010. This debt was incurred to finance the purchase of a street sweeper.	\$ 15,000
2008 AIM loan - payable in five yearly principal installments of \$12,634. Interest is calculated at the rate of 3.63% per annum. Final payment is due in 2013. This debt was incurred to finance the purchase of a dump truck.	50,535
2008 Pennvest Guaranteed Revenue Note - Note issued in the amount of \$1,350,000, and amounts will be drawn as needed by the Borough. Principal and interest payments due monthly beginning in September 2009, and final payment due in 2029. Interest is calculated at the rate of 2.109% per annum for the first five years, and 2.965% per annum for the years thereafter. This debt was incurred to finance the Spruce Run Road Project and will be repaid from the Sewer Surcharge Fund.	1,231,065
2009 PLGIT General Obligation Note - Note issued in the amount of \$780,000. Principal and interest payments due yearly beginning in October 2010, and final payment due in October 2019. Interest is variable up to 25%, and was approximately 2.1% at year-end. This debt was issued to finance various infrastructure related capital projects.	780,000
2003 General Obligation Bonds - term bonds which mature between 2019 and 2033 with interest rates of 1.10% to 4.50%. This debt was issued to finance various capital projects.	1,905,000
2006 General Obligation Bonds - term bonds which mature between 2009 and 2036 with interest rates of 3.60% to 4.50%. This debt was issued to finance various capital projects and advance refund the Borough's 1999 General Obligation Bonds.	<u>1,465,000</u>
	<u>\$ 5,446,600</u>

BOROUGH OF AVALON

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2009

During 2009, changes in long-term debt were as follows:

	Amounts Payable as of January 1, 2009	New Debt/ Additions	Repayment	Amounts Payable as of December 31, 2009	Due Within One Year
Governmental Activities:					
AIM Loan 2005	\$ 30,000	\$ -	\$ (15,000)	\$ 15,000	\$ 15,000
AIM Loan 2008	50,535	-	-	50,535	12,634
Pennvest Note	150,742	1,104,684	(24,361)	1,231,065	57,381
PLGIT Note	-	780,000	-	780,000	65,000
G.O. Bonds 2003	1,945,000	-	(40,000)	1,905,000	40,000
G.O. Bonds 2006	1,495,000	-	(30,000)	1,465,000	30,000
	<u>3,671,277</u>	<u>1,884,684</u>	<u>(109,361)</u>	<u>5,446,600</u>	<u>220,015</u>
Governmental Activities:					
Long-term liabilities	<u>\$ 3,671,277</u>	<u>\$ 1,884,684</u>	<u>\$ (109,361)</u>	<u>\$ 5,446,600</u>	<u>\$ 220,015</u>

Annual debt service requirements are as follows:

Years	Principal	Interest	Total
2010	\$ 220,015	\$ 185,313	\$ 405,328
2011	211,237	179,493	390,730
2012	222,485	173,760	396,245
2013	228,760	167,733	396,493
2014	231,506	168,758	400,264
2015-2019	1,231,122	743,089	1,974,211
2020-2024	958,166	554,832	1,512,998
2025-2029	938,310	361,122	1,299,432
2030-2034	925,000	170,663	1,095,663
2035-2036	280,000	9,450	289,450
	<u>\$ 5,446,600</u>	<u>\$ 2,714,213</u>	<u>\$ 8,160,813</u>

7. RISK MANAGEMENT

The Borough is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Borough carries commercial insurance. There have been no significant changes in insurance coverage since the prior year.

BOROUGH OF AVALON

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2009

For its workers compensation insurance coverage, the Borough participates in the Municipal Risk Management Worker's Compensation Pooled Trust (Trust), a public entity risk pool operated for the benefit of 199 cities, municipalities, boroughs, townships, and municipal authorities. Trust underwriting and rate-setting policies are established after consultation with an independent actuary and certain approvals of the Pennsylvania Department of Labor and Industry as mandated by Act 44 of 1993 (Act 44). All Trust participants may be subject to a supplemental assessment/dividend based on the overall experience of the participants, pursuant to Act 44. Each participant of the Trust agrees to jointly and severally assume and discharge the liabilities arising under the Workers' Compensation Act and Occupational Disease Act of each and every participant of the Trust. The Trust purchases excess insurance coverage with statutory limits. The retention for this excess coverage is \$750,000 per occurrence. Political subdivisions joining the Trust must remain members for a minimum of four years; a member may withdraw from the Trust after that time by giving ninety days notice, subject to approval by the Trust actuary under specified circumstances related to the continued fiscal stability of the pool. At the time of withdrawal, the participant is responsible for their share of assessments but has no claim on any other assets of the Trust.

