North Huntingdon Township Municipal Authority

A Component Unit of North Huntingdon Township

Financial Statements and Required Supplementary and Supplementary Information

Years Ended April 30, 2011 and 2010 with Independent Auditor's Report

MaherDuessel
Certified Public Accountants

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NORTH HUNTINGDON TOWNSHIP
MUNICIPAL AUTHORITY

YEARS ENDED APRIL 30, 2011 AND 2010

TABLE OF CONTENTS

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Independent Auditor's Report

Board of Directors
North Huntingdon Township Municipal Authority

We have audited the accompanying statements of net assets of the North Huntingdon Township Municipal Authority (Authority), a component unit of North Huntingdon Township, as of April 30, 2011 and 2010, 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 the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide 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 the Authority as of April 30, 2011 and 2010, and the changes in its financial position and its 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 and pension schedules on pages i through vii and pages 27 through 29 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.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's financial statements as a whole. The analysis of operating revenues and expenses and schedules of balances - trustee controlled accounts are presented for purposes of additional analysis and are not a required part of the financial statements. The analysis of operating revenues and expenses and schedules of balances - trustee controlled accounts are the responsibility of management and were 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 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
August 5, 2011

North Huntingdon Township Municipal Authority Management's Discussion and Analysis

This section of the North Huntingdon Township Municipal Authority's (the "Authority") financial report presents an analysis of the Authority's financial condition and performance for the fiscal year 2011 that ended on April 30, 2011. Please read it in conjunction with the Authority's Financial Statements, which follow this section.

FINANCIAL HIGHLIGHTS

Revenues

- Total operating revenues increased by $880,485 or 13%, in Fiscal Year 2011.

- Delinquencies increased from an average of 4.45% in 2010 to 4.58% in 2011. This can be largely attributed to the overall state of the economy. However, this figure is calculated at the beginning of each new billing cycle, based on the unpaid balance from the previous cycle, and normally drops significantly after delinquent notices and certified letters are mailed and late payments are received.

Expenses

- Operating expenses increased by $218,374 or 4.0%.

Budgeting

- Comparing budget to actual, revenues were $421,825 higher, or a variance of 5.6%.

- Comparing budget to actual, expenses were $289,167 lower, or a variance of 6.2%.

- Comparing budget to actual, operating income, before depreciation, was $710,992 higher, or a variance of 25%.

Long Term Debt

- The Authority entered into a Swaption contract on October 20, 2005 that gave the counterparty (PNC) the option to make the Authority enter into a receivable-variable pay-fixed interest rate swap on the first day of each month commencing May 1, 2011 and terminating on April 1, 2020. The counterparty exercised this option April 1, 2011 which resulted in the Authority refunding the previously existing Guaranteed Sewer Revenue Bonds, Series of 2001 and issuing Variable Rate Demand Revenue Bonds, Series of 2011. Additionally, the Authority adopted GASB Statement No.

- Remaining balances on long-term debt at fiscal year-end were:

2011 Bond Issue	$ 9,525,000	
2002 PennVEST Loan	2,820,559	
2006 Rev. Obligation Note	1,078,468	(Yough Garage & Office)
Total	**$ 13,424,027**	

Other

- The Authority, upon the recommendation of its auditor, compiled an inventory of all developer-built sanitary sewer lines that were installed and conveyed to the Authority since 1995. The current value of these lines was added to the Authority's assets, resulting in an increase in net assets of $8,037,792.

- The Authority remained in compliance with all debt covenants required by its borrowing agreements.

- The system grew with 102 new customers to 11,686 active customers.

Fiscal Year 2011 Projects

Projects undertaken in fiscal year 2011:

- Continued cleaning and televising lines in the Brush Creek System as part of WWMA's Long Term Control Plan.

- Emergency repairs to the Highland Terrace Force Main and Indian Lake Force Main.

- Continued televising private laterals in Country Hills. As part of the project-wide testing program, 424 homes have been tested, resulting in a 68% failure rate.

- Continued program of televising private laterals at the time of home sales and refinancing. Since the program's inception in May, 2008, 1,447 homes have been tested through the end of fiscal year 2011, resulting in a 33% failure rate.

- Contracted repairs to private laterals in the second phase of the Country Hills' project for those property owners eligible for CDBG grants.

- Expanded payment options to include credit card, debit card, and electronic check, in addition to ACH transactions.

Fiscal Year 2012 Projects

Projects scheduled for fiscal year 2012:

The Authority's five-year capital plan projects $2.5 million in expenditures in fiscal year 2012, which include:

- Replace lines in Phase 2 of the Country Hills' line replacement project.

- Televise homes in Phase 3 of the Country Hills' lateral repair project.

- Televise laterals and repair main lines on portions of Wayne Drive, Richard Road, Torie Drive, Ward Drive, Alberta Drive, and Hedy Lynn Drive.

- Continue to clean, televise, and repair main and private lines in the Brush Creek system under the WWMA Long-Term Control Plan and as a result of the DEP-imposed Corrective Action Plan for the WWMA system.

- Install flow meters within the Brush Creek drainage system to monitor flow and infiltration.

- Replace a chlorine gas disinfectant system at Yough Plant with sodium hypochlorite.

- Construct pole building at the Yough Plant to store equipment and vehicles.

- Relocate emergency bypass at Stewartsville Pump Station and re-route stormwater lines. Also install new, higher-capacity grinder.

- Replace the comminutor and raw sewage pumps at the Long Run Pump Station.

- Modifications to the Headworks at the Indian Lake Pump Station.

- Install new, higher-capacity grinder at the Yough Plant.

Other actions anticipated during fiscal year 2012:

- Institute a $1.25 per month rate increase effective May 1, 2011. The funds generated by this increase will be used to cover increased operating expenses and capital

- Increase tap fee from $3,070 to $3,300, based on an updated analysis of allowable capital expenses. The Authority reviews the tap fee annually as part of the budget process.

- Increase fees for various services, such as dye testing, lateral inspection, TV and jet truck rental, municipal lien letters, etc. to recoup actual costs.

- Update GIS system using ArcView software to ensure coordination with the Township's system.

- Finalize comments to the Township-wide Act 537 Plan and obtain final DEP approval.

- Conduct full, updated appraisal of Authority's assets.

REQUIRED FINANCIAL STATEMENTS

The Financial Statements of the Authority report information on the Authority's use of accounting methods that are similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities.

The Statement of Net Assets includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to Authority creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Authority, and assessing the liquidity and financial flexibility of the Authority.

All of the current year's revenues and expenses are accounted for in the Statement of Operating Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all its costs through its sewage disposal rates and other fees. The Authority's rate studies are updated periodically to reflect both the operating and long-term capital requirements of the Authority. The most recent rate study was completed in 2007 and the five-year Capital Improvements Plan was updated in May 2011.

