

**Borough of Avalon**

Financial Statements (Modified Cash  
Basis) and Required Supplementary and  
Supplementary Information

Year Ended December 31, 2010  
with Independent Auditor's Report

**MaherDuessel**  
Certified Public Accountants

**Borough of Avalon**

Financial Statements (Modified Cash  
Basis) and Required Supplementary and  
Supplementary Information

Year Ended December 31, 2010  
with Independent Auditor's Report

**BOROUGH OF AVALON**  
YEAR ENDED DECEMBER 31, 2010

TABLE OF CONTENTS

**Independent Auditor's Report**

**Financial Statements (Modified Cash Basis):**

**Government-Wide Financial Statements:**

Statement of Net Assets (Modified Cash Basis)	1
Statement of Activities (Modified Cash Basis)	2

**Fund Financial Statements:**

Balance Sheet (Modified Cash Basis) – Governmental Funds	3
Statement of Operating Cash Receipts, Cash Disbursements, and Changes in Fund Balance (Modified Cash Basis) – All Governmental Funds	4
Budgetary Comparison Schedule (Modified Cash Basis) – General Fund	5
Statement of Fiduciary Net Assets (Modified Cash Basis) – Fiduciary Funds	6
Combined Statement of Changes in Fiduciary Net Assets (Modified Cash Basis) – Fiduciary Funds	7
Notes to Financial Statements (Modified Cash Basis)	8

**Required Supplementary Information:**

Pension: Schedules of Contributions from Employers and Other Contributing Entities	22
---	----

**BOROUGH OF AVALON**  
YEAR ENDED DECEMBER 31, 2010

TABLE OF CONTENTS  
(Continued)

Schedules of Funding Progress	23
Note to Supplementary Pension Schedules	24
<b>Supplementary Information:</b>	
Combining Statement of Plan Net Assets (Modified Cash Basis) – Pension Trust Funds	25
Combining Statement of Changes in Plan Net Assets (Modified Cash Basis) – Pension Trust Funds	26
Combining Statement of Changes in Assets and Liabilities (Modified Cash Basis) – All Agency Funds	27

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), Pennsylvania, as of and for the year ended December 31, 2010, 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 postemployment 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, 2010 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 Authority has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the exclusion of this information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Borough's financial statements as a whole. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. This information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and

Members of Council  
Borough of Avalon  
Independent Auditor's Report  
Page 2

other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Maher Duessel*

Pittsburgh, Pennsylvania  
October 7, 2011

# BOROUGH OF AVALON

## STATEMENT OF NET ASSETS (MODIFIED CASH BASIS)

DECEMBER 31, 2010

	Primary Government Governmental Activities	Component Unit Avalon Public Library
<b>Assets</b>		
Cash and cash equivalents	\$ 554,768	\$ 58,911
Other assets	13,243	-
<b>Total Assets</b>	<b>568,011</b>	<b>58,911</b>
<b>Liabilities</b>		
Due to Pension Trust Fund	131,006	-
<b>Total Liabilities</b>	<b>131,006</b>	<b>-</b>
<b>Net Assets</b>		
Restricted for:	5,437	-
Highway aid	431,568	58,911
Unrestricted	437,005	58,911
<b>Total Net Assets</b>	<b>\$ 437,005</b>	<b>\$ 58,911</b>

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



**BOROUGH OF AVALON**  
**BALANCE SHEET (MODIFIED CASH BASIS)**

**GOVERNMENTAL FUNDS**

DECEMBER 31, 2010

Assets	General Fund	Health and Sanitation Fund	Highway Aid Fund	Sewer Surcharge Fund	Total Governmental Funds
Cash and cash equivalents	\$ 129,446	\$ 22,492	\$ 5,437	\$ 397,393	\$ 554,768
Other assets	13,243	-	-	-	13,243
<b>Total Assets</b>	\$ 142,689	\$ 22,492	\$ 5,437	\$ 397,393	\$ 568,011
<b>Liabilities and Fund Balance</b>	\$ 131,006	\$ -	\$ -	\$ -	\$ 131,006
Liabilities:					
Due to Pension Trust Fund					
Fund Balance:					
Unreserved:	11,683	22,492	5,437	397,393	437,005
Undesignated, major governmental funds					
<b>Total Liabilities and Fund Balance</b>	\$ 142,689	\$ 22,492	\$ 5,437	\$ 397,393	\$ 568,011

