West Mifflin Sanitary Sewer Municipal Authority

Financial Statements and
Required Supplementary Information and
Supplementary Information

Years Ended December 31, 2012 and 2011
with Independent Auditor's Report

MaherDuessel
Certified Public Accountants

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WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

YEARS ENDED DECEMBER 31, 2012 AND 2011

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Independent Auditor's Report

Board of Directors
West Mifflin Sanitary Sewer Municipal Authority

We have audited the accompanying financial statements of the West Mifflin Sanitary Sewer Municipal Authority (Authority) as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2012 and 2011, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and pension information on pages i through ix and 24 through 26, respectively, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 response 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.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary information on page 27 is presented for additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Maher Duessel

Pittsburgh, Pennsylvania
June 14, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUDIT ASSURANCE

The unmodified (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 Governmental Accounting Standards Board.

FINANCIAL HIGHLIGHTS

The following are key financial highlights during 2012:

- In 2012, the flow billed decreased by 39,960,000 gallons. This decrease can be attributed to a decrease in customer's usage from the residential and commercial users in our service area. This decrease in billed volume resulted in decreased operating revenues for the Authority in 2012.

- In 2012, the Authority treated 970,383,000 gallons for 8,583 customers at its two waste water treatment plants. Of the gallons treated, only 715,939,491 gallons were billed. In 2011, the Authority treated 1,169,286,000 gallons for 8,547 customers at its two waste water treatment plants. Of the gallons treated, only 755,899,631 gallons were billed. The difference between what is treated versus that which is billed is attributed to direct inflow of storm water from groundwater infiltration into the system from old and deteriorating sewer lines and private laterals throughout the service area.

- During 2012, the Authority paid $1,165,000 in principal on its outstanding Sewer Revenue Bonds; compared with principal payments made in 2011 of $530,000.

- The Authority had an increase in the cost of operations (less depreciation and bad debt expense) in 2012 by $159,902 or 4% when compared to 2011.

- Operating revenues decreased by $448,449 or 6% in 2012 when compared to 2011.

- The Authority essentially completed and placed into service almost $1,252,000 in sewer system and treatment plant improvements in 2012.

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 Position 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 Position. 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 mid 2010. The Authority Board increased sewer rates in September of 2010 that went into effect for the October 2010 billing. In addition to increased sewer rates in October 2010, the Authority increased the monthly usage charge by $1.00.

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 $17.00 per residential and $2500 per commercial plus a graduated rate for usage by the hundred 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 13 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. Beginning early in 2008, 40 accounts were being billed by the WMSSMA in this service area. In 2012, the number of customers in this service area remains at 37. The Authority is billed by Jefferson Hills Borough for these customers on a quarterly payment schedule 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 provide key financial data and indicators for management, monitoring, and planning.

Condensed Statement of Net Position
(In Millions of Dollars)

	2012	2011	$ Change	% Change
Assets				
Current assets	$ 2,586,306	$ 3,148,304	$ (561,998)	-18%
Restricted assets	3,535,175	3,573,864	(38,689)	-1%
Capital assets	21,594,367	22,056,781	(462,414)	-2%
Other assets	962,191	1,021,008	(58,817)	-6%
Total Assets	$ 28,678,039	$ 29,799,957	$ (1,121,918)	
Liabilities and Net Position				
Liabilities:				
Current liabilities	$ 2,113,066	$ 2,240,444	$ (127,378)	-6%
Long-term liabilities	26,199,023	27,864,541	(1,665,518)	-6%
Total Liabilities	28,312,089	30,104,985	(1,792,896)	
Net Position:				
Net investment in capital assets	(4,716,479)	(5,621,181)	904,702	-16%
Restricted net position	3,085,519	3,112,081	(26,562)	-1%
Unrestricted net position	1,996,910	2,204,072	(207,162)	-9%
Total Net Position	365,950	(305,028)	670,978	
Total Liabilities and Net Position	$ 28,678,039	$ 29,799,957	$ (1,121,918)	