The final required Financial Statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Authority's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities, and the change in cash during the reporting period.

The Notes to 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, and subsequent events, if any.

NET ASSETS

The summary of the Authority's statements of net assets is presented below:

Condensed Statements of Net Assets
Table 1

	Fiscal Year 2011	Fiscal Year 2010	Dollar Change
Current assets	$ 2,427,269	$ 2,250,725	$ 176,544
Capital and other long-term assets	45,812,243	45,092,536	719,707
Total Assets	$ 48,239,512	$ 47,343,261	$ 896,251
Current liabilities	$ 1,882,943	$ 1,686,438	$ 196,505
Current liabilities (payable from restricted assets)	33,484	140,013	(106,529)
Non-current liabilities	13,660,488	14,447,068	(786,580)
Total Liabilities	$ 15,576,915	$ 16,273,519	$ (696,604)
Invested in capital assets, net of related debt	$ 26,406,323	$ 25,581,602	$ 824,721
Restricted	3,456,221	3,112,869	343,352
Unrestricted	2,800,053	2,375,271	424,782
Total Net Assets	$ 32,662,597	$ 31,069,742	$ 1,592,855

With the Statements of Net Assets giving the view of net changes, the Statements of Revenues, Expenses, and Changes in Net Assets give the basis for these changes. A condensed version of the Statements of Revenues, Expenses, and Changes in Net Assets is provided:

Condensed Statements of Revenues, Expenses, and Changes in Net Assets
Table 2

	Fiscal Year 2011	Fiscal Year 2010	Dollar Change
Operating revenues	$ 7,857,737	$ 6,977,252	$ 880,485
Non-operating revenues	183,105	136,436	46,669
Total Revenues	8,040,842	7,113,688	927,154
Depreciation expense	1,571,484	1,524,708	46,776
Other operating expenses	4,338,578	4,166,980	171,598
Non-operating expenses	697,925	797,884	(99,959)
Total Expenses	6,607,987	6,489,572	118,415
Net Income (Loss)	1,432,855	624,116	808,739
Capital contribution revenues	160,000	480	159,520
Change in Net Assets	1,592,855	624,596	968,259
Net assets, beginning of year, as restated	31,069,742	30,445,146	624,596
Net assets, end of year	$ 32,662,597	$ 31,069,742	$ 1,592,855

SUMMARY OF ORGANIZATION AND BUSINESS

The Authority was incorporated in 1946 under the Municipality Authorities Act of 1945. The Authority was originally formed to act as a water authority. The Authority later became a school authority, and finally was charged with the responsibility of constructing and maintaining a sanitary sewer system in 1969.

The Authority operates a 3.31 mgd sewer treatment facility known as the Youghiogheny Sewage Treatment Plant ("Plant") located in Turner Valley, where sewage from approximately one-half of its 11,686 active customers is treated. The remaining half is treated at the Brush Creek Water Pollution Control Plant owned by the Western Westmoreland Municipal Authority on Route 993 in the Township. In addition, the Authority owns and maintains 13 pump stations, approximately 255 miles of sewer lines, and over 6,000 manholes.

The Authority's Board of Directors is made up of five members who are appointed by the Township's Board of Commissioners. Board members are appointed for five-year, staggered terms. Day-to-day operation of the Authority is the responsibility of the General Manager, who is hired by the Board to carry out its policies.

The Authority has 22 full-time employees – 16 who work at the Plant and throughout the collection system, and 6 located in the Administrative Office on the second floor of the Town House at 11265 Center Highway, North Huntingdon, PA.

Regular monthly meetings are held on the first Wednesday of each month beginning at 7:00 PM in the main meeting room at the Town House. The regular meeting is preceded by a public work session at 5:30 PM in the Authority's conference room on the second floor of the Town House.

FUTURE CHALLENGES

The Authority's biggest challenge today, and well into the foreseeable future, continues to be the need to eliminate inflow and infiltration (I&I) of storm water into the sanitary sewer system, as well as to maintain an aging infrastructure. The sanitary sewer system was designed to carry a specific volume of sewerage flow. Deteriorating public lines, manholes, private laterals, and illegal connections permit storm water to overload the system during certain wet weather conditions.

These overloads can result in basement flooding, pump station bypasses, and ultimately could require additional retention tanks, or a plant expansion, both of which are costly solutions. Rather than allocate funds to build additional retention, the Authority has implemented other methods of removing I&I, such as inspecting private laterals and requiring homeowners to make repairs when necessary. The Authority will also continue its program of repairing main lines and manholes under its five-year Capital Improvement Plan.

CONTACTING THE AUTHORITY'S MANAGER

This financial report is designed to provide our ratepayers with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the Authority's Manager at 724-863-2860.

Katherine B. Petrosky
General Manager

NORTH HUNTINGDON TOWNSHIP MUNICIPAL AUTHORITY

STATEMENTS OF NET ASSETS

APRIL 30, 2011 AND 2010

Assets

	2011	2010
Current assets:		
Cash	$ 459,200	$ 391,987
Investments	683,413	751,251
Accounts receivable (net of allowance of $0 for 2011 and 2010):		
Sewer service	1,118,901	938,579
Assessments and tap-ins	29,684	29,448
Interest receivable-assessments	39,514	37,677
Other	9,106	4,763
Prepaid expenses	87,451	97,020
Total current assets	2,427,269	2,250,725
Restricted assets:		
Cash	135,300	140,636
Investments	3,354,405	3,112,246
Total restricted assets	3,489,705	3,252,882
Capital assets not depreciated	2,754,307	2,664,807
Capital assets, net of accumulated depreciation	38,241,086	38,464,041
Capital assets	40,995,393	41,128,848
Deferred outflow - derivative instruments	1,095,007	709,938
Bond issuance costs	232,138	868
Total Assets	$ 48,239,512	$ 47,343,261

Liabilities and Net Assets

	2011	2010
Liabilities:		
Current liabilities:		
Accounts payable	$ 518,966	$ 447,570
Accrued payroll and withholdings	136,777	137,822
Current portion of Revenue Obligation Note, Series 2006	91,806	88,300
Current portion of PennVest loans	193,914	187,746
Current portion of borrowing payable - derivative transaction	66,480	-
Current portion of Refunding Bonds, Series of 2001	-	825,000
Current portion of Refunding Bonds, Series of 2011	875,000	-
Total current liabilities	1,882,943	1,686,438
Current liabilities (payable from restricted assets):		
Accounts payable	245	46,817
Accrued interest payable	10,224	63,128
Developer deposits	23,015	30,068
Total current liabilities (payable from restricted assets)	33,484	140,013
Long-term liabilities:		
Derivative liability	1,095,007	709,938
Long-term portion of borrowing payable - derivative transaction	527,922	576,473
Loans and bonds payable	12,263,307	13,424,029
Less: deferred refunding loss	(225,748)	(263,372)
Total long-term liabilities	13,660,488	14,447,068
Total Liabilities	15,576,915	16,273,519
Net Assets:		
Invested in capital assets, net of related debt	26,406,323	26,406,602
Restricted net assets	3,456,221	3,112,869
Unrestricted net assets	2,800,053	1,550,271
Total Net Assets	32,662,597	31,069,742
Total Liabilities and Net Assets	$ 48,239,512	$ 47,343,261