8. COMMITMENTS AND CONTINGENCIES

Various claims and lawsuits are pending against the Borough. The ultimate outcome of these claims and lawsuits cannot presently be determined and, accordingly, no provision for amounts arising from settlements has been made in these financial statements. In the opinion of management and legal counsel, the effect on the financial statements of potential losses on any claim and/or lawsuit should not be material.

In 1997, the United States Environmental Protection Agency (USEPA) identified 51 communities tributary to the Allegheny County Sanitary Authority (ALCOSAN) whose sanitary sewers had been subject to wet weather overflows. The Borough signed an Administrative Consent Order (ACO), dated January 20, 2004. The ACO details the timetable for completion of each phase which will involve inspecting, mapping, correcting, and monitoring the sewer system. The Borough is subject to a civil penalty for untimely completion of each term or provision of the ACO. The Borough has paid no civil penalties for the year ended December 31, 2009. During 2009, the Borough paid \$1,590,464 for projects mandated by the consent decree. As of December 31, 2009, the Borough estimated the total remaining project costs to be approximately \$510,000.

The Commonwealth of Pennsylvania's Auditor General noted that in 2007 \$17,213 was expended with the use of Liquid Fuels Funds, without proper bidding. The Borough has received official notification by the Department of Transportation that this amount is due and payable to the Borough's Liquid Fuels Fund, but the management disputes this finding and has not paid this amount to date to the Liquid Fuels Fund.

BOROUGH OF AVALON

NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2009

9. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund receivables, payables, and transfers are summarized below:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Fund:		
General	\$ -	\$ 83,831
Fiduciary Fund:		
Police Pension Fund	78,819	9,450
General Employees' Pension Fund	<u>14,462</u>	<u>-</u>
Total	<u>\$ 93,281</u>	<u>\$ 93,281</u>

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
Major Funds:		
General	\$ 135,448	\$ -
Highway Aid	-	75,448
Sewer Surcharge	<u>-</u>	<u>60,000</u>
Total	<u>\$ 135,448</u>	<u>\$ 135,448</u>

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Transactions between funds which are not expected to be repaid are accounted for as transfers. In those cases when repayment is expected within the next fiscal year, the transactions are accounted for through the various due from and due to accounts.

Amounts due to the Pension Fund from the General Fund are described in more detail in Note 4. Transfers between the General Fund and sewer surcharge fund are for the purpose of moving cash as necessary for various capital projects. During 2009, the Borough transferred \$75,448 from the Highway Aid Fund to the General Fund, and used that entire amount for street lighting costs.

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**Required Supplementary
Information**

BOROUGH OF AVALON

SCHEDULES OF CONTRIBUTIONS FROM EMPLOYERS AND OTHER CONTRIBUTING ENTITIES

Calendar Year	Police		General Employees	
	Annual Required Contributions	Percentage Contributed	Annual Required Contributions	Percentage Contributed
2004	\$ 3,508	996%	\$ 9,375	155%
2005	49,476	99%	4,134	100%
2006	50,483	106%	2,816	100%
2007	74,300	68%	4,270	100%
2008	71,132	100%	5,180	100%
2009	54,758 *	100%	5,012	100%

Note 1: Contributions include state pension aid.

* As described further in Note 4, the Borough did not transfer the required amounts of \$54,758 for the Police Plan and \$5,012 for the General Employees Plan for the year ended December 31, 2009, but amounts were accrued in the financial statements, and are presented as such in this schedule as well

See accompanying note to supplementary pension schedules.