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

# BOROUGH OF AVALON

## STATEMENT OF OPERATING CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND BALANCE (MODIFIED CASH BASIS)

### ALL GOVERNMENTAL FUNDS

YEAR ENDED DECEMBER 31, 2010

	General Fund	Health and Sanitation Fund	Highway Aid Fund	Sewer Surcharge Fund	Total Governmental Funds
<b>Operating Cash Receipts:</b>					
Taxes	\$ 1,939,945	\$ -	\$ -	\$ -	\$ 1,939,945
Licenses, permits, and fees	116,711	-	-	-	116,711
Fines, forfeitures, and penalties	55,763	-	-	-	55,763
Investment income, rents, and royalties	14,405	71	50	731	15,257
Intergovernmental	54,000	-	90,753	36,702	181,455
Charges for services	199,458	258,355	-	828,847	1,286,660
Miscellaneous	22,992	-	-	-	22,992
<b>Total operating cash receipts</b>	<u>2,403,274</u>	<u>258,426</u>	<u>90,803</u>	<u>866,280</u>	<u>3,618,783</u>
<b>Operating Cash Disbursements:</b>					
Current:	361,512	-	-	-	361,512
General government	1,026,766	-	-	930,424	1,026,766
Public safety	1,283	261,527	-	-	1,193,234
Public works - sanitation	655,816	-	-	-	655,816
Public works - highway and streets	189,960	-	-	-	189,960
Culture and recreation	106,983	-	-	-	106,983
Miscellaneous	-	-	-	114,875	212,509
Debt service:	97,634	-	-	42,266	193,703
Principal	151,437	-	-	-	-
Interest	-	-	-	-	-
<b>Total operating cash disbursements</b>	<u>2,591,391</u>	<u>261,527</u>	<u>-</u>	<u>1,087,565</u>	<u>3,940,483</u>
<b>Excess (Deficiency) of Operating Cash Receipts over Operating Cash Disbursements</b>	<u>(188,117)</u>	<u>(3,101)</u>	<u>90,803</u>	<u>(221,285)</u>	<u>(321,700)</u>
<b>Other Financing Sources (Uses):</b>					
Proceeds from tax anticipation note	300,000	-	-	-	300,000
Repayment of tax anticipation note	(300,000)	-	-	-	(300,000)
Proceeds from Pennvest loan	-	-	-	66,075	66,075
Transfers in	254,010	-	-	66,532	320,542
Transfers out	(66,532)	-	-	-	(320,542)
Refund of prior years expenditures	26,831	-	-	171,379	198,210
Refund of prior years receipts	(40,647)	-	-	-	(40,647)
<b>Total other financing sources (uses)</b>	<u>173,662</u>	<u>-</u>	<u>(107,208)</u>	<u>157,184</u>	<u>223,638</u>
<b>Excess (Deficiency) of Operating Cash Receipts and Other Financing Sources over Operating Cash Disbursements and Other Financing Uses</b>	<u>(14,455)</u>	<u>(3,101)</u>	<u>(16,405)</u>	<u>(64,101)</u>	<u>(98,062)</u>
<b>Fund Balance:</b>	<u>26,138</u>	<u>25,593</u>	<u>21,842</u>	<u>461,494</u>	<u>535,067</u>
Beginning of year	\$ 11,683	\$ 22,492	\$ 5,437	\$ 397,393	\$ 437,005
End of year					