NORTH HUNTINGDON TOWNSHIP
MUNICIPAL AUTHORITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

YEARS ENDED APRIL 30, 2011 AND 2010

	2011	2010
Operating Revenues:		
Sewer rentals	$ 7,359,096	$ 6,713,130
New construction tap-ins and saddles	409,732	197,724
Existing development tap-ins	88,909	66,398
Total operating revenues	7,857,737	6,977,252
Operating Expenses:		
Sewer system operation	1,936,753	2,064,342
Purchased sewer treatment - WWMA	1,647,621	1,381,792
Administration	754,204	720,846
Depreciation	1,571,484	1,524,708
Total operating expenses	5,910,062	5,691,688
Operating Income	1,947,675	1,285,564
Nonoperating Revenues (Expenses):		
Interest revenue	8,270	10,514
Interest on borrowing payable - derivative instrument	(17,928)	(17,388)
Interest on PennVest loan	(94,610)	(100,582)
Interest on Sewer Revenue Bonds	(502,951)	(592,985)
Interest on Revenue Note	(43,944)	(47,313)
Amortization of bond issuance costs and deferred refunding loss	(38,492)	(39,616)
Miscellaneous	174,835	125,922
Total nonoperating revenues (expenses)	(514,820)	(661,448)
Income before capital contribution revenues	1,432,855	624,116
Capital Contribution Revenues	160,000	480
Change in Net Assets	1,592,855	624,596
Net Assets:		
Beginning of year, as restated	31,069,742	30,445,146
End of year	$ 32,662,597	$ 31,069,742

See accompanying notes to financial statements.

NORTH HUNTINGDON TOWNSHIP MUNICIPAL AUTHORITY

STATEMENTS OF CASH FLOWS

YEARS ENDED APRIL 30, 2011 AND 2010

	2011	2010
Cash Flows From Operating Activities:		
Cash received from customers	$ 7,675,352	$ 6,961,995
Cash payments for administrative expenses	(754,204)	(720,846)
Cash payments for operating expenses	(3,560,595)	(3,406,988)
Net cash provided by (used in) operating activities	3,360,553	2,834,161
Cash Flows From Noncapital Financing Activities:		
Miscellaneous	174,835	125,922
Cash Flows From Capital and Related Financing Activities:		
Interest paid on debt	(714,174)	(738,648)
Capital asset purchases, net	(1,453,456)	(1,543,411)
Land disposals	15,425	-
Payment of bond principal	(825,000)	(790,000)
Repayment to PennVest	(187,746)	(181,774)
Repayment of Revenue Obligation Note	(88,300)	(84,928)
Increase in derivative payable	17,929	-
Bond issuance costs	(232,138)	-
Capital contributions	160,000	480
Net cash provided by (used in) capital and related financing activities	(3,307,460)	(3,338,281)
Cash Flows From Investing Activities:		
Purchase of investments	(25,680,787)	(2,380,581)
Sale of investments	25,506,466	2,610,014
Interest earned	8,270	10,514
Net cash provided by (used in) investing activities	(166,051)	239,947
Increase (Decrease) in Cash	61,877	(138,251)
Cash:		
Beginning of year	532,623	670,874
End of year	$ 594,500	$ 532,623
Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities:		
Operating income	$ 1,947,675	$ 1,285,564
Adjustments to reconcile net operating income to net cash provided by (used in) operating activities:		
Depreciation	1,571,484	1,524,708
Change in operating assets:		
Accounts receivable - sewer service	(180,322)	2,497
Accounts receivable - assessments and tap-ins	(236)	6,335
Accounts receivable - other	(4,343)	(1,817)
Prepaid expenses	9,569	(31)
Change in operating liabilities:		
Accounts payable	24,824	56,378
Accrued payroll and withholdings	(1,045)	(17,232)
Developer's deposits	(7,053)	(22,241)
Net cash provided by (used in) operating activities	$ 3,360,553	$ 2,834,161

See accompanying notes to financial statements.

1. Reporting Entity

The North Huntingdon Township Municipal Authority (Authority) is a body corporate and politic, organized and existing under the laws of the Commonwealth of Pennsylvania, pursuant to the Municipality Authorities Act of 1945, as amended. The Authority is authorized to acquire, hold, construct, improve, own, maintain, and operate sewage collection and treatment facilities within North Huntingdon Township (Township), Westmoreland County, Pennsylvania.

Under accounting principles generally accepted in the United States of America, the Authority is a component unit of the Township, because the Township appoints all Authority Board members and guarantees its debt. Thus, it is an integral part of the Township and should be included in the financial statements of the Township. However, separate financial statements of the Authority are prepared to satisfy reporting requirements of its debt covenants and the Municipal Authority Act.

2. Summary of Significant Accounting Policies

The accompanying financial statements of the Authority conform to accounting principles generally accepted in the United States of America (GAAP) for governmental enterprise funds. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that the costs of providing the service to the general public, including depreciation, be financed or recovered primarily through user charges.

The following is a summary of the significant accounting policies of the Authority:

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized. The accompanying financial statements are presented on an accrual basis whereby revenues are recognized when earned, irrespective of when they are billed or collected, and expenses are recognized when incurred.

Statements of Cash Flows

For purposes of the statements of cash flows, cash is defined as bank demand deposits and petty cash on hand.

Restricted Assets

The Authority has established certain restricted asset accounts to satisfy the requirements of a bond trust indenture. In accordance with the terms of the bond trust indenture, the Authority is required to periodically set aside certain amounts to assure the availability of adequate moneys for servicing the Authority's long-term debt and completing capital additions. These restricted accounts are held by a trustee.

Capital Assets

Capital assets are recorded at cost. Depreciation is provided on all capital assets on a straight-line basis over the following estimated useful lives of the assets:

Assets	Years
Plant and system	15-40
Motor vehicles	5
Office furniture and equipment	10
Tools and equipment	5-10

Bond Issue Costs and Deferred Refunding Loss

Bond issue costs and the deferred refunding loss are amortized over the life of the related bonds utilizing the straight line method. Any unamortized portion of the bond issue costs is reflected as an asset on the statements of net assets and the deferred refunding loss as a reduction of the related bond payable.

