

**Peters Township Sanitary Authority  
Financial Statements  
December 31, 2010 and 2009**

**Peters Township Sanitary Authority  
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### **Independent Auditor's Report**

Members of the Board  
Peters Township Sanitary Authority  
McMurray, Pennsylvania

Dear Members:

We have audited the accompanying statements of net assets of Peters Township Sanitary Authority as of December 31, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of Peters Township Sanitary Authority's management. Our responsibility is to express an opinion 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 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Peters Township Sanitary Authority as of December 31, 2010 and 2009, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America,

which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Respectfully submitted,

*Hosack, Specht, Muetzel & Wood LLP*

HOSACK, SPECHT, MUETZEL & WOOD LLP  
April 29, 2011

**Peters Township Sanitary Authority  
Management's Discussion and Analysis  
December 31, 2010**

This Management's Discussion and Analysis (MDA) serves as an introduction to, and should be read in conjunction with, the accompanied audited financial statements and supplementary information.

The MDA has been prepared by the Authority's Management to supplement the independent auditor's financial report and is intended to convey to the reader management's understanding of the financial position of the Authority and to answer for the reader "Did the Authority's financial position improve or deteriorate as a result of operations during the year?"

The Authority was required to implement Statement No. 34 of the Governmental Accounting Standards Board (GASB) in 2004. One objective of this statement is to increase the accountability of local and state governments, and the statement requires several changes in the way governmental financial statements are presented. For the Authority, the most notable changes are the inclusion of the Management's Discussion and Analysis (MDA), and the recognition and depreciation of donated capital assets. A significant portion of the Authority's sewer infrastructure is installed by, and at the cost of, private land developers wishing to acquire public sewerage. At completion of the construction, the sewer extensions are dedicated to the Authority for perpetual ownership and maintenance. Prior to 2004, these developer-donated capital assets were not recognized as Authority assets on its financial statements because the Authority has no cost basis in the assets. The assets, however, are infrastructure which must be maintained by the Authority, and presumably, replaced someday at the end of their useful life.

### **Description of the Organization**

Peters Township Sanitary Authority, a municipal corporation organized under the provision of the Municipal Authorities Act of 1945 as amended, was incorporated on March 20, 1964 and its corporate life currently extends until August 1, 2024. The Authority was created for the purpose of providing and maintaining a sanitary sewer collection, conveyance, and treatment systems for the western portion of Peters Township.

The sewer system provides sewerage service to Chapter 94 Reports customers in the following areas in the Township: Brush Run Service Area, which currently serves 3,903 customers within 6.5 square miles of drainage area; Donaldson's Crossroads Service Area, which currently serves 1,934 customers within 3.0 square miles of drainage area; and Marella Manor Service Area (ALCOSAN/Upper St. Clair), which serves 82 customers.

The sewerage system is comprised of the Brush Run Water Pollution Control Plant (BRWPCP) with a design flow of 2.0 million gallons per day (MGD), with approximately 84 miles of sewers, and the Donaldson's Crossroads Water Pollution Control Plan (DCWPCP) with a design flow of 1.2 MGD and approximately 45 miles of sewer. The Marella Manor Service Area has approximately 1.5 miles of sewers and the wastewater receives treatment in the ALCOSAN system.

### **Introduction of Annual Financial Statements**

An authority operates much like a private business providing services, and as such, the financial statements of the Authority report information using the full accrual basis of accounting. This discussion and analysis provides an introduction to and analysis of the financial statements audited by our independent auditor.

**Peters Township Sanitary Authority  
Management's Discussion and Analysis  
December 31, 2010**

**Introduction of Annual Financial Statements (Cont'd)**

The financial statements are comprised of two components: the financial statements and notes to the financial statements that explain in more detail the information presented in the financial statements. The financial statements include a statement of net assets, statement of revenues, expenses and changes in net assets, and statement of cash flows. These statements provide both long-term and short-term information about the Authority's overall financial status.

The statement of net assets (balance sheet) presents the financial position of the Authority on a historical cost basis. This statement presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. The statement of net assets provides information about the nature and the amounts of investments in resources (i.e. assets, including infrastructure assets) and the Authority's obligations to creditors (liabilities). Over time, increases and decreases in net assets provide an indication of whether the financial position of the Authority is improving or deteriorating. Net assets alone, however, can not provide a complete picture of the position of the Authority. Other factors should be considered, such as changes in economic conditions, residential and commercial growth trends, and changes in legislation governing the Authority's operations in order to understand the true position.

The statement of revenues, expenses, and changes in net assets accounts for the current year's revenues and expenses, including current year depreciation expense, with the difference presented as changes in net assets. This financial statement is a measure of the Authority's operations over the past year. A positive change in net assets indicates the Authority's charges for services recovered all of the year's operating expenses, and excess revenue was available for funding its capital improvement plan.

The statement of cash flows presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, along with events occurring after December 31, 2010, which would have a significant financial or operational impact upon the Authority, if any.

The financial statements were prepared by the Authority's management staff from the detailed accounting records and were audited and adjusted, if material, during the annual independent external audit process.

**Financial Analysis of the Authority**

In the opinion of management, the Authority's financial condition remained strong at year end with adequate liquid assets, a reliable cash flow, a well-organized capital improvement plan and reliable treatment plants and sewer systems to meet demand and provide for growth. The statements are summarized below with brief analyses which support the Authority's position.

**Peters Township Sanitary Authority  
Management's Discussion and Analysis  
December 31, 2010**

**Statement of Net Assets**

In order to comply with GASB Statement No. 34, the Authority updated its fixed capital asset inventory in 2004, and expanded it to include donated assets, primarily developer donated sewer extensions. The treatment plant asset inventory update was prepared by a consultant, while the sewer system inventory was prepared by the Authority staff using its Geographical Information System (GIS) and historical acquisition data.

Table 1  
Condensed Summary of Net Assets

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Capital Assets, Net of Accumulated Depreciation	\$22,381,377	\$22,965,122
Construction in Progress	739,616	413,285
Current Assets, Restricted Assets and Bond Costs	<u>4,661,804</u>	<u>4,266,900</u>
<b>Total Assets</b>	<b><u>\$27,782,797</u></b>	<b><u>\$27,645,307</u></b>
Current Liabilities	\$ 948,644	\$ 948,510
Long-Term Liabilities	<u>3,332,912</u>	<u>3,940,016</u>
<b>Total Liabilities</b>	<b><u>4,281,556</u></b>	<b><u>4,888,526</u></b>
<b>Net Assets</b>		
Investment in Capital Assets, Net of Related Liabilities	19,085,085	18,694,442
Restricted for Debt Service	915,828	907,052
Restricted for Capital Activity	452,231	453,025
Unrestricted	<u>3,048,097</u>	<u>2,702,262</u>
<b>Total Net Assets</b>	<b><u>23,501,241</u></b>	<b><u>22,756,781</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$27,782,797</u></b>	<b><u>\$27,645,307</u></b>

As can be seen from Table 1, the Authority's total assets are \$27,782,797, with the largest portion 81 % of the Authority's net assets residing in the Authority's capital assets (property, plant, equipment, and sewer system), shown net of related debt. Donated assets account for 3 % of capital assets.

