

WEST MIFFLIN
SANITARY SEWER
MUNICIPAL AUTHORITY

FINANCIAL STATEMENTS
AND
REQUIRED SUPPLEMENTARY
AND
ADDITIONAL INFORMATION

YEARS ENDED DECEMBER 31, 2006 AND 2005

WITH

INDEPENDENT AUDITOR'S REPORT

MAHER DUESSEL

CERTIFIED PUBLIC ACCOUNTANTS

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

YEARS ENDED DECEMBER 31, 2006 AND 2005

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Independent Auditor's Report

Board of Directors
West Mifflin Sanitary Sewer Municipal Authority

We have audited the financial statements of the West Mifflin Sanitary Sewer Municipal Authority (Authority) as of and for the years ended December 31, 2006 and 2005, as listed in the table of contents. 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 December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis section is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. The pension information presented in the supplementary schedules and note to the supplementary pension schedules listed in the table of contents are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the above-mentioned financial statements taken as a whole. The accompanying additional information found on page 23 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Maher Duessel

Pittsburgh, Pennsylvania
May 10, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUDIT ASSURANCE

The unqualified (i.e. clean) opinion of our independent auditors, Maher Duessel, Certified Public Accountants, is included in this report. The following section, Management's Discussion and Analysis, has been prepared so that the Authority is in compliance with Statement No. 34 of the Government Accounting Standards Board.

FINANCIAL HIGHLIGHTS

While the West Mifflin Sanitary Sewer Municipal Authority faced a number of financial challenges, which were outside of its control, the Authority remained in compliance with all debt covenants required by its borrowing agreements. The following are key financial highlights during 2006.

- The State of Pennsylvania Department of Environmental Protection eliminated the long standing Act 339 Operating Grant Program which the Authority last received in 2002. If those grant funds were provided over the last 4 years at the same rate as last received in 2002, an amount in excess of \$2,000,000 would have been received by the Authority.
- Due to local conditions during the peak consumption months, billed flow decreased 14,788,900 gal or a 2.0% decrease in billed flow from 2005. The end result was an \$188,132 or 3.5 % decrease in operating revenues for 2006.
- In 2006, the Authority treated 1,017,596,000 gal for 7,605 customers at its two wastewater treatment plants which 604,938,400 gal was billed. The Authority also direct bills 826 customers who have their wastewater treated at ALCOSAN. These 826 customers were billed approximately 76,960,000 gal. The Authority billed for 59.4% of the water it treated. During 2005, the Authority treated 1,078,622,000 gal for whom it billed 743,618,300 gal, or 69%, of what was treated was actually billed to customers. The difference between what is treated vs. that which is billed is attributed to direct inflow of storm water from groundwater infiltration into the system from old and deteriorating sewer lines throughout the service area.
- In 2004, the Authority changed the way it billed large residential (>200 units) commercial properties that have one or two water meters. These properties are being billed as if each unit was an individual user. This reduced the impact of the large consumption users from the current billing structure.
- During 2006, the Authority paid \$760,000 in principal on its outstanding Sewer Revenue Bonds. And therefore \$30,930,000 remains outstanding.

- The Authority had an increase cost of operations in 2006 by \$176,355 over 2005. Utility, consent order related sewer crew expense, wage/benefit increases in accordance with our labor agreement with Teamsters Local 636 and delinquent water collections account for the majority of the increase in operating cost.
- Revenues decreased by \$188,132 due to change in water consumption, billing procedures, and demographics.
- The Authority maintained compliance with all debt covenants required by the governing Trust Indentures.
- The Authority essentially completed and placed into service over \$980,000 in sewer system and treatment plant improvements in 2006.

REQUIRED FINANCIAL STATEMENTS

The financial statement of the Authority reports information about 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 revenue 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 evaluation was performed in late 2006. The Authority Board increased sewer rates at the end of 2006 that went into effect for the January 2007 billing.

The final required financial statement is its 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 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, and subsequent events, if any.

SUMMARY OF ORGANIZATION AND BUSINESS

The Authority was incorporated on May 9, 1996 under the Pennsylvania Municipality Authorities Act of 1945. Plant operations began on September 1, 1996. The Authority serves as the exclusive agency for the collection, transportation, and treatment of wastewater for the Borough of West Mifflin. The Authority charges users for processing of wastewater at a base rate of \$13.00 per residential and \$21.00 per commercial plus a graduated rate for usage by the thousand gallons. Additional charges are levied for excess Biochemical Oxygen Demand (BOD) and suspended solids (SS) from industrial waste discharges into the system in the portion of the sewer system using ALCOSAN for treatment.

The Thompson Run Treatment Plant and Authority Offices are located at 1302 Lower Bull Run Road, West Mifflin, PA. The Authority also operates an additional treatment facility at 2439 New England Hollow Road. The Authority operates and maintains over 100 miles of interceptor and collector sewers, and 14 pumping or lift stations throughout the service area.

A small portion of the sewer system is connected to the Jefferson Hills sewage system that is treated at the Clairton Municipal Authority Treatment Plant. These 40 accounts are currently billed by Jefferson Hills to the individual customer directly. Although the WMSSMA owns the sanitary sewers it does not collect any fees to operate them or maintain them. In April 2007, the Authority entered into an agreement with Jefferson Hills Borough to bill the West Mifflin customers formerly being billed by Jefferson Hills and paying a quarterly payment to Jefferson Hills for the wastewater treatment.

The Authority's service area covers over 14 square miles in Allegheny County.