GAAP Hierarchy

The Authority has elected not to apply any Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989, as permitted by Governmental Accounting Standards Board (GASB) Statement No. 20, *"Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting."*

Contributed Capital

The Authority follows GASB Statement No. 33, *"Accounting for Non-Exchange Transactions."* Under the provisions of this Statement, capital contributions are no longer reflected as direct additions to equity but rather are reported as a component of the change in net assets.

Net Assets

GASB Statement No. 34, *"Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,"* requires the classification of 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 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.

- Restricted – This component of net assets consists of constraints placed on net assets use through external restrictions. The Authority had restricted net assets of $3,456,221 and $3,112,869 at April 30, 2011 and 2010, respectively. These amounts are restricted by the debt covenants and by the rate-setting legislation passed by the Authority.

- 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."

Receivables

User fees are recognized when earned; accordingly, at year-end, an amount is recognized as revenue for fees that have been earned but not yet billed. Tap-in fees are a one-time charge billed to customers who are connecting to the existing sewer system. The tap-in fees are recognized as revenue when billed to customers.

Accounts receivable are shown net of an allowance of $0 at April 30, 2011 and 2010. The allowance is determined by management based on specific identification and no allowance was deemed appropriate.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures or expenses during the reporting period. Actual results could differ from those estimates.

Restatement of Net Assets

During the current fiscal year, the Authority worked with its engineer to estimate the net book value of sewer lines paid for by developers and conveyed to the authority upon completion of the developments since 1995, the year in which significant development began in the Township. These assets and the related accumulated depreciation had previously not been recorded on the Authority's books. The net book value of the sewer lines paid for by developers prior to 1995 is believed to be insignificant. As a result of the additions, the beginning net assets as of May 1, 2009 were increased by $8,037,792 over amounts previously reported. This increase of $8,037,792 is composed of the following at May 1, 2009:

Plant and system	$	8,749,796
Less: related accumulated depreciation		(712,004)
Net increase	$	8,037,792

Effective May 1, 2010, the Authority adopted, GASB Statement No. 53, *"Accounting and Financial Reporting for Derivative Instruments."* This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the accrual basis of accounting. The Statement requires that accounting changes to conform with the provisions of this Statement should be applied retroactively by restating financial statements for all prior periods presented. As such, net assets as of April 30, 2009 and 2010 were restated to comply with the provision of this statement as follows:

Net assets, April 30, 2009	$	22,457,224
Adjustment of prior year deferred revenue for upfront payment		509,215
Establish borrowing payable - derivative transaction		(559,085)
Establish deferred outflow - derivative instrument		658,907
Establish derivative liability		(658,907)
Restatement for conveyance of developer sewer lines		8,037,792
Net assets, April 30, 2009, as restated		30,445,146
Change in net assets - 2010 financial statements		624,596
Net assets, April 30, 2010, as restated	$	31,069,742

3. Cash and Investments

The Authority is authorized to make investments of the following types pursuant to the Municipal Authority Act of 1945. The authorized investments include (1) United States Treasury bills, (2) short-term obligations of the United States government or its agencies or instrumentalities, (3) deposits in savings accounts or time deposits or share accounts of institutions which are insured, (4) obligations of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities or any political subdivision thereof, and (5) shares of an investment company registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, provided that the investments of that company meet the criteria in (1) through (4) above.

The deposit and investment policy of the Authority adheres to state statutes and prudent business practice. There were no deposit or investment transactions during the period that were in violation of either the state statutes or the policy of the Authority.

The bond trust indenture authorizes the Authority to invest in obligations of the U.S. Government and government-sponsored agencies and instrumentalities; certificates of deposits, fully insured or collateralized; certain commercial paper and repurchase agreements; and highly rated bank promissory notes, investment funds, or trusts. Throughout the years ended April 30, 2011 and 2010, the Authority invested its funds in only the above authorized investments.

For the fiscal years ending April 30, 2011 and 2010, GASB Statement No. 40, *"Deposit and Investment Risk Disclosures,"* requires disclosures related to the following deposit and investment risks: credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk. The following is a description of the Authority's deposit and investment risks:

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be retuned to it. The Authority does not have a formal deposit policy for custodial credit risk. As of April 30, 2011 and 2010, respectively, $218,387 and $182,180 of the Authority's bank balance of $677,657 and $711,211 were 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 $694,500 and $702,623 as of April 30, 2011 and 2010, respectively. At April 30, 2011 and 2010, $459,200 and $391,987, respectively, of the book balances are classified as cash, $135,300 and $140,636, respectively, are classified as restricted cash, and $100,000 and $170,000, respectively, are classified as current asset investments.

The Pennsylvania Local Government Investment Trust (PLGIT) and the 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 these funds is to enable such governmental units to pool available funds for investment in instruments. The Authority's deposits in these pooled funds are not subject to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form. The fair value of the Authority's position in the external investment pool is the same as the value of the pooled shares. All investments in the external investment pool that are not SEC-registered are subject to oversight by the Commonwealth of Pennsylvania. The amounts in PLGIT at April 30, 2011 and 2010 were $399,024 and $397,010, respectively. The amounts in PSDLAF at April 30, 2011 and 2010 were $184,389 and $184,241, respectively. These investments are reflected as current asset investments on the statements of net assets.

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. However, the U.S. Government Money Market Funds held by the Authority have an average maturity of less than 90 days.

Credit Risk – The Authority has no formal investment policy that would limit its investment choices based on credit ratings by nationally recognized statistical rating organizations. As of April 30, 2011 and 2010, the Authority's investments in PLGIT and PSDLAF were rated AAAm by Standard & Poor's.

At April 30, 2011 and 2010, the Authority also held U.S. Government Money Market Funds totaling $3,354,405 and $3,112,246, respectively. These funds are classified as restricted investments on the statements of net assets. As of April 30, 2011 and 2010, these investments were rated AAAm by Standard & Poor's.

Concentration of Credit Risk – The Authority places no limit on the amount the Authority may invest in any one issuer. As of April 30, 2011 and 2010, the Authority had 83% and 81%, respectively, of its investments in U.S. Government Money Market Funds with Manufacturers and Traders Trust Company.