For 2010, the Authority's total net assets increased by \$744,460 which was attributed to the net effect of an increase in total assets by \$137,490 and a decrease of total liabilities by \$606,970. The increase in total assets is attributed to the increase in funds and construction in progress. The Authority's current and long-term liabilities have also decreased by \$606,970, which is attributed to debt retirements for the new Administration Building and Brush Run

**Peters Township Sanitary Authority  
Management's Discussion and Analysis  
December 31, 2010**

**Statement of Net Assets (Cont'd)**

wet weather improvements. Since the Authority has also added customers while its outstanding debt has increased, the debt per customer ratio has also increased.

An increase of net assets generally indicates an improving financial condition representing the "net worth" of an organization.

**Capital Assets and Debt Administration**

**Capital Assets**

As of December 31, 2010, the Authority's investment in capital assets amounted to \$22,381,377 (Table 1), net of accumulated depreciation. The Authority uses its capital assets to provide wastewater treatment and disposal services. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources to repay this debt must be provided from other sources (charges for services), since the capital assets themselves are not intended to be used to liquidate these liabilities. Since the Authority relies on its capital assets for its source of revenue, maintaining these capital assets in proper working condition and planning for their rehabilitation or replacement at the end of their useful life, is crucial to the long-term financial condition of the Authority. In 1996, the Authority established a five-year capital improvement plan to budget for the timely rehabilitation and replacement of these capital assets. The plan is updated annually in conjunction with the operating budget. For 2010, a total of \$900,200 of improvements were planned, with \$334,000 actually expended. Major capital improvements in 2010 included:

- Continuation of the planning process to upgrade and expand its Donaldson's Crossroads Water Pollution Control Plant
- Flow monitoring and modeling for plant expansion.
- Construction of the new Administration Building
- Completed design/permitting for the Brush Run Water Pollution Control Plant Wet Weather Improvements
- Continuation of the Brush Run Wet Weather Optimization Study
- Design/construction of the BR/DC Energy Improvements Project
- Sewer Projects Initiated and Completed
  - Rt. 19 Valleybrook Realignment, initiated
  - Upper Valleybrook Interceptor Augmentation, continuation
  - Willoughby Woods Relocation
  - Timbercrest Pump Station Elimination
  - Valley View Extension, initiated
  - Valleybrook Composite Drawings, design 90% complete
  - DC Giant Oaks Capacity Augmentation

**Peters Township Sanitary Authority  
Management's Discussion and Analysis  
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**Capital Assets and Debt Administration (Cont'd)**

**Capital Assets (Cont'd)**

The Authority funds its capital improvement plan by a self-imposed restriction of the use of its tapping fee revenue and other non-operating revenue to the replacement or rehabilitation of infrastructure assets as they approach the end of their useful life, or construction of expanded facilities. This policy provides for the timely replacement of infrastructure assets, a steady increase in net asset value, as well as minimization of reliance on borrowed funds.

**Debt Administration**

In February 2009, the Authority issued Sewer Revenue Bonds Series of 2009. Proceeds of that issued were used to refund Series of 2003 bonds, construction of a new administration building and Brush Run Treatment Plant improvements. In October 2009, the Authority retired one of the outstanding Pennvest notes. Total indebtedness outstanding at December 31, 2010 amounted to \$4.035 million. Included in this amount are \$3.74 million of revenue bonds and one outstanding note for sewer extension projects in the amount of \$290,907. More information on debt can be found in the notes to the financial statements.

**Rate Covenant**

In the bond resolutions, the Authority covenants and agrees that it will, at all times, prescribe and maintain and thereafter collect rates and charges for the services and facilities furnished by the Authority, together with other income, that will yield annual net earnings for the fiscal year equal to at least one hundred ten percent (110%) of the sum of the annual debt service payments for all bonds outstanding. The rate covenant in the bond resolution obligates the Authority to review rates not less than once a year and to revise such rates and charges as necessary to meet the coverage test. The Authority further covenants in the bond resolution the following: that it will maintain rates and charges that are at all times sufficient to provide for the payment of the bonds; to maintain the debt service funds, debt service reserve funds and other related funding instruments related to the debt of the system; and to provide for the payment of administrative and operational expenses of the system, preserving the system in good repair and working order. The Authority has met coverage requirements and the actual calculations for 2010 and 2009 were 147% and 150%, respectively.

**Debt Coverage Ratio**

One area that demonstrates the Authority's financial strength and future borrowing capacity is seen in its debt coverage ratio, which is 1.58. The major criteria in this calculation is that all estimated future net earnings of the system must be at least 1.10 times the highest combined debt service requirement. The current bonds that were issued in 2009 have a Moody's ratings of "Aa2(A3)".

**Peters Township Sanitary Authority  
Management's Discussion and Analysis  
December 31, 2010**

**Debt Coverage Ratio (Cont'd)**

Table 2  
Debt Coverage Ratio

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Total Revenues (including tapping fees)	\$3,310,952	\$3,177,998
Total Expenses (excluding depreciation)	<u>1,965,425</u>	<u>2,070,666</u>
Net Earnings	<u>\$1,345,527</u>	<u>\$1,107,332</u>
Maximum Annual Debt Service	<u>\$ 770,034</u>	<u>\$ 700,274</u>
Debt Coverage Ratio	<u>1.75</u>	<u>1.58</u>

**Statement of Revenues, Expenses and Changes in Net Assets**

While the statement of net assets reflects the change in financial position of net assets, this statement is a measure of current year operations and provides the answer as to the nature and source of changes in net assets.

Table 3  
Condensed Summary of Revenues, Expenses and Changes in Net Assets

	<u>December 31, 2010</u>	<u>December 31, 2009</u>	<u>% Change</u>
<b>Operating Revenues</b>			
Charges for Services	\$2,932,266	\$2,855,505	
Miscellaneous	<u>66,229</u>	<u>56,081</u>	
Total Operating Revenues	2,998,495	2,911,586	2.98%
<b>Non-Operating Revenues</b>			
Tap-In Fees	215,325	193,549	
Interest	52,314	72,863	
Miscellaneous	<u>44,818</u>	<u>-</u>	
Total Non-Operating Revenues	<u>312,457</u>	<u>266,412</u>	17.28%
Total Revenues	3,310,952	3,177,998	4.18%

**Peters Township Sanitary Authority  
Management's Discussion and Analysis  
December 31, 2010**

**Statement of Revenues, Expenses and Changes in Net Assets (Cont'd)**

Table 3 (Cont'd)  
Condensed Summary of Revenues, Expenses and Changes in Net Assets (Cont'd)

	<u>December 31, 2010</u>	<u>December 31, 2009</u>	<u>% Change</u>
Operating Expenses			
Treatment	\$ 682,792	\$ 655,617	
Collection	416,661	431,056	
Administration	<u>670,843</u>	<u>710,126</u>	
Total Operating Expenses	1,770,296	1,796,799	(1.48%)
Non-Operating Expenses	<u>195,129</u>	<u>273,867</u>	(28.75%)
Total Expenses	1,965,425	2,070,666	(5.08%)
Depreciation	<u>616,649</u>	<u>573,110</u>	
Total Expenses	<u>2,582,074</u>	<u>2,643,776</u>	(2.33%)
Net Income before Capital Contributions	728,878	534,222	
Capital Contributions - Current	<u>15,582</u>	<u>722,244</u>	
Change in Net Assets	744,460	1,256,466	
Beginning Net Assets	<u>22,756,781</u>	<u>21,500,315</u>	
Ending Net Assets	<u>\$23,501,241</u>	<u>\$22,756,781</u>	3.27%

**Revenues**

The Authority's operating revenue is generated from its charges for services. Sewer rentals are based upon the number of customers connected and the volume of potable water consumed by the customers. Non-operating revenues are generated from tapping fees collected as new customers connect and interest earned on investment of surplus and restricted funds.