The Authority's Articles of Incorporation (Articles), provide that the Authority Board of Directors (Board) shall consist of five (5) members serving staggered five-year terms. Pursuant to the Articles, all members of the Board are appointed by West Mifflin Borough Council. The day-to-day operation of the Authority is the responsibility of the General Manager, who was employed by the Board to carry out its policies.

FINANCIAL ANALYSIS

The following comparative condensed financial statements and other selected information provides key financial data and indicators for management, monitoring, and planning.

Condensed Statement of Net Assets
(In Millions of Dollars)

	2006	2005	\$ Change	% Change
Assets				
Current assets	\$ 3,167,540	\$ 3,641,227	\$ (473,687)	-13%
Restricted assets	5,962,483	6,348,534	(386,051)	-6%
Capital assets	22,871,134	22,767,374	103,760	0%
Other assets	1,657,040	1,752,779	(95,739)	-5%
Total Assets	\$ 33,658,197	\$ 34,509,914	\$ (851,717)	
Liabilities and Net Assets				
Liabilities:				
Current liabilities	\$ 2,213,627	\$ 2,006,957	\$ 206,670	10%
Long-term liabilities	31,205,893	31,925,718	(719,825)	-2%
Total Liabilities	33,419,520	33,932,675	(513,155)	
Net Assets:				
Invested in capital assets, net of related debt	(7,491,449)	(8,192,606)	701,157	-9%
Restricted net assets	5,500,327	5,686,659	(186,332)	-3%
Unrestricted net assets	2,229,799	3,083,186	(853,387)	-28%
Total Net Assets	238,677	577,239	(338,562)	
Total Liabilities and Net Assets	\$ 33,658,197	\$ 34,509,914	\$ (851,717)	

Condensed Statement of Revenues, Expenses,
and Changes in Net Assets
(In Millions of Dollars)

	2006	2005	\$ Change	% Change
Operating revenues	\$ 5,196,734	\$ 5,384,866	\$ (188,132)	-3%
Non-operating revenues	510,857	306,736	204,121	67%
Total revenues	5,707,591	5,691,602	15,989	0%
Operating expenses	4,561,915	4,385,560	176,355	4%
Non-operating expenses	1,694,352	1,722,525	(28,173)	-2%
Total expenses	6,256,267	6,108,085	148,182	2%
Income before capital contribution revenues	(548,676)	(416,483)	(132,193)	32%
Capital contribution revenues	210,114	21,776	188,338	865%
Change in net assets	(338,562)	(394,707)	56,145	-14%
Net assets, beginning of year	577,239	971,946	(394,707)	-41%
Net assets, end of year	\$ 238,677	\$ 577,239	\$ (338,562)	-59%

OTHER SELECTED INFORMATION

	<u>2006</u>	<u>2005</u>	<u>Difference</u>	<u>%Change</u>
<u>Selected Data:</u>				
Authorized Employees	30	29	1	3.45%
Actual Employees at year-end	30	29	1	3.45%
Wastewater Treated (billions of gallons)	1.0176	1.0786	-0.061	-5.66%
Wastewater Billed (billions of gallons)	0.604938	0.740818	-0.13588	-18.34%
Percentage of Billed/Treated Wastewater	59.45%	68.68%	-9.24%	-13.45%
<u>Rates:</u>				
Residential Fee	\$13.00	\$13.00		
Commercial Fee	\$21.00	\$21.00		
First 2,000 gallons/thousand	\$2.50	\$2.50		
next 13,000 gallons/thousand	\$3.00	\$3.00		
15,001-100,000 gallons/thousand	\$9.00	\$9.00		
over 100,000 gallons/thousand	\$11.50	\$11.50		
<u>Average Residential Customer Bill:</u>				
Per year	\$360.00	\$360.00	\$0.00	0.00%
Per Month	\$30.00	\$30.00	\$0.00	0.00%

* Based on 6,000 Gallons per month

GENERAL TRENDS AND SIGNIFICANT EVENTS

Over the last few years, the Authority has been in discussions with the representatives of the U.S. EPA, Pennsylvania Department of Environmental Protection, and the Allegheny County Health Department (the "Agencies") regarding wet weather overloads in the sanitary sewer system resulting in discharges into the service area waterways. The discharges, in the form of pump station by-passes and sanitary sewer overflows were originally designed into the Authority's system to prevent the treatment plant from being damaged by flooding during wet weather events. Today, these overflows are considered illegal under the Clean Stream and Water Act. The Authority finalizing and signed a consent order with the Allegheny County Health Department on February 26, 2004 which requires mapping, cleaning, repairing, and maintenance of the municipal sewer lines in the ALCOSAN service area over a five to eight year period.

Authority compliance costs related to the ALCOSAN area Consent Order have been estimated to be between \$2 and \$3 million. Over the past several years, the ALCOSAN and the Allegheny County Health Department through joint effort have created the 3 Rivers Wet Weather Demonstration Project (3 Rivers) in order to encourage innovative, less expensive methods of sewer repair and foster cooperative arrangements among municipalities that share the same watersheds drainage basins. The Authority is an active

participant in the 3 Rivers program. The Authority General Manager serves on the Stakeholders, Southern Basin Managers and Southern Basin Group Committees of the 3 Rivers program. Cooperation among neighboring-communities is expected to help reduce the overall compliance cost to the Authority.

FINANCIAL CONDITION

As already noted, the Authority was negatively impacted by the loss of the Pennsylvania Act 339 Operating Grant. The Authority raised sewer rates beginning in 2007. This is the first increase in over 4 years. The Authority was able to remain in compliance with all of its debt service requirements mandated under the existing Trust Agreements.