4. CAPITAL ASSETS

A summary of changes in capital assets are as follows:

NORTH HUNTINGDON TOWNSHIP
MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED APRIL 30, 2011 AND 2010

	Balance at May 1, 2010 (as restated)	Additions	Deletions	Balance at April 30, 2011
Capital assets, not being depreciated:				
Land and rights of way	$ 1,446,329	$ 30,000	$ (15,427)	$ 1,460,902
Capital additions in progress	1,218,478	74,927	-	1,293,405
Total capital assets, not being depreciated	2,664,807	104,927	(15,427)	2,754,307
Capital assets, being depreciated:				
Plant and system	66,051,166	1,329,585	-	67,380,751
Motor vehicles	816,208	-	(17,515)	798,693
Office furniture and equipment	552,377	16,304	-	568,681
Tools and equipment	507,358	2,640	-	509,998
Total capital assets, being depreciated	67,927,109	1,348,529	(17,515)	69,258,123
Less accumulated depreciation for:				
Plant and system	(27,944,756)	(1,440,715)	-	(29,385,471)
Motor vehicles	(633,714)	(37,646)	17,515	(653,845)
Office furniture and equipment	(423,875)	(79,362)	-	(503,237)
Tools and equipment	(460,723)	(13,761)	-	(474,484)
Total accumulated depreciation	(29,463,068)	(1,571,484)	17,515	(31,017,037)
Total capital assets, being depreciated, net	38,464,041	(222,955)	-	38,241,086
Total capital assets, net	$ 41,128,848	$ (118,028)	$ (15,427)	$ 40,995,393

NORTH HUNTINGDON TOWNSHIP
MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED APRIL 30, 2011 AND 2010

	Balance at May 1, 2009	Additions	Deletions	Restatement	Balance at April 30, 2010
Capital assets, not being depreciated:					
Land and rights of way	$ 1,446,329	$ -	$ -	$ -	$ 1,446,329
Capital additions in progress	554,450	664,028	-	-	1,218,478
Total capital assets, not being depreciated	2,000,779	664,028	-	-	2,664,807
Capital assets, being depreciated:					
Plant and system	56,432,534	868,836	-	8,749,796	66,051,166
Motor vehicles	816,208	-	-	-	816,208
Office furniture and equipment	553,625	10,547	(11,795)	-	552,377
Tools and equipment	507,358	-	-	-	507,358
Total capital assets, being depreciated	58,309,725	879,383	(11,795)	8,749,796	67,927,109
Less accumulated depreciation for:					
Plant and system	(25,781,694)	(1,278,022)	-	(885,040)	(27,944,756)
Motor vehicles	(583,469)	(50,245)	-	-	(633,714)
Office furniture and equipment	(430,286)	(5,384)	11,795	-	(423,875)
Tools and equipment	(442,702)	(18,021)	-	-	(460,723)
Total accumulated depreciation	(27,238,151)	(1,351,672)	11,795	(885,040)	(29,463,068)
Total capital assets, being depreciated, net	31,071,574	(472,289)	-	7,864,756	38,464,041
Total capital assets, net	$ 33,072,353	$ 191,739	$ -	$ 7,864,756	$ 41,128,848

5. LONG-TERM DEBT

The following are changes in debt:

Year Ended April 30, 2011	Beginning of Year Balance	Additions	Retirements	End of Year Balance	Due Within One Year
Sewer Revenue Bonds - 2001	$ 10,350,000	$ -	$ (10,350,000)	$ -	$ -
Revenue Obligation Note - 2006	1,166,770	-	(88,302)	1,078,468	91,806
PennVest Loan #2	3,008,305	-	(187,746)	2,820,559	193,914
Variable Rate Demand Bonds - 2011	-	9,525,000	-	9,525,000	875,000
	$ 14,525,075	$ 9,525,000	$ (10,626,048)	$ 13,424,027	$ 1,160,720

Year Ended April 30, 2010	Beginning of Year Balance	Additions	Retirements	End of Year Balance	Due Within One Year
Sewer Revenue Bonds - 2001	$ 11,140,000	$ -	$ (790,000)	$ 10,350,000	$ 825,000
Revenue Obligation Note - 2006	1,251,698	-	(84,928)	1,166,770	88,300
PennVest Loan #2	3,190,079	-	(181,774)	3,008,305	187,746
	$ 15,581,777	$ -	$ (1,056,702)	$ 14,525,075	$1,101,046

On December 6, 2000, the Authority issued $17,020,000 in Guaranteed Sewer Revenue Bonds, Series of 2001 (2001 Bonds), to advance refund $14,415,000 of the Sewer Revenue Bonds, Series of 1991 (1991 Bonds) issued on July 2, 1991 in the amount of $16,320,000 and to acquire an additional $2,605,000 for various sewer construction projects. The 2001 Bonds bear interest on the unpaid principal at annual rates ranging from 4.40% to 5.75%, payable April 1 and October 1 each year through 2020. This bond was refunded during the year ended April 30, 2011 as part of the issuance of the demand revenue bond, series of 2011 discussed below.

The advance refunding of the 1991 Bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $639,612. This difference, reported in the accompanying financial statements as a deduction of $225,748 and $263,372 in fiscal years 2011 and 2010, respectively, from bonds payable, is being charged to operations through the year 2017, using the straight-line method.

The 1991 Bonds refunded the 1987 Bonds, which were issued to refund Series A of 1968 and Series B of 1976 Bonds and to provide funds for sewer system construction. A portion of the proceeds of the 1987 Bonds was deposited in an escrow fund sufficient to make required principal and interest payments on the refunded bonds. Accordingly, the liability for the refunded bonds and the assets in the escrow fund are excluded from the financial statements of the Authority. The outstanding balance of the 1987 Bonds was $253,305 and $294,388 at April 30, 2011 and 2010, respectively.

Under the bond trust indenture related to the 2001 and 2011 Bonds, the Authority has made certain covenants, which essentially provide that rates are to be set at levels such that system revenues together with amounts available in the revenue fund are sufficient to provide funds to pay current expenses of the Authority (without consideration for depreciation) and an amount equal to 110% of debt service requirements related to the bonds. The Authority is in compliance with the aforementioned debt covenants.

On April 1, 2011, the Authority issued a Variable Rate Demand Revenue Bonds, Series of 2011, in the amount of $9,525,000 to refinance the Guaranteed Sewer Revenue Bonds, Series of 2001. The Variable Rate Demand Revenue Bonds, Series of 2011 mature on various dates with payments ranging from $875,000 to $1,260,000 with varying interest rates determined monthly.

The refunding resulted in an economic loss to the Authority of approximately $232,000 and an increase in debt service payments of approximately $200,000. A deferred refunding loss did not result from the issuance of the 2011 variable rate demand revenue bonds.

Future annual debt service requirements for the note are as follows:

Year	Principal	Interest	Total
2012	$ 875,000	$ 503,873	$ 1,378,873
2013	920,000	457,585	1,377,585
2014	975,000	408,917	1,383,917
2015	1,025,000	357,340	1,382,340
2016	1,085,000	303,117	1,388,117
2017-2020	4,645,000	608,350	5,253,350
	$ 9,525,000	$ 2,639,182	$ 12,164,182

Interest payments were calculated for the Variable Rate Demand Revenue Bonds, Series of 2011 using the synthetic fixed rate of 5.29% as described in Note 12.