**Operating Revenues**

The 2010 operating revenues were \$2.99 million, an increase of \$86,909 over year 2009 or 2.98%. Total operating revenues were on target for 2010, with \$15,900 collected over budget projections. This variance was attributed to an increase in user rates. In 2009 operating revenues were \$2.9 million, which was 1.0% collected over budget projections.

**Peters Township Sanitary Authority  
Management's Discussion and Analysis  
December 31, 2010**

**Statement of Revenues, Expenses and Changes in Net Assets (Cont'd)**

Revenues (Cont'd)

Non-Operating Revenue

Tapping fee revenue was \$215,325 and \$193,549 in 2010 and 2009, respectively. The 2010 actual revenues were \$42,361 over budget, which was attributed to one large non-residential tapping fee and an unexpected amount of residential taps in December due to builders wanting to obtain permits in order to avoid the residential sprinkler requirement.

Interest revenue was \$52,314 and \$72,863 in 2010 and 2009, respectively. Interest received was 4.6% over budget projections, which was attributed to an increase in investment yields in conjunction with an increase in cash balances for investments. The 2009 budget projections for tapping fee revenue were 51% over projections and interest received was 4% over projections.

Expenses

The Authority's operating expenses are a function of the hydraulic and organic load its customers exert on the system, the employee staffing necessary to properly operate and maintain the facilities, and the miles of sewer line requiring maintenance. Non-operating expenses are interest and amortization expenses associated with debt.

Operating Expenses

The 2010 operating expenses, exclusive of depreciation expense, were \$1.770 million, a decrease of \$26,503 over 2009, which were \$1.796 million. Total operating expense projections for 2010 were \$116,174 under budget and for 2009 under budget by \$201,591. The 2010 under projected are directly attributed to the budgeted equipment replacement allowance, which is a line item budgeted for replacements in the system; however, budgeted 10% debt service coverage not expended.

Depreciation Expense

The depreciation expense for 2010 and 2009 is \$616,649 and \$573,110, respectively. This is an increase of 7.6% which is attributed to a full year of depreciation of the assets that went into service mid to end year.

Non-Operating Expenses

The 2010 non-operating expenses were \$195,129, a decrease of \$78,738 from 2009, which is attributed to the fact that in 2009 there was a loss of several disposed fixed assets not fully depreciated and an increase in amortization of the Series 2009 bond issuance cost.

**Peters Township Sanitary Authority  
Management's Discussion and Analysis  
December 31, 2010**

**Results of Operations**

As can be seen in Table 3, 2010 revenues were sufficient to meet all operating expenses, with a net income (before capital contributions) of \$534,222. Ideally, this net income would approach the annual depreciation expense, as it did in 2009. By doing so, the revenue surplus generated adequate funds for the future rehabilitation and replacement of the capital assets.

While the Authority does not budget directly for the depreciation expense, it does include in its operating budget a line item for "equipment replacement allowance". The combination of non-operating revenue and equipment replacement allowance will normally approximate the depreciation expense.

The Authority's policy of restricting the use of non-operating revenues to re-investment in capital assets along with budgeting for future asset replacement (depreciation), is a cornerstone of the Authority's long-term strategic plan. The current user pays for all operation and maintenance costs, including asset preservation, debt retirement, plus a reasonable portion of depreciation and the new user pays the maximum connection fee permitted by law for equity buy-in. These policies combined provide adequate funding of a capital improvement plan that can focus on providing the lowest life cycle costs for the maintenance and replacement of assets, with the objective of maintaining sewer use rates at affordable levels.

The preceding paragraph answers the question posed at the start of the discussion, "Did the Authority's financial position improve or deteriorate as a result of operations during the year?" In management's opinion, the Authority's financial position improved as a result of operations during 2010.

There is, however, a second question that must be asked to fully evaluate the financial position. That is, "Are the Authority's sewer use rates affordable?" Affordability is important because charges for services cannot be raised to unlimited amounts. If the existing charges for services are affordable, over time there is room to increase charges, to invest in technology in order to improve productivity, and thereby, lower the overall total life cycle cost of service to our customers.

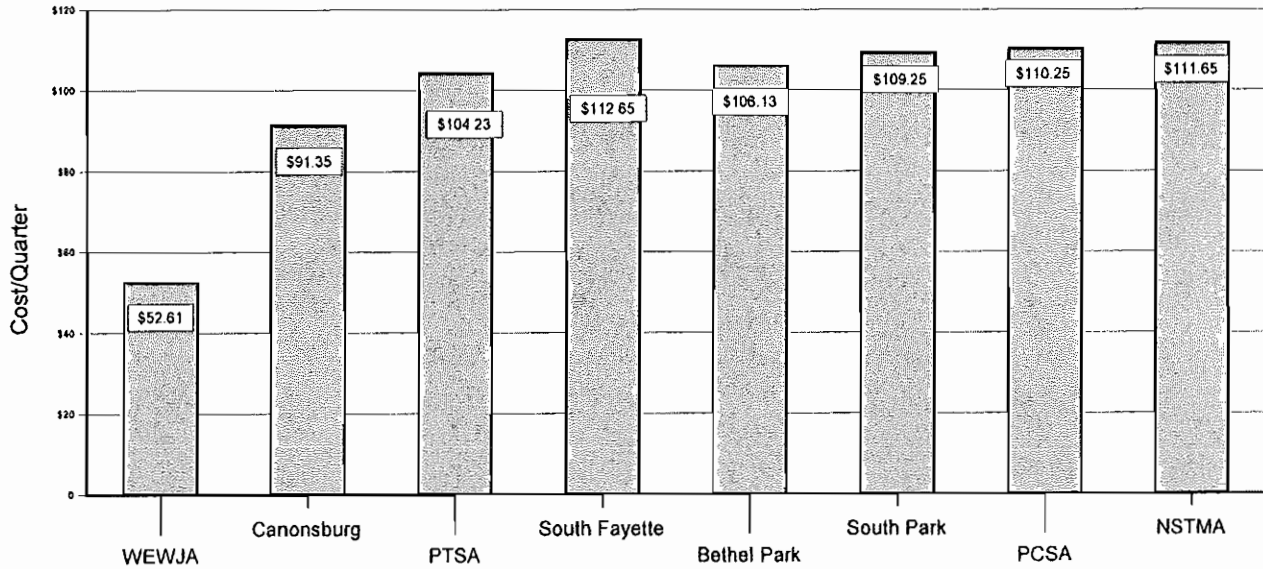
Any discussion and analysis regarding the Authority's financial position cannot be considered completely without review of cost of service to our customers and comparison of the Authority's cost with other customers in surrounding areas. This is important because the ability of the Authority to meet the future challenges of customers' service expectations in an ever-increasingly regulatory environment, while replacing infrastructure assets at the end of their useful lives, will largely be dependent upon the ability to raise user fees, while still being considered relatively affordable. Affordability is a subjective evaluation and is best established by what other users are willing to pay for sewerage service.