In order to offset the loss of the state grant and reduction in revenues, the Authority utilized its reserves to balance its budget in 2006.

RESULTS OF OPERATIONS

Operating Revenue

In 2006, 100% of operating revenue was derived from customer billing for sewage treatment service, tap-in fees, pretreatment permits, and interest on investments. This includes residential commercial and industrial customers as well as hauled in sewage sludge from other communities.

Operating Expenses

Total operating expense, before depreciation was \$3,670,651 in 2006 vs. \$3,504,594 in 2005. In 2006, operating expenses increased in sewage treatment expenses, utilities, and payroll/benefits. There were reductions in insurance, sewer fee collections, and engineering fees.

Depreciation and Non-Operating Expenses

The Authority had a depreciation expense of \$891,264 on plants and equipment in 2006. In 2006 the Authority completed the Homeville Interceptor Rehabilitation Project and began the ALCOSAN Sewer Area Rehabilitation Project and the New England Treatment Plant Digester Lid Replacement Project. The total constructed value of these three improvements exceeds \$1.8 million.

Litigation Contingency

The Authority has no current Litigation Contingency

DEBT

At year-end, the Authority had \$30.93 million in Sewer Revenue Bonds outstanding.

More detailed information about the Authority's long-term debt is presented in the notes to the financial statements.

FINAL COMMENTS

While fiscal year 2006 presented financial challenges, the Board of Directors and the Authority staff worked hard to position the Authority for the future. While the loss of the Act 339 Grant and reductions in water consumption by our customers had a negative impact on its revenue stream, the Authority responded by taking advantage of cost cutting through the implementation and use of new technologies and operating procedures.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGER

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the West Mifflin Sanitary Sewer Municipal Authority's General Manager and Administration at 1302 Lower Bull Run Road, West Mifflin, PA 15122. (412-466-6070).

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

STATEMENTS OF NET ASSETS

DECEMBER 31, 2006 AND 2005

	Assets		Liabilities and Net Assets	
	2006	2005	2006	2005
Current assets:				
Cash and cash equivalents	\$ 2,170,347	\$ 2,799,350		
Accounts receivable	712,814	758,093	\$ 285,472	\$ 311,475
Grant receivable	207,479	-	28,107	19,299
Prepaid expenses	54,000	60,524	228,698	227,267
Interest receivable	22,900	23,260	210,567	-
Total current assets	3,167,540	3,641,227	813,730	787,041
Restricted assets:			1,566,574	1,345,082
Construction fund	1,975,934	2,377,947		
Debt service accounts	3,986,549	3,970,587	647,053	661,875
Total restricted assets	5,962,483	6,348,534		
Capital assets (at cost)				
Less: accumulated depreciation	27,124,424	27,027,419	318,860	335,428
Construction in progress	(5,689,646)	(4,863,785)	676,261	707,000
	1,436,356	603,740	352,555	251,237
Total capital assets (at cost)	22,871,134	22,767,374	29,858,217	30,632,053
Other assets:			31,205,893	31,925,718
Deferred charges (net of amortization of \$46,842 and \$42,381 for 2006 and 2005, respectively)	86,999	91,460	33,419,520	33,932,675
Bond issue costs (net of amortization of \$748,774 and \$662,365 for 2006 and 2005, respectively)	1,101,408	1,187,818	(7,491,449)	(8,192,606)
Cost of sewer capacity improvements (net of amortization of \$51,138 and \$31,187 for 2006 and 2005, respectively)	468,633	473,501	5,500,327	5,686,659
Total other assets	1,657,040	1,752,779	2,229,799	3,083,186
Total Assets	\$ 33,658,197	\$ 34,509,914	\$ 33,658,197	\$ 34,509,914
			Total Liabilities and Net Assets	
			Total Net Assets	577,239
			Total Liabilities	33,932,675
			Net Assets:	
			Invested in capital assets, net of related debt	(8,192,606)
			Restricted net assets	5,686,659
			Unrestricted net assets	3,083,186

See accompanying notes to financial statements.

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
Operating Revenues:		
Sewer rentals	\$ 5,196,734	\$ 5,384,866
Operating Expenses:		
Sewer system operation	3,413,170	3,266,435
Purchased sewer treatment	257,481	238,159
Depreciation and amortization	891,264	880,966
Total operating expenses	4,561,915	4,385,560
Operating Income	634,819	999,306
Nonoperating Revenues (Expenses):		
Interest income	391,937	253,490
Other revenue	52,527	47,447
Interest on sewer revenue bonds	(1,619,838)	(1,646,432)
Amortization of bond issue costs and deferred charges	(74,514)	(76,093)
Amortization of swap deferred revenue	30,739	-
Gain on sale of vehicle	6,670	-
Income on swap	28,984	5,799
Total nonoperating revenues (expenses)	(1,183,495)	(1,415,789)
Income (Loss) Before Capital Contribution Revenues	(548,676)	(416,483)
Capital Contribution Revenues:		
Tapping/connection fees	25,217	21,776
Grant revenue	184,897	-
Total capital contribution revenues	210,114	21,776
Change in Net Assets	(338,562)	(394,707)
Net Assets:		
Beginning of year	577,239	971,946
End of year	\$ 238,677	\$ 577,239

See accompanying notes to financial statements.