In April 2002, the Authority obtained a PennVest loan in the amount of $4,734,573 for the purpose of constructing and operating a community sewer system. The loan will be received in portions from PennVest for the sole purpose of partially financing the eligible costs of the project. Interest only on the unpaid principal will be payable in monthly installments on the first day of each calendar month, beginning with the first calendar month following a loan payment and ending on September 1, 2003. Principal and interest will be payable in monthly installments commencing on the first day of each calendar month, beginning with October 1, 2003. The loan, whose last scheduled debt maturity is May 1, 2023, bears interest at rates ranging from 1.619% to 3.237%. The Authority drew down $4,369,410 from the PennVest loan as of April 30, 2006, which is the full amount drawn down. The balance of the loan was $2,820,559 and $3,008,305 at April 30, 2011 and 2010, respectively.

The annual debt service maturities are as follows:

Fiscal	Revenue Obligation Note	
Year	Principal	Interest
2012	$ 91,806	$ 40,438
2013	95,451	36,793
2014	99,241	33,003
2015	103,181	29,063
2016	107,278	24,966
2017-2021	581,511	57,490
	$ 1,078,468	$ 221,753

In February 2006, the Authority obtained a Revenue Obligation Note, Series 2006, in the amount of $1,500,000 for the purpose of constructing a maintenance garage at its Youghiogheny Sewage Treatment Plant and for other related capital improvements. The Note bears interest on the unpaid principal at an annual rate of 3.9%, payable in monthly installments through February 2021.

The annual debt service maturities are as follows:

Fiscal Year	Revenue Obligation Note Principal	Revenue Obligation Note Interest
2012	$ 193,914	$ 88,442
2013	200,285	82,071
2014	206,865	75,491
2015	213,662	68,694
2016	220,682	61,674
2017-2021	1,217,049	194,730
2022-2025	568,102	20,075
	$ 2,820,559	$ 591,177

Future aggregate debt service requirements for the Authority are as follows:

	Principal	Interest	Total
2012	$ 1,160,720	$ 632,753	$ 1,793,473
2013	1,215,736	576,449	1,792,185
2014	1,281,106	517,411	1,798,517
2015	1,341,843	455,097	1,796,940
2016	1,412,960	389,757	1,802,717
2017-2021	6,443,560	860,570	7,304,130
2022-2024	568,102	20,075	588,177
	$ 13,424,027	$ 3,452,112	$ 16,876,139

Interest payments were calculated for the Variable Rate Demand Revenue Bonds, Series of 2011 using the synthetic rate of 5.29% as described in Note 12.

In conjunction with their derivative instrument transaction described in Note 12, the Authority received an up front cash payment. The upfront cash payment received by the Authority was considered to be a borrowing at a rate of 3.11%. As of April 30, 2011 and 2010, the borrowing had an outstanding balance of $594,402 and $576,473, respectively. No payments had made on the borrowing previously as the swaption was exercised by the counterparty on April 1, 2011. Principal and interest payments will begin on monthly on May 1, 2011 as a component of the fixed rate payments required to be made by the Authority per their interest rate swap will continue until the borrowing’s final maturity in 2019, as summarized in the table below. Interest through April 30, 2011 was being accreted to the principal amount annually. Accreted interest on the borrowing was $85,187 and $67,258 at April 30, 2011 and 2010, respectively.

Year Ending June 30,	Principal	Interest	Total
2012	$ 66,480	$ 17,544	$ 84,024
2013	68,578	15,446	84,024
2014	70,741	13,283	84,024
2015	72,973	11,051	84,024
2016	75,275	8,749	84,024
2017 - 2019	240,355	11,699	252,054
Total	$ 594,402	$ 77,772	$ 672,174

6. PURCHASED SEWAGE TREATMENT

The Authority has a service agreement with the Western Westmoreland Municipal Authority (WWMA) whereby WWMA provides treatment of sewage drained from the Authority's Brush Creek Collection System. Payments to WWMA are based upon WWMA's current rates and the number of Equivalent Dwelling Units served by WWMA. The Authority incurred $1,647,621 and $1,381,792 of expense in fiscal years 2011 and 2010, respectively.

There may be additional payments by the Authority in the event that receipts and revenues from customers are insufficient to enable the WWMA to meet its obligations. No additional payments were required in fiscal years 2011 or 2010.

7. PENSION PLAN

Description of Plan

The Authority established a pension plan (Plan) for its employees by resolution effective July 1, 1980. The Plan was subsequently amended; the latest pension agreement was effective February 21, 1991. The Plan is part of the Pennsylvania Municipal Retirement System (PMRS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for municipalities and authorities. The Plan operates on a calendar year basis.

All permanent, full-time employees are eligible to participate in the Plan. An employee is fully vested after five years. The normal retirement age is 60 years of age or older. Plan provisions are established by municipal ordinance with the Authority for municipal contributions required by Act 205 of the Commonwealth (the Act). The basic annual benefit shall be equal to 2% of the member's final salary multiplied by all years of credited service. Final salary shall be calculated based upon the highest three-year average salary. Early retirement is available to those members who have separated voluntarily after 20 years of credited service or who have been involuntarily terminated after eight years of credited service. Benefits will be actuarially reduced for each year or partial year thereof prior to age 60 that early retirement takes place. At retirement, a member may select a reduced joint annuitant benefit. There shall be no offset for social security benefits received. Members shall contribute 3.5% of their total compensation in a manner consistent with Board-established policy. The Authority is required to contribute the remaining amount necessary to fund the plan, using the actuarial basis specified by statute. The Authority may optionally award post-retirement benefit adjustments based on investment performance.

Per the latest available demographic information, January 1, 2009, employee membership data related to the Plan was as follows:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to, but not yet receiving, benefits	7
Active plan participants:	
Vested	18
Nonvested	6
Total	31

Administration and Investment

The Plan is administered by the PMRS under a trust agreement where the assets of the pension plans of the various participating municipalities are pooled for investment purposes. The PMRS Board has adopted an asset-valuation method that was first effective for the year ending December 31, 1985. This method recognizes that a portion of investment income be distributed as excess interest after required allocations for regular interest and administrative expense reserves. No excess interest was distributed to the Authority during fiscal years 2011 or 2010.

Financial Information

PMRS is separately audited and a separate audit report for PMRS is available through the Authority's administrative offices.

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 Authority (and could include employee contributions).

For the years ending December 31, 2010 and 2009, the Authority contributed the funds necessary to meet the MMO for the Plan in the amounts of $106,271 and $107,652, respectively.