The benchmarks selected for comparison are the sewerage rates charged by nearby communities of similar size. As indicated in Table 4 below, the Authority's charge for annual sewer service in 2010 ranks third lowest of eight nearby communities; with an annual average charge of \$60. This comparison indicates the Authority's charges for service are typical of sewage service in the general area, and therefore, could be considered relatively affordable.

**Peters Township Sanitary Authority  
Management's Discussion and Analysis  
December 31, 2010**

**Results of Operations (Cont'd)**

Table 4  
Comparison of Local Sewer Rates  
October 2010 Data for Other Communities  
Based on 14,500 Gallons/Quarter



**Statement of Cash Flow Activity**

The following table depicts the Authority's ability to generate net operating cash. Net cash provided by operating activities (excludes all non-operating revenue, tapping fee, interest, etc.) is shown both in total dollars and as a percentage of operating revenues.

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Total Operating Revenue	\$2,998,495	\$2,911,586
Net Cash Provided by Operations	1,287,690	879,734
Net Operating Cash as a Percentage of Operating Revenue	48%	30%

Net operating cash increased by (10.1%) from 2009, which is attributed to an increase in cash collected from customers and decrease in expenses. The percentage of 48% net cash provided by operations is an indication that the Authority's cash flow is sufficient, obligations were met, there is a reserve of cash remaining for debt principle payments, the ability to meet future obligations in a timely manner and to meet unexpected needs that may arise.

**Peters Township Sanitary Authority  
Management's Discussion and Analysis  
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**Budget/Rates and Economic Factors**

The Authority's operating budget provides for the ability to meet environmental standards, plan for future growth, meet customer service expectations, and provide a safe and healthy environment for our employees. The board and management considered several important factors when setting the 2011 budget, which was adopted on December 14, 2010. The Authority last adjusted its sewer rates in 2009, which was intended to provide sufficient income to get through 2010 without additional rate increases and for 2011, it was determined that the sewer rates are sufficient to meet all obligations and to continue to generate funds for the re-investment into the system.

In determining the 2011 budget, the primary factors that had an impact were declining operating revenues due to reduced water consumption by both residential and non-residential customers, declining tapping fee revenue, and customer growth, which is attributed to the slowdown in home construction. The factors negatively impacting expenses were the overall operating expenses that continue to escalate at 4% annually and the electrical power deregulation rate caps expected to expire in 2010, with potential rate hikes of 50% or more and basic sewer maintenance repair is projected to increase as the Authority's system ages.

In addition, the 2011 budget request includes provisions for the debt service attributed to the construction of a new administrative building and treatment plant improvements, and an increase in the "equipment replacement allowance" account, which was adjusted to account for "full cost pricing" which means rates that will provide for: a) the cost to rehabilitate/replace previously neglected facilities; b) the cost to properly operate and maintain the existing facilities; c) the cost of thorough planning for future customer growth; and d) allow for appropriate replacement costs to eventually replace the existing facilities.

When setting the budget, the Authority considers "affordability" to its customers. The historic rule of thumb for affordability of water utilities services is 1.0% of the median household income of the customer base. However, adjusting for increased environmental standards, the rule of thumb today most often cited is 1.5%. Based on the U. S. Census Bureau estimate 2009 adjusted for inflation, the median household income for Peters Township was \$99,413 and the annual cost of sewage, after the rate increase for the average customer, is \$417, which equates to 0.4% of the median household income. The Pennsylvania state median household income in 2009 was \$49,737 and our sewer charges to the average residential customer equates to only 0.83% of the broader state median income. This indicates the Authority's rates can be considered affordable.

The economic factors considered in the 2011 budget included specific industry-related inflationary factors, in categories such as utilities and chemicals. Additionally, the downturn of the housing and construction markets could have a measurable impact on revenues, in particular, new connections to the system would reduce the tapping fee revenue.

In 2011, the electrical power deregulation rate caps expired. The Authority was anticipating rate hikes of 50%. In order to control power cost, the Authority began participating in an energy curtailment program, received a grant from the PA Conservation Works for improvements at both treatment plants in order to reduce power costs and entered into a contract to lock in power generation charges; therefore, the overall electrical power budget decreased by 13%.

**Peters Township Sanitary Authority  
Management's Discussion and Analysis  
December 31, 2010**

**Contacting the Authority's Management**

Our financial report is designed to provide our customers with a general overview of the Authority's finances and to show the Board accountability for the money it receives. If you have any questions about this report or wish to request additional financial information, please contact Mr. James Miskis, Manager of Peters Township Sanitary Authority, 111 Bell Drive, McMurray, PA 15317, (724) 941-6709.

## **Statements of Net Assets**

**Peters Township Sanitary Authority**  
**Statements of Net Assets**  
**December 31, 2010 and 2009**

ASSETS

	2010	2009
<b>Current Assets</b>		
Cash and Cash Equivalents		
Operating Funds	\$ 684,776	\$ 447,282
Capital Improvement and Redemption Fund	1,142,729	891,010
Accounts Receivable	1,108,888	1,100,417
Tap-In and Assessments Receivable	8,629	7,793
Accrued Interest Receivable	450	450
Inventory	24,922	20,883
Prepaid Expenses	<u>          -</u>	<u>52,889</u>
<b>Total Current Assets</b>	<u>2,970,394</u>	<u>2,520,724</u>
<b>Restricted Assets</b>		
Cash and Cash Equivalents		
Debt Service Fund	186,128	186,174
Debt Service Reserve Fund	83,595	80,022
Developers' Deposit Fund	46,751	74,032
Construction Fund	452,231	453,025
Investments		
Debt Service Reserve Fund	667,000	667,000
Accrued Interest Receivable	<u>11,984</u>	<u>11,984</u>
<b>Total Restricted Assets</b>	<u>1,447,689</u>	<u>1,472,237</u>
<b>Property, Plant and Equipment</b>		
Office Complex	1,141,545	1,141,545
Sewer Plant and Lines	28,955,302	28,939,720
Machinery and Equipment	3,913,462	3,901,407
Construction in Progress	<u>739,616</u>	<u>413,285</u>
	34,749,925	34,395,957
Accumulated Depreciation	<u>(12,303,940)</u>	<u>(11,692,558)</u>
	22,445,985	22,703,399
Land	<u>675,008</u>	<u>675,008</u>
<b>Total Property, Plant and Equipment</b>	<u>23,120,993</u>	<u>23,378,407</u>
<b>Other Assets</b>		
Tap-In and Assessments Receivable, Net of Current	136,052	143,933
Bond Issuance Costs	<u>107,669</u>	<u>130,006</u>
<b>Total Other Assets</b>	<u>243,721</u>	<u>273,939</u>
<b>Total Assets</b>	<u>\$ 27,782,797</u>	<u>\$ 27,645,307</u>