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
Cash Flows From Operating Activities:		
Cash received from customers	\$ 5,242,013	\$ 5,356,557
Cash payments for operating expenses	(3,679,891)	(3,277,211)
Net cash provided by (used in) operating activities	1,562,122	2,079,346
Cash Flows From Noncapital Financing Activities:		
Grant revenue received	74,933	-
Other	113,510	114,928
Net cash provided by (used in) noncapital financing activities	188,443	114,928
Cash Flows From Capital and Related Financing Activities:		
Interest paid on debt	(1,620,489)	(1,677,013)
Interest received on restricted bond funds	253,033	196,599
Acquisition of sewer capacity improvements	(15,082)	(278,278)
Capital assets and related purchases	(975,074)	(602,162)
Proceeds from sale of vehicle	6,670	-
Proceeds from swap	-	707,000
Proceeds from line of credit	291,845	-
Proceeds from notes payable	22,533	278,278
Payment of line of credit	(81,278)	-
Payment of note payable	(27,041)	-
Payment of bond principal	(760,000)	(730,000)
Net cash provided by (used in) capital and related financing activities	(2,904,883)	(2,105,576)
Cash Flows From Investing Activities:		
Sale of investments	386,051	266,793
Interest earned	139,264	57,251
Net cash provided by (used in) investing activities	525,315	324,044
Increase (Decrease) in Cash and Cash Equivalents	(629,003)	412,742
Cash and Cash Equivalents:		
Beginning of year	2,799,350	2,386,608
End of year	\$ 2,170,347	\$ 2,799,350
Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities:		
Operating income	\$ 634,819	\$ 999,306
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation and amortization	891,264	880,966
Change in operating assets:		
Accounts receivable	45,279	(28,309)
Prepaid expenses	6,524	(60,524)
Change in operating liabilities:		
Accounts payable	(26,003)	253,157
Accrued payroll and withholdings	8,808	5,822
Accrued compensated absences	1,431	28,928
Net cash provided by (used in) operating activities	\$ 1,562,122	\$ 2,079,346

See accompanying notes to financial statements.

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2006 AND 2005

1. REPORTING ENTITY

The West Mifflin Sanitary Sewer Municipal Authority (Authority) was formed in accordance with the Pennsylvania Municipality Authorities Act of 1945. It commenced operation on August 21, 1996, and purchased the existing sanitary sewer system of the Borough of West Mifflin for the sum of \$800,000. The Authority operates the sewer system that serves approximately 8,300 customers, which comprises the entire Borough of West Mifflin.

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 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, is financed or recovered primarily through user charges.

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

Basis of Accounting and Measurement Focus

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. Investments are recorded at fair value. The Authority prepares a budget on the accrual basis at the beginning of each year. The Authority capitalizes eligible net interest costs as part of the cost of constructing various sewer projects when material.

Statements of Cash Flows

For purposes of the statements of cash flows, cash is defined as bank demand deposits and petty cash on hand. The Authority is authorized to invest in U.S. Treasury Bills and time deposits of insured institutions. The Authority considers all investments with a maturity date of three months or less to be cash equivalents.

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2006 AND 2005

Restricted Assets

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

Capital Assets

Capital assets, which include property, plant, and equipment, are recorded at cost, including capitalized interest. Depreciation is provided on all capital assets on a straight-line basis over the estimated useful lives. The cost of maintenance and repairs is charged to operations as incurred. Construction in progress will be depreciated when the project is completed.

Bond Issue Costs

Bond issue costs are amortized over the life of the related bonds utilizing the interest method.

Sick Leave

Employees of the Authority earn and are entitled to accumulate sick days based on length of service. The Authority has established a liability of \$228,698 and \$227,267 for 2006 and 2005, respectively, for compensated absences that are eligible for payment upon termination.

GAAP Hierarchy

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

Net Assets

GASB Statement No. 34, *“Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments”* requires the classification of new assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2006 AND 2005

- 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 \$5,500,327 and \$5,686,659 at December 31, 2006 and 2005, respectively. These amounts are restricted for the debt covenants.
- Unrestricted – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

3. CASH AND INVESTMENTS

The Authority is authorized to invest in: obligations of the U.S. Government and government-sponsored agencies and instrumentalities; fully insured or collateralized certificates of deposits; commercial paper of the highest rating; repurchase agreements collateralized by government obligations or securities; highly rated bank promissory notes or investment funds or trusts; and, as to trustee assets, as otherwise permitted by the trust indenture as supplemented and amended in 1998. Throughout the years ended December 31, 2006 and 2005, the Authority invested its funds in such authorized investments. The Authority does not have a formal investment policy which addresses custodial credit risk, interest rate risk, credit risk, or concentration of credit risk.

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 concentration 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 returned to it. The Authority does not have a formal deposit policy for custodial credit risk. As of December 31, 2006 and 2005, respectively, \$1,435,507 and \$1,470,953 of the Authority’s bank balance of \$1,735,507 and \$1,770,953 was exposed to custodial credit risk. This amount 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. This deposit has a carrying amount of

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2006 AND 2005

\$1,860,021 and \$1,758,484 as of December 31, 2006 and 2005, respectively all of which is reported as current assets in the statements of net assets.

In addition to the deposit noted above, included in cash and cash equivalents on the statements of net assets are investments with the Pennsylvania Local Government Investment Trust (PGLIT) of \$110,326 and \$540,866 for 2006 and 2005, respectively. The fair value of the Authority's investments with PLGIT (an external investment pool) is the same as the value of pool shares.

In addition to the deposits noted above, included in cash and cash equivalents on the statements of net assets are short-term investments with INVEST of \$200,000 and \$500,000 in 2006 and 2005, respectively. The fair value of the Authority's investments in the external investment pool (INVEST) is the same as the value of the pool shares.