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

The Authority's annual pension cost and related information for the plan is as follows:

Annual pension cost	$ 106,271
Contributions made	106,271
Actuarial valuation date	1/1/2009
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar Closed
Amortization period	not applicable
Asset valuation method	Market
Actuarial assumptions:	
Investment rate of return	6.00%
Projected salary increases	4.50%
Cost of living adjustments	3% where applicable

Trend Information

Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
12/31/2008	$ 125,104	100.0%	$ -
12/31/2009	107,652	100.0%	-
12/31/2010	106,271	100.0%	-

The Authority's net pension obligation at transition to GASB Statement No. 27, "*Accounting for Pensions by State and Local Governmental Employers,*" was determined to be zero and continues to be immaterial at December 31, 2011.

The Authority's funded status and related information as of the latest actuarial valuation date, January 1, 2009, is as follows:

Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Excess of Assets Over (Under) AAL	Funded Ratio	Covered Payroll	Excess (Deficiency) as a Percentage of Covered Payroll
$ 5,043,981	$ 4,883,490	$ 160,491	103.29%	$1,199,116	13.38%

The required schedule of funding progress included as required supplementary information immediately following the notes to financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

As noted above, 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 may result in changes that affect the funding status of the Plan.

8. Deferred Compensation Plan

The Authority offers its employees a deferred compensation plan created in accordance with the Internal Revenue Service Code Section 457. The deferred compensation plan, available to all employees, permits them to defer a portion of their salaries until future years. Participation in the deferred compensation plan is optional. The deferred compensation plan is not available to the employees until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred under the deferred compensation plan, all property and rights purchased with those amounts, and all income attributable to those amounts, are held in trust solely for the benefit of the participants. Investments are managed by the deferred compensation plan's trustee under several investment options selected by the participant.

The total assets held in the deferred compensation plan as of March 31, 2011, the most current balance available, were $279,409. As of March 31, 2010, total assets held in the deferred compensation plan were $248,467.

9. Comparison of Budget to Actual

The following is a comparison of budgeted to actual operating revenues and expenses for the years ended April 30, 2011 and 2010:

Year ended April 30, 2011:

	Budget	Actual	Variance
Operating revenues:			
Sewage rentals	$ 7,182,812	$ 7,359,096	$ 176,284
New construction tap-ins and saddles	184,200	409,732	225,532
Existing development tap-ins	68,900	88,909	20,009
Total operating revenues	7,435,912	7,857,737	421,825
Operating expenses:			
Sewer system operation	2,185,385	1,936,753	248,632
Purchased sewage treatment - WWMA	1,645,271	1,647,621	(2,350)
Administration	797,089	754,204	42,885
Total operating expenses	4,627,745	4,338,578	289,167
Operating income, before depreciation	$ 2,808,167	$ 3,519,159	$ 710,992

Year ended April 30, 2010:

	Budget	Actual	Variance
Operating revenues:			
Sewage rentals	$ 6,709,893	$ 6,713,130	$ 3,237
New construction tap-ins and saddles	1,180	197,724	196,544
Existing development tap-ins	68,900	66,398	(2,502)
Total operating revenues	6,779,973	6,977,252	197,279
Operating expenses:			
Sewer system operation	2,137,235	2,064,342	72,893
Purchased sewage treatment - WWMA	1,377,793	1,381,792	(3,999)
Administration	740,516	720,846	19,670
Total operating expenses	4,255,544	4,166,980	88,564
Operating income, before depreciation	$ 2,524,429	$ 2,810,272	$ 285,843

Existing development tap-ins and the provision for depreciation is not an element of cost considered in the setting of rates. Therefore, depreciation is not considered when establishing the operating budget. Budgeted operating revenue is estimated using the total of the equivalent dwelling units and the annual sewage rental less an allowance for uncollectible accounts.

10. CONTINGENCIES

While the Authority is party to a number of actual and possible matters of litigation, the ultimate outcome of such matters is not expected to be material to the Authority's financial statements. The Authority remains subject to the Commonwealth of Pennsylvania Department of Environmental Protection Agency (DEP) monitoring and can be mandated to take corrective actions that are not funded by DEP.

During 2005, the Department of Environmental Resources placed the Western Westmoreland Municipal Authority (WWMA) under a Corrective Action Plan for its Brush Creek Water Pollution Control Plant, and has restricted taps for that entire facility. This impacts approximately 50% of the Authority’s service area.

WWMA is implementing its Long-Term Control Plan, which will require the Authority to locate and remove inflow and infiltration from that drainage basis. The effect of this plan on the Authority and the costs associated with this plan are unknown at this time.

11. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; and injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not significantly exceeded commercial insurance coverage for the past three years. There were no significant changes in insurance coverage from the prior year.

12. SWAPTION

Description of Transaction

In October 2005, the Authority entered into a swaption contract that provided the Authority an up-front payment of $509,215. As a synthetic refunding of its 2001 Guaranteed Sewer Revenue Bonds, this payment represents the present-value, risk-adjusted savings of a refunding as of April 1, 2011, without issuing refunding bonds at October 2005. The swaption gave the counterparty the option to make the Authority enter into a pay-fixed, receive-variable interest rate swap on the first day of each month during the period commencing on, and including, May 1, 2011 and terminating on, April 1, 2020.

The counterparty exercised the option on April 1, 2011. At that time, the Authority current refunded the existing 2001 Guaranteed Sewer Revenue Bonds and issued Variable Rate Demand Revenue Bonds, Series of 2011 (2011 Bonds). The intention of the swap is to effectively change the Authority's variable interest rate on the 2011 Bonds to a synthetic fixed rate of 5.29%.

Per the swap agreement, effective with the first payment on May 1, 2011 and continuing monthly thereafter, the Authority will receive interest at the variable rate of 68% of 1 month USD-LIBOR-BBA (London Interbank Offered Rate) while paying a fixed rate of 5.29%. The interest payments are calculated based on a notional amount of $9,525,000, which reduces beginning on April 1, 2012 so that the notional amount approximates the principal outstanding on the 2011 Bonds. The Authority will make net swap payments as required by the terms of the contract, that is, receiving a variable rate as noted above for the term of the swap from the counterparty and making a fixed rate payment to the counterparty.

The swap would expire on April 1, 2020, consistent with the last anticipated principal payment on the 2011 Bonds.

The upfront cash payment received by the Authority at the time the swaption was entered into is considered to be a borrowing at a rate of 3.11%. As of April 30, 2011 and 2010, the borrowing had an outstanding balance of $594,402 and $576,473, respectively and is disclosed in more detail in Note 5.