BOROUGH OF AVALON

SCHEDULES OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Excess of Assets Over (Under) AAL	Funded Ratio	Covered Payroll	Excess as a Percentage of Covered Payroll
Police:						
1/1/2003	\$ 1,635,677	\$ 1,614,125	\$ 21,552	101.34%	\$ 334,534	6.44%
1/1/2005	1,603,855	1,729,373	(125,518)	92.74%	347,837	-36.09%
1/1/2007	1,757,998	1,705,002	52,996	103.11%	371,140	14.28%
General Employees:						
1/1/2003	\$ 251,446	\$ 203,276	\$ 48,170	123.70%	\$ 185,423	25.98%
1/1/2005	306,762	251,024	55,738	122.20%	200,198	27.84%
1/1/2007	340,291	280,685	59,606	121.24%	170,254	35.01%

Note: State law requires biennial valuations on the odd numbered years.

See accompanying note to supplementary pension schedules.

BOROUGH OF AVALON

NOTE TO SUPPLEMENTARY PENSION SCHEDULES

YEAR ENDED DECEMBER 31, 2009

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

	<u>Police</u>	<u>General Employees</u>
Actuarial valuation date	1/1/2007	1/1/2007
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level Dollar Open	Level Dollar Open
Asset valuation method	4-Year Smoothing	4-Year Smoothing
Amortization period	17 years	17 years
Actuarial assumptions:		
Investment rate of return	7.5%	7.5%
Projected salary increases	5.5%	4.5%
Underlying inflation rate	3.0%	3.0%

Additional Information

BOROUGH OF AVALON

COMBINING STATEMENT OF PLAN NET ASSETS (MODIFIED CASH BASIS) PENSION TRUST FUNDS

YEAR ENDED DECEMBER 31, 2009

	<u>Police</u>	<u>General Employees'</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 13,084	\$ 1,255	\$ 14,339
Investments:			
Equity securities	690,985	263,684	954,669
Mutual funds	612,990	18,551	631,541
Due from Police Plan	-	9,450	9,450
Due from General Fund	78,819	5,012	83,831
Total Assets	<u>1,395,878</u>	<u>297,952</u>	<u>1,693,830</u>
Liabilities			
	-	-	-
Due to General Employees' Plan	<u>9,450</u>	<u>-</u>	<u>9,450</u>
Net Assets Held in Trust for Pension Benefits	<u>\$ 1,386,428</u>	<u>\$ 297,952</u>	<u>\$ 1,684,380</u>

BOROUGH OF AVALON

COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS (MODIFIED CASH BASIS) PENSION TRUST FUNDS

YEAR ENDED DECEMBER 31, 2009

	Police	General Employees'	Total
Additions:			
<hr/>			
Contributions:			
Employee	\$ 12,435	\$ -	\$ 12,435
Employer	65,689	5,012	70,701
	<hr/>	<hr/>	<hr/>
Total contributions	78,124	5,012	83,136
	<hr/>	<hr/>	<hr/>
Investment income:			
Net appreciation (depreciation) in fair value of investments	123,789	40,586	164,375
Interest and dividends	15,261	6,024	21,285
	<hr/>	<hr/>	<hr/>
Net investment income	139,050	46,610	185,660
	<hr/>	<hr/>	<hr/>
Total additions	217,174	51,622	268,796
	<hr/>	<hr/>	<hr/>
Deductions:			
<hr/>			
Benefits	70,392	11,471	81,863
Administrative expense	12,944	2,364	15,308
	<hr/>	<hr/>	<hr/>
Total deductions	83,336	13,835	97,171
	<hr/>	<hr/>	<hr/>
Increase (Decrease) in Plan Net Assets	133,838	37,787	171,625
	<hr/>	<hr/>	<hr/>
Net Assets Held in Trust for Pension Benefits:			
<hr/>			
Beginning of year, as restated	1,252,590	260,165	1,512,755
	<hr/>	<hr/>	<hr/>
End of year	\$ 1,386,428	\$ 297,952	\$ 1,684,380
	<hr/>	<hr/>	<hr/>

BOROUGH OF AVALON

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES (MODIFIED CASH BASIS)

AGENCY FUND

YEAR ENDED DECEMBER 31, 2009

	<u>Balance at January 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at December 31, 2009</u>
Assets:				
Cash and cash equivalents	<u>\$ 12,233</u>	<u>\$ -</u>	<u>\$ 10,828</u>	<u>\$ 1,405</u>
Liabilities:				
Escrow liability payable	<u>\$ 12,233</u>	<u>\$ -</u>	<u>\$ 10,828</u>	<u>\$ 1,405</u>