At December 31, 2006, the Authority held the following investment balances:

	Fair Market Value	<u>Maturity in Years</u> Less than 1 Year
Money markets	\$ 1,915,643	\$ 1,915,643
Commercial paper	746,722	746,722
U.S. Agencies	219,221	219,221
INVEST	1,975,934	1,975,934
Investment agreements	1,104,963	1,104,963
Total	\$ 5,962,483	\$ 5,962,483

The fair value of the Authority's investments is the same as their carrying amount. Investments of \$5,962,483 are included as non-current restricted investments on the statements of net assets. The fair value of the Authority's investments in the external investment pool (INVEST) is the same as the value of the pool shares.

Interest Rate Risk – The Authority does not have a formal investment policy that limits investment maturities as a means of managing exposure to fair value losses arising from increasing rates. Interest rate risk is the risk that changes in the interest rates will adversely affect the fair market value of the Authority's investments. The Authority is

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2006 AND 2005

not subject to interest rate risk as all of its investments at December 31, 2006 had maturities of less than one year.

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. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. As of December 31, 2006, the Authority's investments in the state investment pool (INVEST) and the guaranteed investment contracts were rated AAA by Standard & Poor's. The majority of the Authority's investments in commercial paper were rated P-1 by Moody's. The Authority also held \$219,221 of FNMA investments which were rated Aaa by Moody's. The Authority's First American Government Obligation Funds investments are unrated. The Authority also held \$1,104,963 of TMG Financial Investment agreements which were rated Aa3 by Moody's.

Concentration of Credit Risk – Concentrations of credit risk is the risk of loss attributed to the magnitude of a government's investments in a single issuer. The Authority places no limit on the amount it may invest in any one issuer. More than 5 percent of the Authority's investments are in First American Government Obligation Funds, INVEST, and TMG Financial. These investments are 32%, 33%, and 19%, respectively, of the Authority's total investments.

4. CAPITAL ASSETS

A summary of changes in capital assets is as follows:

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YEARS ENDED DECEMBER 31, 2006 AND 2005

	Balance at December 31, 2005	Additions	Transfers/ Deletions	Balance at December 31, 2006
Capital assets, not being depreciated:				
Construction in progress	\$ 603,740	\$ 846,888	\$ (14,272)	\$ 1,436,356
Capital assets, being depreciated:				
Plant and system	25,529,120	38,745	(20,567)	25,547,298
Vehicles and equipment	517,051	91,288	(24,885)	583,454
Other capital improvements	981,248	12,424	-	993,672
Total capital assets, being depreciated	27,027,419	142,457	(45,452)	27,124,424
Less accumulated depreciation	(4,863,785)	(871,313)	45,452	(5,689,646)
Total capital assets, being depreciated, net	22,163,634	(728,856)	-	21,434,778
Total capital assets, net	\$ 22,767,374	\$ 118,032	\$ (14,272)	\$ 22,871,134
	Balance at December 31, 2004	Additions	Transfers/ Deletions	Balance at December 31, 2005
Capital assets, not being depreciated:				
Construction in progress	\$ 209,818	\$ 420,242	\$ (26,320)	\$ 603,740
Capital assets, being depreciated:				
Plant and system	25,531,627	5,185	(7,692)	25,529,120
Vehicles and equipment	398,822	140,825	(22,596)	517,051
Other capital improvements	919,018	62,230	-	981,248
Total capital assets, being depreciated	26,849,467	208,240	(30,288)	27,027,419
Less accumulated depreciation	(4,031,091)	(861,392)	28,698	(4,863,785)
Total capital assets, being depreciated, net	22,818,376	(653,152)	(1,590)	22,163,634
Total capital assets, net	\$ 23,028,194	\$ (232,910)	\$ (27,910)	\$ 22,767,374

5. LONG-TERM DEBT

Current interest bonds payable at December 31, 2006 are composed of the following individual issues:

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Sewer Revenue Bonds	Balance at December 31, 2005	Retirements	Balance at December 31, 2006	Due Within One Year
1996	\$ 1,890,000	\$ (335,000)	\$ 1,555,000	\$ 355,000
1998	29,800,000	(425,000)	29,375,000	440,000
	\$ 31,690,000	\$ (760,000)	\$ 30,930,000	\$ 795,000

Guaranteed Sewer Revenue Bonds, Series of 1996, due in annual principal installments or mandatory sinking fund payments through August 1, 2010.

\$ 1,555,000

Sewer Revenues Bonds, Series of 1998 due in annual principal installments or mandatory sinking fund payments through August 1, 2028.

29,375,000

30,930,000

Less: deferred loss on advance refunding

(276,783)

Less: current portion

(795,000)

Total bonds payable-long term

\$ 29,858,217

On July 15, 1996, the Authority issued \$14,915,000 of Guaranteed Sewer Revenue Bonds, Series of 1996 (current interest bonds) bearing interest rates ranging from 5% to 6.25%. These bonds were issued to provide funds to purchase the sanitary sewer system from the Borough of West Mifflin, to provide funds to be applied to the Authority's capital program, to fund a Debt Service Reserve Fund and capitalized interest, and to pay the costs of issuing the 1996 bonds. The first supplemental indenture was made and entered into as of August 6, 1998, between the Authority and the Trustee, National City Bank.