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

	2012	2011	$ Change	% Change
Operating revenues	$ 6,648,227	$ 7,096,676	$ (448,449)	-6%
Non-operating revenues	645,680	611,987	33,693	6%
Total revenues	7,293,907	7,708,663	(414,756)	-5%
Operating expenses	5,362,159	5,051,497	310,662	6%
Non-operating expenses	1,264,406	1,277,060	(12,654)	-1%
Total expenses	6,626,565	6,328,557	298,008	5%
Income before capital contribution revenues	667,342	1,380,106	(712,764)	-52%
Capital contribution revenues	3,636	7,776	(4,140)	-53%
Change in net position	670,978	1,387,882	(716,904)	-52%
Net position, beginning of year	(305,028)	(1,692,910)	1,387,882	
Net position, end of year	$ 365,950	$ (305,028)	$ 670,978	

	Condensed Statement of Net Position (In Millions of Dollars)			
	2011	2010	$ Change	% Change
Assets				
Current assets	$ 3,148,304	$ 1,656,313	$ 1,491,991	90%
Restricted assets	3,573,864	3,610,135	(36,271)	-1%
Capital assets	22,056,781	21,884,246	172,535	1%
Other assets	1,021,008	1,077,527	(56,519)	-5%
Total Assets	$ 29,799,957	$ 28,228,221	$ 1,571,736	
Liabilities and Net Assets				
Liabilities:				
Current liabilities	$ 2,240,444	$ 1,324,444	$ 916,000	69%
Long-term liabilities	27,864,541	28,695,345	(830,804)	-3%
Total Liabilities	30,104,985	30,019,789	85,196	
Net Assets:				
Invested in capital assets, net of related debt	(5,621,181)	(5,052,051)	(569,130)	11%
Restricted net position	3,112,081	3,295,901	(183,820)	-6%
Unrestricted net position	2,204,072	726,042	1,478,030	204%
Total Net Position	(305,028)	(1,030,108)	725,080	
Total Liabilities and Net Position	$ 29,799,957	$ 28,989,681	$ 810,276	

	Condensed Statement of Revenues, Expenses, and Changes in Net Position (In Millions of Dollars)			
	2011	2010	$ Change	% Change
Operating revenues	$ 7,096,676	$ 6,024,455	$ 1,072,221	18%
Non-operating revenues	611,987	224,008	387,979	173%
Total revenues	7,708,663	6,248,463	1,460,200	23%
Operating expenses	5,051,497	5,261,131	(209,634)	-4%
Non-operating expenses	1,277,060	1,732,883	(455,823)	-26%
Total expenses	6,328,557	6,994,014	(665,457)	-10%
Income before capital contribution revenues	1,380,106	(745,551)	2,125,657	-285%
Capital contribution revenues	7,776	82,749	(74,973)	-91%
Change in net position	1,387,882	(662,802)	2,050,684	-309%
Net position, beginning of year	(1,692,910)	(1,030,108)	(662,802)	
Net position, end of year	$ (305,028)	$ (1,692,910)	$ 1,387,882	

OTHER SELECTED INFORMATION

	2012	2011	Difference	%Change
Selected Data:				
Authorized Employees	28	28	0	0.00%
Actual Employees at year-end	26	28	-2	-7.14%
Wastewater Treated (billons of gallons)	0.970383	1.169286	-0.198903	-17.01%
Wastewater Billed (billions of gallons)	0.715939	0.755899	-0.03996	-5.29%
Percentage of Billed/Treated Wastewater	73.78%	64.65%	9.13%	14.13%
Rates:				
Residential Fee	$17	$16	$1.00	6.25%
Commercial Fee	$25.00	$24.00	$1.00	4.17%
First 2,000 gallons/thousand	$6.83	$6.83	$0.00	0.00%
next 13,000 gallons/thousand	$6.83	$6.83	$0.00	0.00%
15,001-100,000 gallons/thousand	$10.50	$10.50	$0.00	0.00%
over 100,000 gallons/thousand	$12.50	$12.50	$0.00	0.00%
Average Residential Customer Bill:				
Per year	$695.76	$683.76	$12.00	1.76%
Per Month	$57.98	$56.98	$1.00	1.76%