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

**BOROUGH OF AVALON**  
**BUDGETARY COMPARISON SCHEDULE (MODIFIED CASH BASIS)**

**GENERAL FUND**

YEAR ENDED DECEMBER 31, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Operating Cash Receipts:</b>				
Taxes:				
Real estate	\$ 1,321,870	\$ 1,321,870	\$ 1,345,555	\$ 23,685
Earned income	413,000	413,000	357,210	(55,790)
Real estate transfer	25,000	25,000	65,110	40,110
Local services tax	27,500	27,500	30,189	2,689
Per capita	500	500	36	(464)
Sales	120,000	120,000	141,845	21,845
Licenses, permits, and fees	110,800	110,800	116,711	5,911
Fines, forfeitures, and penalties	55,000	55,000	55,763	763
Investment income, rents, and royalties	17,500	17,500	14,405	(3,095)
Intergovernmental	230,500	230,500	54,000	(176,500)
Charges for services	179,700	179,700	199,458	19,758
Miscellaneous	6,000	6,000	22,992	16,992
<b>Total operating cash receipts</b>	<b>2,507,370</b>	<b>2,507,370</b>	<b>2,403,274</b>	<b>(104,096)</b>
<b>Operating Cash Disbursements:</b>				
Current:				
General government	351,837	351,837	361,512	(9,675)
Public safety	991,514	991,514	1,026,766	(35,252)
Public works - sanitation	3,050	3,050	1,283	1,767
Public works - highway and streets	656,722	656,722	655,816	906
Culture and recreation	177,816	177,816	189,960	(12,144)
Miscellaneous	106,030	106,030	106,983	(953)
Debt service:				
Principal	169,000	169,000	97,634	71,366
Interest	161,201	161,201	151,437	9,764
<b>Total operating cash disbursements</b>	<b>2,617,170</b>	<b>2,617,170</b>	<b>2,591,391</b>	<b>25,779</b>
<b>Excess (Deficiency) of Operating Cash Receipts over Operating Cash Disbursements</b>	<b>(109,800)</b>	<b>(109,800)</b>	<b>(188,117)</b>	<b>(78,317)</b>
<b>Other Financing Sources (Uses):</b>				
Proceeds from tax anticipation note	300,000	300,000	300,000	-
Proceeds from other note issuance	100,000	100,000	-	(100,000)
Repayment of tax anticipation note	(300,000)	(300,000)	(300,000)	-
Transfers in	-	-	254,010	254,010
Transfers out	-	-	(66,532)	(66,532)
Refund of prior years expenditures	50,000	50,000	26,831	(23,169)
Refund of prior years receipts	(40,200)	(40,200)	(40,647)	(447)
<b>Total other financing sources (uses)</b>	<b>109,800</b>	<b>109,800</b>	<b>173,662</b>	<b>63,862</b>
<b>Excess (Deficiency) of Operating Cash Receipts and Other Financing Sources over Operating Cash Disbursements and Other Financing Uses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>(14,455)</b>	<b>\$ (14,455)</b>
<b>Fund Balance:</b>				
Beginning of year			26,138	
End of year			<u>\$ 11,683</u>	

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

# BOROUGH OF AVALON

## STATEMENT OF FIDUCIARY NET ASSETS (MODIFIED CASH BASIS)

### FIDUCIARY FUNDS

DECEMBER 31, 2010

	Pension Trust Funds	Agency Funds
<b>Assets</b>		
Cash and cash equivalents	\$ 13,912	\$ 153
Investments (at fair value):		
Equity securities	1,104,863	-
Mutual funds	617,193	-
Due from General Fund	131,006	-
<b>Total Assets</b>	1,866,974	153
<b>Liabilities</b>		
Escrow liabilities	-	153
<b>Total Liabilities</b>	-	153
<b>Net Assets Held in Trust for Pension Benefits:</b>	\$ 1,866,974	\$ -
(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, 2010**

<b>Additions:</b>	
Contributions:	\$ 18,113
Employee	128,978
Employer	147,091
Total contributions	
Investment income:	118,829
Net appreciation in fair value of investments	33,780
Interest and dividends	152,609
Total investment income	299,700
Total additions	
<b>Deductions:</b>	
Benefits	88,831
Administrative expense	28,275
Total deductions	117,106
Total deductions	182,594
<b>Increase in Plan Net Assets</b>	
<b>Net Assets Held in Trust for Pension Benefits:</b>	
Beginning of year	1,684,380
End of year	\$ 1,866,974

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

# BOROUGH OF AVALON

## NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2010

---

### 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 \$50,691 to the Library during 2010. 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, 2010

---

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 types:

# BOROUGH OF AVALON

## NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2010

---

*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, 2010.

Annual appropriated budgets are not adopted for all funds reported in these financial statements. For the year ended December 31, 2010, operating cash disbursements in the General Fund exceeded appropriations in the general government, public safety, 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, 2010

---

### 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."

### **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.

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.

# BOROUGH OF AVALON

## NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2010

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, 2010, \$508,360 of the Borough's \$596,121 bank balance was insured by the Federal Depository Insurance Corporation. The remaining bank balance of \$87,761 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 \$554,768 as of December 31, 2010.

### 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, 2010, the Borough had the following investments in its Pension Trust Funds:

<u>Cash or Investment Type</u>	<u>Fair Market Value</u>
Cash and cash equivalents - money market	\$ 13,912
Mutual funds	617,193
Equity securities	1,104,863
Total pension trust funds investments	<u>\$ 1,735,968</u>

# BOROUGH OF AVALON

## NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2010

---

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, 2010, 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 at December 31, 2010.