The Authority issued \$31,370,000 of Sewer Revenue Bonds, Series of 1998, to undertake a project (1998 project) consisting of (1) the refunding portion of the Guaranteed Sewer Revenue Bonds, Series of 1996 (refunded bonds) in the amount of \$11,310,000; (2) the undertaking of various capital improvements to the Authority's sewer system; and (3) payment of costs incurred in connection with the issuance of the 1998 Bonds. The interest rates on these bonds ranged from 4.3% to 5%. In order to advance refund the \$11,310,000 of 1996 refunded bonds, the Trustee, acting as escrow agent, used \$11,772,084 of the Series of 1998 bonds proceeds to purchase certain State and Local Government Series Securities, and

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hold these in an irrevocable escrow fund. The Authority irrevocably directed payment of the Guaranteed Sewer Revenue Bonds, Series of 1996, originally scheduled to mature on April 1 of the years 2015, 2020, 2024, and 2026, principal totaling \$11,310,000, together with interest thereon when due, and irrevocably called such Series of 1996 bonds for redemption on April 1, 2006 at par plus accrued interest.

The following schedule summarizes the debt service requirements for bonds outstanding:

<u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 795,000	\$ 1,552,928	\$ 2,347,928
2008	840,000	1,511,380	2,351,380
2009	885,000	1,467,018	2,352,018
2010	930,000	1,419,950	2,349,950
2011	980,000	1,369,906	2,349,906
2012-2016	5,670,000	6,081,044	11,751,044
2017-2021	7,230,000	4,519,500	11,749,500
2022-2026	9,230,000	2,522,000	11,752,000
2027-2028	4,370,000	330,499	4,700,499
	<u>\$ 30,930,000</u>	<u>\$ 20,774,225</u>	<u>\$ 51,704,225</u>

In July 2001, Pennvest approved a loan for the Pittsburgh Water and Sewer Authority (PWSA) to fund a rehabilitation project in the Streets Run Interceptor Sewer, bearing interest at 1%. As described in Note 10 below, the Authority has agreed to share in the costs related to this project. Accordingly, the Authority is also responsible for a share of the PennVest loan. Payments are required to be paid to PWSA through fiscal year 2024. The outstanding balance of the loan is \$251,237 and \$278,278 at December 31, 2006 and December 31, 2005, respectively.

The following summarizes the required payments for the PWSA loan:

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NOTES TO FINANCIAL STATEMENTS

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December 31,	Principal	Interest	Total
2007	\$ 18,730	\$ 4,654	\$ 23,384
2008	12,601	4,032	16,633
2009	11,824	6,151	17,975
2010	12,081	6,016	18,097
2011	12,445	5,653	18,098
2012-2016	68,077	22,412	90,489
2017-2021	78,961	11,528	90,489
2022-2024	36,518	1,187	37,705
	\$ 251,237	\$ 61,633	\$ 312,870

In August 2006, Pennvest approved a loan up to the amount of \$404,041 to fund the construction, rehabilitation, and operation of a community sewer system, bearing interest at 1.56% for the first 74 months and 2.697% for the remainder of the loan term. Interest only payments on the unpaid principal sum will be payable monthly beginning with the first calendar month following a loan advance and ending on October 1, 2007. On November 1, 2007 the unpaid principal and interest shall become due and payable according to the amortization schedule in the loan agreement. As of December 31, 2006, the outstanding balance of the loan is \$120,048.

The PWSA loan and the Pennvest loan are presented as notes payable on the Statement of Net Assets in the amount of \$352,555 (long-term) and \$18,730 (short-term).

6. INTEREST RATE SWAP

During fiscal year 2005, the Authority entered into a pay-variable, receive-variable basis interest rate swap contract. The interest rate swap is effective on the first day of each month which began on May 1, 2005 and terminates on August 1, 2028. The intention of the swap is to effectively exchange a tax-exempt money market rate for a taxable money market rate.

Under the Basis Swap, until September 30, 2007, the Authority will make a payment every month equal to the average of the Bond Market Association (BMA) Swap Index for that month. The BMA Swap Index is an average of a large number of currently outstanding tax-exempt Variable Rate Demand Bonds (VRDBs). Like the floating interest rate on VRDBs, the BMA Swap Index is re-set every week. In exchange for the Authority's monthly payment, the counterparty will make a payment to the Authority based upon a taxable money

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YEARS ENDED DECEMBER 31, 2006 AND 2005

market rate known as 1-month LIBOR. The actual amount will be determined based upon a mathematical formula equal to 64% of 1-month LIBOR plus 30 basis points.

During 2005, the Authority received an up-front payment from the counterparty at closing of approximately \$707,000. This up-front payment is included in deferred revenue on the statements of net assets at December 31, 2006, net of the amortized portion of \$30,739.

The interest payments on the interest rate swap are calculated based on a notional amount of \$30,210,000, which began reducing on August 1, 2005. At December 31, 2006, the current notional amount was \$29,375,000. The swap was due to expire on August 1, 2028; however, due to the swap amendment entered into by the Authority in September 2006, this swap will expire on October 1, 2007.

The Authority makes net swap payments as required by the terms of the contract, that is, receiving/paying the net amount between the two variable rates as noted above for the term of the swap from/to the counterparty. During 2006, the Authority received payments from the counterparty in the amounts of \$31,417. The Authority made payments to the counterparty of \$2,433. The net amount of \$28,984 is reported as income on swap on the statements of revenues, expenses, and changes in net assets.

As of December 31, 2006, the initial swap had a fair value of \$15,327. The mark to market value is an estimated net present value of the expected cash flows calculated using relevant mid-market data inputs and based on the assumption of no unusual market conditions or forced liquidation.

The Authority has the ability to early terminate the swap and to cash settle the transaction on any business day by providing prior 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.

In September 2006, the Authority amended the initial swap agreement to have an agreement that will take effect on October 1, 2007 and terminates on August 1, 2028. The second swap is a constant maturity swap (CMS). At December 31, 2006, this swap transaction had a fair value of \$(1,102,752).