* Based on 6,000 Gallons per month

	2011	2010	Difference	%Change
Selected Data:				
Authorized Employees	28	28	0	0.00%
Actual Employees at year-end	28	28	0	0.00%
Wastewater Treated (billons of gallons)	1.169286	0.970375	0.198911	20.50%
Wastewater Billed (billions of gallons)	0.755899	0.637534	0.118365	18.57%
Percentage of Billed/Treated Wastewater	64.65%	65.70%	-1.05%	-1.60%
Rates:				
Residential Fee	$16	$15	$0.00	0.00%
Commercial Fee	$24.00	$23.00	$0.00	0.00%
First 2,000 gallons/thousand	$6.83	$6.83	$1.50	40.00%
next 13,000 gallons/thousand	$6.83	6,83	$1.00	23.53%
15,001-100,000 gallons/thousand	$10.50	$10.50	$0.50	5.26%
over 100,000 gallons/thousand	$12.50	$12.50	$0.50	4.26%
Average Residential Customer Bill:				
Per year	$683.76	$534.00	$149.76	28.04%
Per Month	$56.98	$44.50	$12.48	28.04%

* 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 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 $1.75 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. Cooperation among neighboring–communities is expected to help reduce the overall compliance cost to the Authority.

RESULTS OF OPERATIONS

Operating Revenue:

In 2012 and 2011, 100% of operating revenue was derived from customer billing for sewage treatment service. This includes residential commercial and industrial customers.

Operating Expenses:

Total operating expense, before depreciation was $4,474,046 in 2012 vs. $4,159,580 in 2011. In 2012, operating expenses increased in sewage treatment plants, payroll, payroll taxes, benefits, office supplies, postage, advertisements, fee collection costs, engineering fees, professional services, and bad debt expense. There were reductions in utilities, sewer crew expenses, pretreatment expenses, communications, printing, insurance, and miscellaneous expenses. In 2011, operating expenses increased in purchased sewer treatment, fee collection costs, printing, communications, payroll taxes, pretreatment expenses, and sewer crew expenses. There were reductions in utilities, payroll, benefits, office supplies, postage, advertisement, engineering fees, insurance, seminars, and professional fees.

Non-Operating Revenues and Non-Operating Expenses:

The Authority experienced significant fluctuations in Non-operating Revenue (Expense) between 2012 and 2011 primarily due to changes in the market value of the Authority's swap. As of December 31, 2012, the interest rate swap had a positive change in market value which is recorded as a component of investment income on the Statements of Revenues, Expenses, and Changes in Net Position of $409,542 resulting in a derivative asset to the Authority of $301,531. As of December 31, 2011, the interest rate swap had a negative change in market value which is recorded as a component of investment income on the Statements of Revenues, Expenses, and Changes in Net Position of $371,262 resulting in a derivative liability to the Authority of $64,813.

The Authority experienced significant fluctuations in Non-operating Revenue (Expense) between 2011 and 2010 primarily due to changes in the market value of the Authority's swap. As of December 31, 2011, the interest rate swap had a positive change in market value which is recorded as a component of investment income on the Statements of Revenues, Expenses, and Changes in Net Position of $371,262 resulting in a derivative liability to the Authority of $64,813. As of December 31, 2010, the interest rate swap had a negative change in market value which is recorded as a component of investment income on the Statements of Revenues, Expenses, and Changes in Net Position of $441,732 resulting in a derivative liability to the Authority of $436,075.

Depreciation:

The Authority had a depreciation expense of $888,113 and $891,917 on plants and equipment in 2012 and 2011, respectively. In 2012 and 2011, respectively, the Authority completed almost $1,252,000 and $170,000 in various capital projects throughout the sewer system and treatment plants.

DEBT

At year-end, the Authority had $26,950,000 in bond debt.

In 2012, the Authority was not in compliance with the rate covenant, as its operating surplus was less than 110% of the debt service requirements (the necessary surplus was short approximately $293,000). The Authority will work with the Trustee and bond counsel to assess the appropriateness of its rate structure and look for additional revenue sources in order for the debt covenant to be met at December 31, 2013.

FINAL COMMENTS

While fiscal year 2012 presented financial challenges, the Board of Directors and the Authority staff worked hard to position the Authority for the future. Although the Authority experienced decreased operating revenues and increased operating expenses, the Authority had a positive change in net position of $670,978 in 2012. At December 31, the Authority had a positive net position of $365,950.