## LIABILITIES AND NET ASSETS

	2010	2009
Current Liabilities		
Accounts Payable	\$ 101,358	\$ 89,972
Other Liabilities	81,093	101,688
Deferred Revenue - Grant	23,807	-
Notes Payable - Pennvest	18,564	18,057
Sewer Revenue Bonds Payable	<u>645,000</u>	<u>630,000</u>
Total Current Liabilities	<u>869,822</u>	<u>839,717</u>
Current Liabilities Payable from Restricted Assets		
Developers' Deposit	45,943	70,665
Accrued Interest Expense	<u>32,879</u>	<u>38,128</u>
Total Current Liabilities Payable from Restricted Assets	<u>78,822</u>	<u>108,793</u>
Noncurrent Liabilities		
Revenue Bonds Payable	3,100,000	3,745,000
Less Unamortized Discount	(7,505)	(9,724)
Less Unamortized Loss on Defeasance	(139,963)	(193,059)
Notes Payable - Pennvest	272,343	290,907
Deferred Revenue	94,672	94,672
Compensated Absences Payable	<u>13,365</u>	<u>12,220</u>
Total Noncurrent Liabilities	<u>3,332,912</u>	<u>3,940,016</u>
Total Liabilities	<u>4,281,556</u>	<u>4,888,526</u>
Net Assets		
Invested in Capital Assets, Net of Related Liabilities	19,085,085	18,694,442
Restricted for Debt Service	915,828	907,052
Restricted for Capital Activity	452,231	453,025
Unrestricted	<u>3,048,097</u>	<u>2,702,262</u>
Total Net Assets	<u>23,501,241</u>	<u>22,756,781</u>
Total Liabilities and Net Assets	<u>\$27,782,797</u>	<u>\$27,645,307</u>

See Accompanying Notes

**Peters Township Sanitary Authority  
Statements of Revenues, Expenses and  
Changes in Net Assets  
Years Ended December 31, 2010 and 2009**

**Exhibit 2**

	2010	2009
Operating Revenues		
Charges for Services		
Sewer Service	\$2,932,266	\$2,855,505
Miscellaneous	<u>66,229</u>	<u>56,081</u>
Total Operating Revenues	<u>2,998,495</u>	<u>2,911,586</u>
Operating Expenses		
Plant and Sewer System		
Power	181,299	169,192
Water	7,539	7,067
Telephone	6,366	6,367
Supplies and Tools	90,714	91,453
Maintenance and Repairs	91,912	159,191
Uniforms	5,543	7,700
Contracted Services	33,211	33,258
Sludge Hauling	70,447	75,791
Fuel	13,062	11,934
Depreciation	576,160	555,296
Administrative		
Board Member's Expense	2,550	5,265
Billing	62,248	57,233
Rent Expense	14,627	38,218
Contracted Services	51,366	43,350
Office Supplies	25,138	29,365
Legal, Accounting and Trustee Fees	35,978	32,193
Training and Memberships	5,276	11,069
Engineering	35,393	37,074
Insurance	55,941	48,174
Hospitalization/Employee Insurance	171,711	161,259
Utilities	12,271	5,090
Payroll Taxes	55,514	53,908
Pension Costs	46,299	45,924
Depreciation	40,489	17,814
Other	13,311	3,732
Salaries		
Plant/Sewer and Administration	<u>682,580</u>	<u>662,992</u>
Total Expenses	<u>2,386,945</u>	<u>2,369,909</u>
Operating Income (Forward)	<u>611,550</u>	<u>541,677</u>

**Peters Township Sanitary Authority**  
**Statements of Revenues, Expenses**  
**and Changes in Net Assets**  
**Years Ended December 31, 2010 and 2009**

**Exhibit 2**

	2010	2009
Operating Income (Brought Forward)	\$ <u>611,550</u>	\$ <u>541,677</u>
Nonoperating Revenues		
Tap-In Fees	215,325	193,549
Federal Grant	44,818	-
Interest Income		
Operating Funds	15,535	35,211
Restricted Funds	<u>36,779</u>	<u>37,652</u>
Total Nonoperating Revenues	<u>312,457</u>	<u>266,412</u>
Nonoperating Expenses		
Interest Expense on Bonds	109,135	123,642
Interest Expense on Notes	8,342	8,259
Loss on Disposal of Assets	-	66,154
Amortization of Bond Discount and Costs	24,556	22,716
Amortization of Loss on Defeasance	<u>53,096</u>	<u>53,096</u>
Total Nonoperating Expenses	<u>195,129</u>	<u>273,867</u>
Net Income before Capital Contributions	728,878	534,222
Developer Contributions to Systems	<u>15,582</u>	<u>722,244</u>
Increase in Net Assets	744,460	1,256,466
Net Assets - January 1,	<u>22,756,781</u>	<u>21,500,315</u>
Net Assets - December 31,	<u>\$23,501,241</u>	<u>\$22,756,781</u>

See Accompanying Notes

**Peters Township Sanitary Authority**  
**Statements of Cash Flows**  
**Years Ended December 31, 2010 and 2009**

**Exhibit 3**

	2010	2009
Cash Flows from Operating Activities		
Cash Received from Customers	\$ 2,996,605	\$ 2,767,152
Cash Payments to Suppliers for Goods and Services	(1,027,480)	(1,224,800)
Cash Payments to Employees for Services	<u>(681,435)</u>	<u>(662,618)</u>
Net Cash Provided by Operating Activities	<u>1,287,690</u>	<u>879,734</u>
Cash Flows from Noncapital Financing Activities		
Developers' Deposits - Net	<u>(24,722)</u>	<u>16,047</u>
Cash Flows from Capital and Related Financing Activities		
Principal Paid on Bonds, Current	(630,000)	(585,000)
Principal Paid on Bonds, Advance Refunding	-	(3,360,000)
Proceeds from Bonds, Net of Bond Discount of \$3,174	-	4,956,826
Bond Issuance Costs	-	(96,211)
Interest Paid on Pennvest Loans	(8,342)	(8,259)
Principal Paid on Pennvest Loans	(18,057)	(36,468)
Interest Paid on Bonds	(114,384)	(123,318)
Acquisition and Construction of Capital Assets	(338,829)	(1,696,818)
Federal Grants	68,625	-
Payments on Assessments and Loans Receivable	7,045	39,552
Tap-In Fees Received	<u>183,325</u>	<u>193,549</u>
Net Cash Used for Capital and Related Financing Activities	<u>(850,617)</u>	<u>(716,147)</u>
Cash Flows from Investing Activities		
Interest on Investments	52,314	77,400
(Purchase) Sale of Investment Securities	<u>-</u>	<u>487,000</u>
Net Cash Provided by Investing Activities	<u>52,314</u>	<u>564,400</u>
Net Increase in Cash	464,665	744,034
Cash and Cash Equivalents - Beginning of Year	<u>2,131,545</u>	<u>1,387,511</u>
Cash and Cash Equivalents - End of Year	<u>\$ 2,596,210</u>	<u>\$ 2,131,545</u>