By adding the CMS, the Authority will effectively convert the 1-month LIBOR it is now receiving on the Basis Swap to approximate a 5-year LIBOR.

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Starting on October 1, 2007, the Authority will make a payment every month equal to the average of the Bond Market Association (BMA) Swap Index for that month. The BMA Swap Index is an average of a large number of currently outstanding tax-exempt Variable Rate Demand Bonds (VRDBs). Like the floating interest rate on VRDBs, the BMA Swap Index is re-set every week. In exchange for the Authority's monthly payment, the counterparty will make a payment to the Authority based upon a taxable money market rate known as 5-year LIBOR. The actual amount will be determined based upon a mathematical formula equal to 62.5% of 5-year LIBOR Swap Rate.

Through the use of derivative instruments such as this interest rate 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 December 31, 2006, the interest rate swap counterparty was rated Aa2 by Moody's Investors Services, Inc., 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. Performance of the counterparty as it relates to this transaction is unsecured.
- 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. Because a Basis Swap does not involve the issuance of refunding bonds, the Authority may preserve the ability to do yet another refunding. The Authority is exposed to interest rate risk to the extent that changes in the variable rates being paid do not exactly correlate to changes in the variable rates received.
- 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 swap; 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 the interest rate swap components are based on different indexes. The Authority is subject to basis risk on the swap as the Authority will receive an amount based on 64% of the average of 1-month LIBOR for the previous month, plus .30% times the notional amount outstanding under the swap and the Authority will make a monthly floating rate payment to the

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2006 AND 2005

counterparty based on a different index, the Bond Market Association Index for the preceding month times the notional amount outstanding under the swap.

- Tax risk refers to political forces are work which affect the ratio at which the BMA Index trades relative to LIBOR rates. The level of the Authority's ongoing payments to the counterparty relative to what it is receiving could fluctuate based on increases or decreases in the marginal income tax rates for individuals and corporations. As marginal tax rates drop, there is a level at which the cash flow to the Authority under the swap could become negative, decreasing the Authority's overall benefit.

7. DEBT SERVICE FORWARD DELIVERY AGREEMENT

In November 2001, the Authority entered into a debt service forward delivery agreement for both the Series 1996 and 1998 bonds issues. As part of the agreement, the Authority received a fee of approximately \$402,000 in exchange for monthly prepaying certain debt service amounts into an escrow account and allowing the counterparty to retain the respective interest earnings. This amount has been deferred and is being amortized into earnings over the term of the bonds using the straight-line method. The unamortized portions of \$318,860 and \$335,428 are included as deferred fees on the statements of net assets at December 31, 2006 and 2005, respectively. The Authority has the ability to early terminate this agreement by calling or refunding the respective bond series by providing the counterparty with 15 days prior notice and paying to the counterparty and amount that approximates the fair value of the contract at termination. The fair value of the contracts at December 31, 2006 for the 1996 bonds and the 1998 bonds is \$300,893 and \$827,765, respectively. The fair market value was determined based on the cost-basis methodology.

8. PENSION PLAN

Description of Plan

The Authority's Pension Plan (plan) is a single-employer defined benefit pension plan. The plan was established on August 21, 1996 and is governed by the Board of Directors of the Authority which may amend plan provisions, and which is responsible for the management of plan assets. The Board of Directors has delegated the Authority to manage certain plan assets to National City Bank. The plan issues a separate stand-alone financial report that includes financial statements and required supplementary information that is available for public inspection at the Authority's offices.

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2006 AND 2005

The plan is available to any person employed on a full-time, permanent basis by the Authority. Pension benefits become 100 percent vested after the completion of 5 years of credited service. Eligibility for the normal retirement benefit is after the attainment of age 65 and completion for 15 years of credited service or attainment of age 62 and completion of 25 years of credited service. The accrued benefit is equal to \$40 times years of credited service at determination. The normal form of payment is a monthly pension benefit payable for life with 120 payments guaranteed.

At January 1, 2005, participants in the plan were as follows:

Active	27
In payment status:	
Retirement benefits	3
Disability benefits	1
Deferred	<u>1</u>
Total	<u><u>32</u></u>

The plan also has specific provisions for early and late retirement, disability, and death benefits.

Funding Status and Progress

The Authority's funding policy is to comply with Pennsylvania Act 205 of 1984 (Act 205). Under Act 205, the Authority is to contribute the sum of each plan's normal cost, administrative expenses, and amortization of the unfunded actuarial accrued liability (if any), less the amount contributed by employees and the Commonwealth of Pennsylvania. The normal cost and amortization of unfunded actuarial accrued liability are determined by an actuary, using guidelines established in Act 205. The actuarial cost method used is the Entry Age Normal Cost Method.

For the year ended December 31, 2006, the following plan information is presented:

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2006 AND 2005

Actuarial valuation date	1/1/2005
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar Closed
Amortization period	11 years
Asset valuation method	4-Year Smoothing
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	n/a
Underlying inflation rate	3.00%

Three-Year Trend Information

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>
12/31/2004	\$ 84,292	95%
12/31/2005	99,032	97%
12/31/2006	Not Available	Not Available

Net pension assets, the amount the plan has been funded in excess of required contributions, of \$68,148, and \$70,861 exist for the plan at December 31, 2005 and 2004, respectively. The amount of net pension assets as of December 31, 2006 is not available at this time.

Funds necessary to meet the MMO in the amount of \$109,085 were contributed to the plan during the year ended December 31, 2006.

As these amounts are not material to the financial statements, they have not been recorded on the statements of net assets.