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

At January 1, 2009, the date of the most recent valuation, participants in the plans were as follows:

# BOROUGH OF AVALON

## NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2010

---

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

### 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, 2010, 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).

For 2010, the only employee group required to contribute were the police, based upon the financial requirements established by their collective bargaining contract. In 2010, the police contribution rate was 5%. Municipal employees were not required to contribute to their plan.

The Borough received no State Aid in 2010, as their allocation was delayed until certain issues were addressed within the Plans. The Borough did not contribute the required amounts of \$58,746 for the Police Plan and \$3,709 for the General Employees' Plan for the

# BOROUGH OF AVALON

## NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2010

year ended December 31, 2010 until January 2011. Accordingly, the General Fund recognizes an additional liability of \$58,746 for the Police Plan and \$3,709 for the General Employees' Plan, in addition to amounts described below.

The Borough received no State Aid in 2009, as their allocation was delayed until certain issues were addressed within the plans. 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 until January 2011. An actuarial review noted accumulated interest owed for the 2009 required pension contributions of \$8,045 for the Police Plan and \$736 for the General Employees' Plan. Accordingly, the General Fund recognizes an additional liability of \$8,045 for the Police Plan and \$736 for the General Employees' Plan, in addition to the amount described above.

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:

	Police	General Employees
Annual pension cost	\$ 59,247	\$ 4,388
Contributions made/accrued	\$ 58,746	\$ 3,709
Actuarial valuation date	1/1/2009	1/1/2009
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level Dollar Closed	Level Dollar Closed
Asset valuation method	4 - Year Smoothing	4 - Year Smoothing
Amortization period	13 years	14 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, 2010 is calculated as follows:

# BOROUGH OF AVALON

## NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2010

	Police	General Employees
Annual required contribution	\$ 58,746	\$ 3,709
Interest on NPO	(1,159)	(1,569)
Adjustment to the ARC	1,660	2,248
Annual pension cost	59,247	4,388
Contribution made/accrued	(58,746)	(3,709)
Change in NPO	501	679
NPO, 12/31/2009	(15,440) *	(20,910) *
NPO, 12/31/2010	\$ (14,939)	\$ (20,231)

\* The NPO at December 31, 2009 has been adjusted to reflect an updated actuarial valuation.

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

### Three-Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed
Police:	12/31/2008	\$ 73,977	99%
	12/31/2009	55,158	99%
	12/31/2010	59,247	99%
General Employees':	12/31/2008	\$ 3,514	93%
	12/31/2009	5,412	93%
	12/31/2010	4,388	85%

Certain pension information and calculations are based upon an actuarial valuation performed as of January 1, 2009. The next actuarial valuation will be performed as of January 1, 2011 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.

# **BOROUGH OF AVALON**

## **NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)**

**YEAR ENDED DECEMBER 31, 2010**

---

### **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 2010 assessed value of real estate property totaled \$151,694,171 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 2010.

### **6. LONG-TERM DEBT**

As of December 31, 2010, long-term debt consists of the following:

# BOROUGH OF AVALON

## NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2010

<p>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.</p>	\$ 38,455
<p>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.</p>	1,246,711
<p>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.</p>	715,000
<p>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.</p>	1,865,000
<p>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.</p>	1,435,000
	\$ 5,300,166

During 2010, changes in long-term debt were as follows:

	Amounts Payable as of January 1, 2010	New Debt/ Additions	Repayment	Amounts Payable as of December 31, 2010	Due Within One Year
<u>Governmental Activities:</u>					
AIM Loan 2005	\$ 15,000	\$ -	\$ (15,000)	\$ -	\$ -
AIM Loan 2008	50,535	-	(12,080)	38,455	12,634
Pennvest Note	1,231,065	66,075	(50,429)	1,246,711	57,048
PLGIT Note	780,000	-	(65,000)	715,000	65,000
G.O. Bonds 2003	1,905,000	-	(40,000)	1,865,000	45,000
G.O. Bonds 2006	1,465,000	-	(30,000)	1,435,000	30,000
	\$ 5,446,600	\$ 66,075	\$ (212,509)	\$ 5,300,166	\$ 209,682
<u>Governmental Activities:</u>					
Long-term liabilities	\$ 5,446,600	\$ 66,075	\$ (212,509)	\$ 5,300,166	\$ 209,682

# BOROUGH OF AVALON

## NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2010

Annual debt service requirements are as follows:

<u>Years</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 209,682	\$ 180,507	\$ 390,189
2012	220,897	174,856	395,753
2013	227,137	168,916	396,053
2014	229,229	170,654	399,883
2015	224,013	165,031	389,044
2016-2020	1,167,759	717,602	1,885,361
2021-2025	984,269	533,238	1,517,507
2026-2030	1,002,180	331,256	1,333,436
2031-2035	965,000	128,138	1,093,138
2036	70,000	1,575	71,575
	<u>\$ 5,300,166</u>	<u>\$ 2,571,772</u>	<u>\$ 7,871,938</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.