**Peters Township Sanitary Authority  
Statement of Cash Flows  
Years Ended December 31, 2010 and 2009**

**Exhibit 3**

	2010	2009
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities:		
Operating Income	\$ 611,550	\$ 541,677
Adjustments to Reconcile Operating Income to Net		
Cash Provided by Operating Activities		
Depreciation	616,649	573,110
Net Change in Assets and Liabilities		
(Increase) Decrease in Accounts Receivable	(8,471)	(144,434)
(Increase) Decrease in Inventory	(4,039)	2,208
(Increase) Decrease in Prepaid Expenses	52,889	(49,809)
Increase (Decrease) in Accounts Payable	11,386	(43,392)
Increase (Decrease) in Other Payables	6,581	-
Increase (Decrease) in Compensated Absences	<u>1,145</u>	<u>374</u>
Net Cash Provided by Operating Activities	<u>\$1,287,690</u>	<u>\$ 879,734</u>

**Schedule of Noncash Investing, Capital and Financing Activities**

During the years ended December 31, 2010 and 2009, the Authority received \$15,582 and \$722,244, respectively, in developer contribution of system capital assets.

See Accompanying Notes

**Peters Township Sanitary Authority**  
**Notes to Financial Statements**  
**December 31, 2010 and 2009**

**Note 1 - Summary of Significant Accounting Policies**

**A. Organization**

Peters Township Sanitary Authority is a municipal authority formed pursuant to the Municipal Authorities Act. The Authority was incorporated in 1964 to acquire, hold, construct, improve, maintain and operate, own, lease, either in the capacity of lessor or lessee, sewers, sewer systems or parts thereof and sewage treatment works. The Authority owns the Brush Run and Donaldsons Road Sewage Treatment Plants which principally serve the residents of Peters Township.

**B. Financial Reporting Entity**

In evaluating how to define a government for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in U. S. generally accepted accounting principles (GAAP) and more specifically, the provisions of Governmental Accounting Standards Board (GASB) Statement 14, "The Financial Reporting Entity". The following summarizes the guidance provided by GASB in determining the governmental activities, organizations, functions and component units that should be included in the governing entity's financial statements. The criterion for inclusion of a component unit is if the primary government is financially accountable. The primary government is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. Based upon the application of these criteria, it has been determined that the Authority has no potential component units to be included in its financial reporting entity, nor is the Authority a component unit of any other organization.

**C. Basis of Presentation and Accounting**

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

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

**Peters Township Sanitary Authority**  
**Notes to Financial Statements**  
**December 31, 2010 and 2009**

**Note 1 - Summary of Significant Accounting Policies (Cont'd)**

C. Basis of Presentation and Accounting (Cont'd)

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for sewerage service. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Budgetary Accounting

The Authority adopts flexible annual operating and capital budgets. Budgets are adopted on a basis consistent with generally accepted accounting principles. The current operating budget details the Authority's plans to earn and expend funds for charges incurred for operation, maintenance, certain interest and general functions, and other charges for the fiscal year. The capital budget details the plan to receive and expend cash basis capital contribution fees, special assessments, grants, borrowings and certain revenues for capital projects.

All unexpended and unencumbered appropriations in the operating budget remaining at the end of the fiscal year lapse. No appropriation for a capital project in the capital budget lapses until the purpose for which the appropriation was made has been accomplished or abandoned.

E. Receivables

No provision is made for uncollectible accounts or assessment receivables as these charges are lienable charges to the property served. Any other charges that become uncollectible are charged to expense in the year they become uncollectible.

F. Tap-In Fees

The Authority has adopted GASB 33 which requires that imposed non-exchange transactions be accounted for as nonoperating revenues. Therefore, tap-in fees are recorded as a separate component of nonoperating revenues.

**Peters Township Sanitary Authority  
Notes to Financial Statements  
December 31, 2010 and 2009**

**Note 1 - Summary of Significant Accounting Policies (Cont'd)**

**G. Restricted Assets**

Restricted assets represent cash, investments and receivables maintained in accordance with bond resolutions, loan agreements, and other resolutions and formal actions of the Authority or by agreement for the purpose of funding certain debt service payments, contingency activities, and improvements and extensions to the utility systems.

**H. Inventory**

Inventory is stated at the lower of cost or market and consists primarily of materials, supplies, and chemicals.

**I. Capital Assets**

Property, plant and equipment in service and construction in progress are recorded at cost or estimated historical cost using reverse price level inflation, if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value, if available, or at engineers' estimated fair market value or cost to construct at the date of the contribution. Utility systems acquired from other governmental service providers are recorded at the purchase price, limited to fair market value. Internal engineering costs are capitalized to the extent of direct support and contribution to construction and expansion projects. Costs of studies that directly result in specific construction projects are capitalized.

Maintenance and repairs, which do not significantly extend the value or life of property, plant and equipment, are expensed as incurred.

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

	Years
Buildings	50
Sewer Treatment Plants & Pump Stations	60
Collector Sewers & Interceptor Piping	80-100
Vehicles	5-10
Software/Computers	3-5
Office Furniture & Equipment	5-10
Machinery & Equipment	10-20

**Peters Township Sanitary Authority  
Notes to Financial Statements  
December 31, 2010 and 2009**

**Note 1 - Summary of Significant Accounting Policies (Cont'd)**

J. Statement of Cash Flows

The Authority considers all highly liquid unrestricted investments with a maturity of three months or less when purchased to be cash equivalents. The statement of cash flows includes trustee funds and restricted cash and cash equivalents.

K. Revenues and Rate Structure

Revenues are recognized on the accrual basis and as earned. Services are supplied to customers under a rate structure designed to produce revenues sufficient to provide for operating and maintenance costs, capital outlay, debt service, reserves and debt service coverage.

L. Net Assets

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

M. Reclassification

Certain accounts in the prior year's financial statements have been reclassified for comparative purposes to conform with the presentation in the current year's financial statements.