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2006 AND 2005

9. DEFERRED COMPENSATION PLAN

The Authority offers its employees a deferred compensation plan (plan) created in accordance with the Internal Revenue Service Code Section 457. The plan, available to all eligible, full-time Authority employees, permits them to defer a portion of their salaries until future years. Participation in the plan is optional. The deferred compensation is not available to the employees until termination, retirement, death, or unforeseeable emergency.

At December 31, 2006, all amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, were held in trust solely for the benefit of the participants. Investments are managed by the plan's trustee under several investment options selected by the participant. Under the provisions of GASB Statement No. 32, "*Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*," the deferred compensation plan is not required to be included in the Authority's financial statements.

10. INTERMUNICIPAL AGREEMENT

On July 18, 2000, Baldwin Borough, Whitehall Borough, Brentwood Borough, and the Authority entered into an intermunicipal agreement to participate in the construction of the Streets Run Trunk Sewer Rehabilitation Project. As part of this agreement, the Authority will be responsible for maintaining an allocated portion of the Interceptor sewer lines based on an Allegheny County Board of Viewers allocation dated September 18, 1950. The costs incurred to rehabilitate the lines are being amortized over their useful life. The net unamortized balance is reported as cost of sewer capacity improvements on the statements of net assets.

Pursuant to various inter-municipal agreements and resolutions adopted by Baldwin Borough, Whitehall Borough, Brentwood Borough, and the Authority, the PWSA performed a rehabilitation project in the Streets Run Interceptor Sewer provided that the City of Pittsburgh and the other municipalities named above would share in the cost of maintaining and repairing the Streets Run Interceptor Sewer. PWSA and the Authority have agreed that the Authority will be responsible for 18% of the costs of such maintenance repairs for purposes of this specific project. The costs incurred to rehabilitate the lines are being amortized over their useful life. The net unamortized balance is reported as cost of sewer capacity improvements on the statements of net assets. The related liability is also included on the statements of net assets.

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2006 AND 2005

11. COMMITMENTS AND CONTINGENCIES

Contingencies

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.

Commitments

The Authority is involved in various contracts related to the construction of the sewer system. Construction commitments related to these projects at December 31, 2006 amounted to approximately \$1,139,505.

Consent Order

The Authority finalized and signed a consent order with the Allegheny County Health Department on February 26, 2004 which requires mapping, cleaning, repairing, and maintenance of the municipal sewer lines in the ALCOSAN service area over a five to eight year period. Authority compliance costs related to the ALCOSAN area consent order have been estimated to be between \$2 and \$3 million. Cooperation among neighboring communities is expected to help reduce the overall compliance cost to the Authority.

12. SUBSEQUENT EVENT

Effective with January 2007 billings, the Authority raised its residential customer rates for sewer service by 12.5%.

13. 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 in the past. There were no significant changes in insurance coverage during the year.

REQUIRED
SUPPLEMENTARY INFORMATION

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SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Excess of Assets Over (Under) AAL	Funded Ratio	Covered Payroll	Excess (Deficiency) as a Percentage of Covered Payroll
1/1/2001	\$ 1,043,139	\$ 1,524,953	\$ (481,814)	68.40%	\$ 1,036,770	(46.47)%
1/1/2003	1,132,487	1,638,664	(506,177)	69.11%	1,213,976	(41.70)%
1/1/2005	1,219,954	1,762,266	(542,312)	69.23%	1,317,539	(41.16)%

Source: Actuarial reports

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

See accompanying note to the supplementary pension schedules.

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SCHEDULE OF CONTRIBUTIONS FROM EMPLOYERS AND OTHER CONTRIBUTING ENTITIES

YEAR ENDED DECEMBER 31, 2006

<u>Year Ended December 31,</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2001	\$ 82,051	100%
2002	81,709	100%
2003	83,827	100%
2004	80,225	100%
2005	96,319	100%
2006	109,085	100%

Note: The initial Minimum Municipal Obligation (MMO) for this plan was adopted in 1998.

See accompanying note to supplementary pension schedules.

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NOTE TO THE SUPPLEMENTARY PENSION SCHEDULES

YEAR ENDED DECEMBER 31, 2006

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

Actuarial valuation date	1/1/2005
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar Closed
Amortization period	11 years
Asset valuation method	4-Year Smoothing
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	n/a
Underlying inflation rate	3.00%

ADDITIONAL INFORMATION

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ANALYSIS OF OPERATING REVENUES AND EXPENSES

YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
Operating Revenues:		
Sewage rentals	\$ 5,196,734	\$ 5,380,689
Refunds	-	4,177
Total operating revenues	\$ 5,196,734	\$ 5,384,866
Operating Expenses:		
Sewer system operation:		
Sewage treatment plants	\$ 347,735	\$ 295,869
Utilities	428,425	383,531
Sewer crew expenses	61,949	46,409
Pretreatment expenses	2,412	991
Payroll	1,513,254	1,435,117
Payroll taxes	88,794	108,617
Benefits	429,061	396,280
Office supplies	43,968	39,360
Communications	23,590	22,659
Postage	5,835	3,397
Advertisements	3,110	1,522
Printing	1,012	461
Fee collection costs	215,314	226,733
Engineering fees	57,413	103,522
Insurance	131,357	149,907
Seminars	3,462	5,101
Professional services	44,791	28,106
Miscellaneous expenses	11,688	18,853
Purchased sewer treatment	257,481	238,159
Depreciation and amortization	891,264	880,966
Total operating expenses	\$ 4,561,915	\$ 4,385,560