The Authority has the ability to early terminate the swaption and to cash settle the transaction on any business day by providing at least five business days written notice to the counterparty. Evidence that the Authority has sufficient funds available to pay any amount payable to the counterparty must be provided at the time notice is given. At early termination, the Authority will be required to pay or receive a settlement amount which is comprised of the market value of the terminated transaction based on market quotations and any amounts accrued under the contract

Accounting and Risk Disclosures

Notional Amount	4/30/2009 Market Value *	Change in Market Value	4/30/2010 Market Value *	Change in Market Value	4/30/2011 Market Value *
Hedging derivatives, Cash flow hedges, Receive variable - pay fixed, Interest rate swap:					
$ 9,525,000	$ (658,907)	$ (51,030)	$ (709,938)	$ (385,069)	$ (1,095,007)

* The market value is an estimated using the zero-coupon method. This method calculates future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot rate interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

As noted in the table above, current period changes in market value for the interest rate swaps/swaption that are accounted for as a cash flow hedge is recorded on the statements of net assets as a change in deferred outflows. The fair market value of the outstanding interest rate swap/swaption of April 30, 2011 and 2010 are reported on the statements of net assets as a swap liability.

During the years ended April 30, 2011 and 2010, the Authority did not make any payments on the interest rate swap as the first payment was not due until May 1, 2011.

Through the use of derivative instruments such as this swap, the Authority is exposed to a variety of risks, including credit risk, interest rate risk, termination risk, and basis risk.

- Credit risk is the risk that a counterparty will not fulfill its obligations. On April 30, 2011, the swap counterparty is rated A by Standard & Poor's, a nationally recognized statistical rating organization. If the counterparty failed to perform according to the terms of the swap agreement, there is some risk of loss to the Authority, up to the fair market value of the swap. Currently the interest rate swap is a liability to the Authority and as such there would be no impact to the Authority in the event that the counterparty defaults.

- Interest rate risk is the risk that changes in interest rates will adversely affect the fair values of the Authority's financial instruments or the Authority's cash flows. The interest rate swap is highly sensitive to changes in interest rates; changes in the variable rate will have a material effect on the interest rate swap's fair market value.

- Termination risk is the risk that a derivative's unscheduled end will affect the Authority's asset/liability strategy or will present the Authority with potentially significant unscheduled termination payments to the counterparty. The counterparty to the transaction does not have the ability to voluntarily terminate the swaption; however, the Authority is exposed to termination risk in the event that the counterparty defaults.

- Basis risk is the risk that arises when variable interest rates on a derivative and an associated bond or other interest-paying financial instrument are based on different indexes. Under the terms of the interest rate swap transactions, the Authority is subject to basis risk as the interest index on the variable rate arm of the swap is based on a percentage of one-month USD-LIBOR-BBA and the variable interest rate on the 2011 Bonds is based on a tax-exempt index established weekly per the terms of the bond indenture. Although expected to correlate, the relationships between different indexes vary and that variance could adversely affect the Authority's calculated payments, and as a result, cost savings or synthetic interest rates may not be realized.

Required Supplementary Information

NORTH HUNTINGDON TOWNSHIP
MUNICIPAL AUTHORITY

SCHEDULE OF FUNDING PROGRESS
PENSION PLAN

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Excess of Assets Over (Under) AAL	Funded Ratio	Covered Payroll	Excess (Deficiency) as a Percentage of Covered Payroll
1/1/2009	$ 5,043,981	$ 4,883,490	$ 160,491	103.29%	$ 1,199,116	13.38%
1/1/2007	4,268,348	4,398,419	(130,071)	97.04%	1,129,844	(11.51%)
1/1/2005	3,649,895	3,825,188	(175,293)	95.42%	901,390	(19.45%)

See accompanying note to supplementary pension schedules.

NORTH HUNTINGDON TOWNSHIP MUNICIPAL AUTHORITY

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER

Calendar Year	Annual Required Contributions	Percentage Contributed
2005	$ 62,253	100%
2006	64,351	100%
2007	108,972	100%
2008	125,104	100%
2009	107,652	100%
2010	106,271	100%

See accompanying note to supplementary pension schedules.

NORTH HUNTINGDON TOWNSHIP
MUNICIPAL AUTHORITY

NOTE TO SUPPLEMENTARY PENSION SCHEDULES

YEAR ENDED APRIL 30, 2011

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

Actuarial valuation date	1/1/2009
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar Closed
Amortization period	n/a
Asset valuation method	Market
Actuarial assumptions:	
Investment rate of return	6.00%
Projected salary increases	4.50%
Cost of living adjustments	3% if applicable

n/a = not applicable

Supplementary Information

NORTH HUNTINGDON TOWNSHIP MUNICIPAL AUTHORITY

ANALYSIS OF OPERATING REVENUES AND EXPENSES

YEARS ENDED APRIL 30, 2011 AND 2010

	2011	2010
Operating Revenues:		
Sewage rentals	$ 7,308,352	$ 6,663,595
Late payment penalties	62,484	59,998
Discounts	(11,740)	(10,463)
New construction tap-ins and saddles	409,732	197,724
Existing development tap-ins	88,909	66,398
Total operating revenues	$ 7,857,737	$ 6,977,252
Operating Expenses:		
Sewer system operation:		
Personnel	$ 1,378,931	$ 1,429,991
Electric, gas, and water	210,524	205,446
Chemicals	5,563	5,775
Telephone	5,928	8,360
Equipment rental, repairs, and maintenance	82,447	114,881
Insurance	99,947	99,608
Operating supplies	5,610	5,203
Lab supplies	11,739	10,053
Vehicle operation	41,187	48,129
Small tools and equipment	2,131	1,983
Sludge disposal	46,461	50,336
System maintenance	15,980	58,849
Other	30,305	25,728
Total sewer system operation	1,936,753	2,064,342
Purchased sewage treatment - WWMA	1,647,621	1,381,792
Administration:		
Personnel	499,969	489,724
Office rental	21,408	21,408
Office supplies	9,544	7,599
Postage	3,774	3,315
Billing and collection	33,014	31,605
Telephone	5,037	5,530
Equipment rental, repair, and maintenance	6,118	5,176
Professional fees	145,947	130,104
Board member expenses	8,672	5,887
Other	20,721	20,498
Total administration	754,204	720,846
Depreciation:		
Plant and system	1,502,433	1,451,058
Motor vehicles	37,646	50,245
Office furniture and equipment	17,644	5,384
Tools and equipment	13,761	18,021
Total depreciation	1,571,484	1,524,708
Total operating expenses	$ 5,910,062	$ 5,691,688

NORTH HUNTINGDON TOWNSHIP
MUNICIPAL AUTHORITY

SCHEDULES OF BALANCES - TRUSTEE CONTROLLED ACCOUNTS

YEARS ENDED APRIL 30, 2011 AND 2010

	Debt Service	Capital Reserve	Insured Swap Payment	Total
Temporary investments at April 30, 2011	$ 148,631	$ 3,162,258	$ 43,516	$ 3,354,405

	Debt Service	Capital Reserve	Insured Swap Payment	Total
Temporary investments at April 30, 2010	$ 115,114	$ 2,997,132	$ -	$ 3,112,246