**Note 2 - Capital Assets**

Capital asset activity for the year was as follows:

	Balance 01/01/10	Additions	Retirements	Balance 12/31/10
<b>Capital Assets Being Depreciated</b>				
Site Improvement	\$ 193,535	\$ -	\$ -	\$ 193,535
Sewer Plants	5,367,323	-	-	5,367,323
Office Complex	1,141,545	-	-	1,141,545

**Peters Township Sanitary Authority**  
**Notes to Financial Statements**  
**December 31, 2010 and 2009**

**Note 2 - Capital Assets (Cont'd)**

	Balance 01/01/10	Additions	Retirements	Balance 12/31/10
<b>Capital Assets Being Depreciated (Cont'd)</b>				
Software/Computers	\$ 105,133	\$ 4,964	\$ 5,267	\$ 104,830
Permits	39,364	-	-	39,364
Machinery and Equipment	3,313,468	12,359	-	3,325,827
Vehicles	443,441	-	-	443,441
Process Piping	815,770	-	-	815,770
Power Feed Mains	225,500	-	-	225,500
Collector Sewers	18,219,003	15,582	-	18,234,585
Force Mains	104,601	-	-	104,601
Interceptors	2,922,730	-	-	2,922,730
Pump Stations	<u>1,091,258</u>	<u>-</u>	<u>-</u>	<u>1,091,258</u>
	33,982,671	32,905	5,267	34,010,309
Accumulated Depreciation	<u>(11,692,558)</u>	<u>(616,649)</u>	<u>(5,267)</u>	<u>(12,303,940)</u>
Net Capital Assets Being Depreciated	<u>22,290,113</u>	<u>(583,744)</u>	<u>-</u>	<u>21,706,369</u>
<b>Capital Assets Not Being Depreciated</b>				
Construction in Progress	413,285	326,331	-	739,616
Land	<u>675,008</u>	<u>-</u>	<u>-</u>	<u>675,008</u>
Total Capital Assets Not Being Depreciated	<u>1,088,293</u>	<u>326,331</u>	<u>-</u>	<u>1,414,624</u>
Net Total Capital Assets	<u>\$ 23,378,406</u>	<u>\$(257,413)</u>	<u>\$ -</u>	<u>\$ 23,120,993</u>

**Note 3 - Deposits and Investments**

Investments are stated at fair value except that U. S. Treasury and Agency obligations that have a remaining maturity of one year or less are shown at amortized cost. Fair value is based on quoted market prices. Funds are invested pursuant to the applicable trust indenture and the Municipality Authorities Act. The Municipal Authorities Act states that authorized types of investments shall be: United States Treasury Bills; short-term

**Peters Township Sanitary Authority**  
**Notes to Financial Statements**  
**December 31, 2010 and 2009**

**Note 3 - Deposits and Investments (Cont'd)**

obligations of the United States Government or its agencies or instrumentalities; deposits in savings accounts, time deposits or share accounts of institutions insured by FDIC; obligations of the United States or any of its agencies or instrumentalities backed by the full faith and credit of the United States and the Commonwealth of Pennsylvania; shares of an investment company registered under the Investment Company Act of 1940 provided the only investments of that company are in the authorized investments for Authority funds listed above. The deposit and investment policy of the Peters Township Sanitary Authority adheres to state statutes and prudent business practice. There were no deposit or investment transactions during the year that were in violation of either their state statutes or the policy of the Authority.

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in an event of a bank failure, the government's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. Deposits in excess of amounts covered by the Federal Deposit Insurance Corporation are collateralized in accordance with Act 72 of 1971 of the Pennsylvania State Legislature which requires the institution to pool collateral for all governments and have the collateral held by an approved custodian in the institution's name. As of December 31, 2010, \$864,407 of the Authority's bank balance of \$1,997,496 was exposed to custodial credit risk as follows:

Uninsured and Collateral Held by Pledging	
Bank's Agent not in the Authority's Name	<u>\$864,407</u>

As of December 31, 2010, the Authority had the following investments:

Investment	Maturity Date	Interest Rate	Fair Value
PSDLAF			\$ 7,082
PLGIT			137,333
Wells Fargo Advantage Gov't. Money Market Fund			471,818
Repurchase Agreement	09/01/13	5.390%	<u>667,000</u>
			<u>\$1,283,233</u>

**Interest Rate Risk** - The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit Risks** - The Municipal Authorities Act authorizes the types of investments allowed. These are described above. The Authority has no investment policy that would further limit its investment choices. The Authority's investments in the Pennsylvania School District Liquid Asset Fund (PSDLAF), Pennsylvania Local Government

**Peters Township Sanitary Authority**  
**Notes to Financial Statements**  
**December 31, 2010 and 2009**

**Note 3 - Deposits and Investments (Cont'd)**

Custodial Credit Risk - Deposits (Cont'd)

Investment Trust (PLGIT) and the Wells Fargo Gov't. Money Market Fund were rated AAAM by Standard & Poor's.

Concentration of Credit Risk - The Authority places no limit on the amount it may invest in any one issue. The investments in the Repurchase Agreement represent 52% of the total investments as of December 31, 2010.

Custodial Credit Risk - For an investment custodian, credit risk is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Repurchase Agreements underlying securities are held by the investment's counterparty, not in the Authority's name.

Investments

The Pennsylvania Local Government Investment Trust (PLGIT) and Pennsylvania School District Liquid Asset Fund (PSDLAF) were established as common law trusts, organized under laws of the Commonwealth of Pennsylvania. Shares of the funds are offered to certain Pennsylvania school districts, municipal authorities, and municipalities. The purpose of the funds is to enable such governmental units to pool their available funds for investments authorized by Section 440.1 of the Pennsylvania Public School Code of 1949, as amended. The funds have the characteristics of open end mutual funds and are not subject to credit risk classification. PLGIT and PSDLAF, collectively referred to as "The Funds", are governed by an elected board of trustees who are responsible for the overall management of The Funds. The trustees are elected from the several classes of local governments participating in The Funds. The Funds are audited annually by independent auditors. The Funds operate in a manner consistent with the SEC's Rule 2(a)7 of the Investment Company Act of 1940. The Funds use amortized cost to report net assets to compute share prices. The Funds maintain net asset value of \$1 per share. Accordingly, the fair value of the position in PLGIT and PSDLAF are the same as the value of PLGIT and PSDLAF shares.

**Note 4 - Restricted Assets**

The second supplemental Trust Indenture, dated as of September 1, 2003, and the third supplemental Trust Indenture, dated as of February 15, 2009, have mandated that the Authority set aside funds for specific purposes which are the Debt Service, Debt Service Reserve and 2009 Construction Funds. The Authority has determined to set aside funds in a Developers' Deposit Fund. These funds are referred to as Restricted Assets and are held by the Trustee or the Authority. Their purposes are as follows:

Debt Service Fund - The Authority shall pay out of the Debt Service Fund the principal and interest on the bonds then outstanding.

**Peters Township Sanitary Authority**  
**Notes to Financial Statements**  
**December 31, 2010 and 2009**

**Note 4 - Restricted Assets (Cont'd)**

Debt Service Reserve Fund - This Fund shall maintain a balance which is equal to the debt service reserve requirements on the Series of 2003 Bonds. Said sum shall be required to be maintained by the Authority until such time the amount shall be increased or decreased in connection with the issuance of additional bonds.

2009 Construction Fund - The funds in the account are to be used for the payment of the costs incurred with the construction project, the acquisition and construction of a new authority building and contain improvements to the Brush Run Plant.

Developers' Deposit Fund - Restricted for payment of expenses incurred by the Authority associated with a specific development; funds received from developer. Any excess monies remaining after all expenses are paid are to be returned to developer.