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.

# BOROUGH OF AVALON

## NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2010

### 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.

The Commonwealth of Pennsylvania's Auditor General's report for 2007 states that \$17,213 of Liquid Fuels Funds was expended 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.

At December 31, 2010, approximately \$135,000 was payable to ALCOSAN for wastewater services provided prior to year-end.

### 9. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund receivables, payables, and transfers are summarized below:

Fund	Interfund Receivable	Interfund Payable
Major Fund:		
General	\$ -	\$ 131,006
Fiduciary Fund:		
Police Pension Fund	121,549	-
General Employees' Pension Fund	9,457	-
Total	\$ 131,006	\$ 131,006
Fund	Transfer In	Transfer Out
Major Funds:		
General	\$ 254,010	\$ 66,532
Highway Aid	66,532	146,802
Sewer Surcharge	-	107,208
Total	\$ 320,542	\$ 320,542

# BOROUGH OF AVALON

## NOTES TO FINANCIAL STATEMENTS (MODIFIED CASH BASIS)

YEAR ENDED DECEMBER 31, 2010

---

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 2010, the Borough transferred \$107,208 from the Highway Aid Fund to the General Fund, and used that entire amount for street lighting costs.

### 10. SUBSEQUENT EVENT

State Pension aid for 2009 and 2010 was received in January 2011. Pension contributions relating to 2009 and 2010, were paid by the Borough in January 2011.

### 11. LIQUIDITY

During 2010, the Borough's fund balance decreased approximately \$98,000, from a balance of \$535,000 as of December 31, 2009, to a balance of \$437,000 as of December 31, 2010. In addition to this loss during the year, a payment for wastewater services for approximately \$135,000 was due prior to year end, but was not paid December 31, 2010, and as such is not reflected in this loss amount. Also, there were checks of approximately \$80,000 written in December 2010 that were not mailed until after December 31, 2010, once the Borough had received the cash from the 2011 tax anticipation note. Had these checks been mailed, the Borough's cash balance and fund balance at December 31, 2010 would have been reduced significantly.

The Borough is currently exploring a combination of options to address any continuing deficits into the future.

**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
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%
2010	58,746 *	100%	3,709 *	100%

Note 1: Contributions include state pension aid.

\* As described further in Note 4, the Borough did not transfer the required amounts of \$58,746 for the Police Plan and \$3,079 for the General Employees' Plan for the year ended December 31, 2010, 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
<b>Police:</b>						
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%
1/1/2009	1,516,590	1,926,461	(409,871)	78.72%	424,415	-96.57%
<b>General Employees:</b>						
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%
1/1/2009	317,063	331,342	(14,279)	95.69%	251,178	-5.68%

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

See accompanying note to supplementary pension schedules.

# BOROUGH OF AVALON

## NOTE TO REQUIRED SUPPLEMENTARY PENSION SCHEDULES

YEAR ENDED DECEMBER 31, 2010

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	1/1/2009	1/1/2009
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	13 years	14 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%

## **Supplementary Information**

# BOROUGH OF AVALON

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

YEAR ENDED DECEMBER 31, 2010

	<u>Police</u>	<u>General Employees</u>	<u>Total</u>
<hr/> <b>Assets</b> <hr/>			
Cash and cash equivalents	\$ 13,912	\$ -	\$ 13,912
Investments (at fair value):			
Equity securities	840,726	264,137	1,104,863
Mutual funds	541,292	75,901	617,193
Due from General Fund	121,549	9,457	131,006
	<hr/>	<hr/>	<hr/>
<b>Total Assets</b>	<b>1,517,479</b>	<b>349,495</b>	<b>1,866,974</b>
<hr/> <b>Liabilities</b> <hr/>			
	-	-	-
	<hr/>	<hr/>	<hr/>
<b>Net Assets Held in Trust for Pension Benefits</b>	<b><u>\$ 1,517,479</u></b>	<b><u>\$ 349,495</u></b>	<b><u>\$ 1,866,974</u></b>