**Note 5 - Bond Discount and Issuance Costs**

The bond discount, issuance costs, and loss on defeasance of bonds are being amortized over the life of the original bond issue.

**Note 6 - Debt Payment**

A. The following are changes in debt payable for the year ended December 31, 2010:

	Balance 01/01/10	Additions	Retirements	Balance 12/31/10	Current Portion
Sewer Revenue Bonds	<u>\$4,375,000</u>	<u>\$ -</u>	<u>\$630,000</u>	<u>\$3,745,000</u>	<u>\$645,000</u>
Sewer Revenue Notes					
Pennvest	<u>\$ 308,964</u>	<u>\$ -</u>	<u>\$ 18,057</u>	<u>\$ 290,907</u>	<u>\$ 18,564</u>

B. Revenue Bonds

Issue of 2009; \$4,960,000 due serially through September 1, 2017; interest rates from 2.15% to 3.3%. \$3,745,000

C. Revenue Notes

Loan approved in 2003 up to \$421,015 with the PA Infrastructure Investment Authority due in monthly

**Peters Township Sanitary Authority**  
**Notes to Financial Statements**  
**December 31, 2010 and 2009**

**Note 6 - Debt Payment (Cont'd)**

C. Revenue Notes (Cont'd)

installments of \$1,992 for the first sixty months including interest at 1.387%, and monthly amounts of \$2,199 for 180 months, including interest at 2.774%.

\$ 290,907

D. The annual requirements to amortize all debt outstanding as of December 31, 2010 are as follows:

Year Ended December 31,	Bonds Payable		Notes Payable		Totals
	Principal	Interest	Principal	Interest	
2011	\$ 645,000	\$ 98,635	\$ 18,564	\$ 7,835	\$ 770,034
2012	665,000	84,768	19,086	7,313	776,167
2013	675,000	69,805	19,622	6,777	771,204
2014	420,000	52,930	20,174	6,225	499,329
2015	435,000	41,590	20,740	5,659	502,989
2016-2020	905,000	44,155	112,776	19,219	1,081,150
2021-2024	-	-	79,945	3,655	83,600
	<u>\$3,745,000</u>	<u>\$391,883</u>	<u>\$290,907</u>	<u>\$56,683</u>	<u>\$4,484,473</u>

**Note 7 - Defined Contribution Pension Plans**

Plant Employees

The Authority provides pension benefits for all of its full-time plant employees through a defined contribution plan, by participating in the Laborers' District Council of Western Pennsylvania Pension Fund for Local Union #1058 ("The Union"). This Plan is administered by Mellon Bank, N.A. Plan provisions and contribution requirements are established and may be amended by agreement between the Authority Board and The Union.

At December 31, 2010, there were eight plan members. The Authority is required to contribute \$1.83 for every hour worked through January 31, 2009. Effective February 1, 2009, the Authority was required to contribute \$1.88 for every hour worked and effective February 1, 2010, \$1.93 per hour was contributed. The total contribution required and made by the Authority for 2010 was based on 14,938 hours worked and amounted to \$28,830 (8.03% of covered payroll) and for 2009, was based on 15,557 hours worked and amounted to \$29,248 (7.35% of covered payroll).

**Peters Township Sanitary Authority**  
**Notes to Financial Statements**  
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**Note 7 - Defined Contribution Pension Plans (Cont'd)**

Office Employees

The Authority provides pension benefits for all employees not covered by the collective bargaining agreement. This Plan is the NRPTC Prototype Simplified Employee Pension Plan and is administered by Washington Federal Savings and Loan Association. Plan provisions and contribution requirements are established and may be amended by the Authority Board.

During the year ended December 31, 2010, there were five plan members. The Authority contributes 6% of each participating employee's compensation. The total contributions for 2010 and 2009 were \$17,511 and \$16,418, respectively.

**Note 8 - Operating Leases - Lessee**

The Authority was committed under a lease for office space. This lease is considered, for accounting purposes, to be an operating lease. Total payments made on this lease for the years ended December 31, 2010 and 2009 were \$13,692 and \$34,545 respectively. The lease terminated effective April 30, 2010 and was not renewed.

**Note 9 - Operating Lease - Lessor**

The Authority leases a house it had acquired as part of the purchase of a land acquisition in 2005. The land was acquired for the then anticipated expansion of its sewer plant. The property, including land, has a carrying value at December 31, 2010 of \$202,398. The lease is currently extended to September 30, 2011 with monthly rentals of \$875 discounted to \$825 if paid before the fifth day of the month. The Authority entered into a management agreement with a realtor to manage the property for a fee of eight percent (8%) of rents. Total future minimum rentals to be received as of December 31, 2010, are \$7,875.

**Note 10 - Compensated Absences Payable**

Under the terms of the union contract, employees may bank up to twenty-five (25) personal days. Should any bargaining unit employee retire and have any accumulated unused banked days, they can sell these days back to the Authority at eighty percent (80%) of the current wage rate. At December 31, 2010 and 2009, the Authority had accrued liabilities for these unused days in the amounts of \$13,365 and \$12,220, respectively.

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**Note 11 - Risk Management**

Peters Township Sanitary Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties.

The Authority also purchases commercial insurance for its employee health and accident insurance coverage.

Settled claims for these risks have not exceeded commercial insurance coverage for the past three years.

**Note 12 - Assessments and Assessment Receivable**

During the year ended December 31, 2004, the Authority completed the installation of a sewer line in an area that was not sewerred as required by the PA Department of Environmental Protection. The homeowners that benefitted from this sewer were assessed a fee. The fee per EDU was \$6,250, and if the owners accepted the assessment, they were given a \$1,000 discount, adjusting the assessment to \$5,250. The total assessment, was \$259,514. In addition, the Authority offered an installment plan for those owners that did not want to pay the assessment in full. The terms of the plan were payments are to be made over 216 months, including interest at 2.5%. The total amounts outstanding at December 31, 2010 and 2009 from this plan, was \$40,961 and \$45,614, respectively.

In prior years, the Authority entered into installment agreements with certain property owners. The purpose was to assist the property owners with the costs of a sewer line installation and special purpose tapping fee by advancing the costs and expenses for the project. The loans will be paid back over five years, including interest. The total amount outstanding on these loans as of December 31, 2010 and 2009, was \$9,036 and \$11,428, respectively.

In addition to the above, the Authority also has outstanding deferred assessments receivable in the amount of \$94,684 as of December 31, 2010 and 2009. These amounts are also reported as a noncurrent liability as the revenue has not been recognized.

**Note 13 - Construction Commitment**

As of December 31, 2010, the Authority had construction commitments in the amount of approximately \$140,000 for the plant energy efficiency improvement. It is anticipated these projects will be completed in 2011. This project is partially funded by a PA Conservation Works Grant.

**Note 14 - Subsequent Events**

In March 2011, the Board awarded bids for the Brush Run Water Pollution Control Plant Wet Weather Improvements Projects in the approximate amount of \$1.25 million. The project will be funded partially by a grant of \$600,000 and Authority construction and capital improvement funds.