The Authority is looking at a cooperative agreement with the Pittsburgh Water and Sewer Authority to treat the wastewater from about 1,000 customers that would be connected by gravity to the Authority's sewer system and be treated at the Thomson Run Plant. The Authority is also looking into providing sewer service to other adjacent communities as long as they are financially feasible.

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 POSITION

DECEMBER 31, 2012 AND 2011

Assets

	2012	2011
Current assets:		
Cash and cash equivalents	$ 1,600,188	$ 1,714,707
Accounts receivable - user fees	925,473	1,354,339
Accounts receivable - nonuser fees	4,071	-
Prepaid expenses	55,411	54,026
Interest receivable	1,163	25,232
Total current assets	2,586,306	3,148,304
Restricted assets:		
Construction fund	12,543	89,272
Debt service accounts	3,522,632	3,484,592
Total restricted assets	3,535,175	3,573,864
Capital assets (at cost)	32,393,920	31,141,633
Less: accumulated depreciation	(10,828,240)	(9,960,078)
Construction in progress	28,687	875,226
Total capital assets, net (at cost)	21,594,367	22,056,781
Other assets:		
Bond issue costs (net of amortization of $127,934 and $89,068 for 2012 and 2011, respectively)	610,513	649,379
Cost of sewer capacity improvements (net of amortization of $170,844 and $150,893 for 2012 and 2011, respectively)	351,678	371,629
Total other assets	962,191	1,021,008
Total Assets	$ 28,678,039	$ 29,799,957

Liabilities and Net Position

	2012	2011
Liabilities:		
Current liabilities:		
Accounts payable	$ 290,662	$ 495,287
Accrued payroll	14,059	51,426
Current portion of accrued compensated absences	13,559	-
Current portion of long-term debt	75,130	66,948
Total current liabilities	393,410	613,661
Current liabilities (payable from restricted assets):		
Current portion of bonds payable long-term	1,270,000	1,165,000
Bond interest payable	449,656	461,783
Total current liabilities (payable from restricted assets)	1,719,656	1,626,783
Long-term liabilities:		
Deferred fee	224,297	239,250
Borrowing payable - swap	442,278	485,476
Embedded derivative instrument - liability (asset)	(301,531)	64,813
Accrued compensated absences	258,573	308,247
Notes payable	1,235,583	1,242,248
Bonds payable (net of deferred amounts of $1,340,177 and $1,425,493 for 2012 and 2011, respectively)	24,339,823	25,524,507
Total long-term liabilities	26,199,023	27,864,541
Total Liabilities	28,312,089	30,104,985
Net Position:		
Net investment in capital assets	(4,716,479)	(5,621,181)
Restricted net assets	3,085,519	3,112,081
Unrestricted net assets	1,996,910	2,204,072
Total Net Position	365,950	(305,028)
Total Liabilities and Net Position	$ 28,678,039	$ 29,799,957

See accompanying notes to financial statements.

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Operating Revenues:		
Sewer rentals	$ 6,648,227	$ 7,096,676
Operating Expenses:		
Sewer system operation	3,901,775	3,765,382
Purchased sewer treatment	417,707	394,198
Depreciation and amortization	888,113	891,917
Bad debt expense	154,564	-
Total operating expenses	5,362,159	5,051,497
Operating Income	1,286,068	2,045,179
Nonoperating Revenues (Expenses):		
Interest income	59,276	55,140
Other revenue	29,915	32,854
Interest on sewer revenue bonds and notes payable	(1,199,852)	(1,213,024)
Amortization of bond issue costs	(38,866)	(38,866)
Investment income (loss) on embedded derivative instrument	409,542	371,262
Interest expense on borrowing payable - swap	(21,239)	(23,234)
Income on swap transactions	142,275	152,731
Realized loss on investments	(4,449)	-
Unrealized gain (loss) on investments	4,672	(1,936)
Total nonoperating revenues (expenses)	(618,726)	(665,073)
Income (Loss) Before Capital Contribution Revenues	667,342	1,380,106
Capital Contribution Revenues:		
Tapping/connection fees	3,636	7,776
Change in Net Position	670,978	1,387,882
Net Position:		
Beginning of year	(305,028)	(1,692,910)
End of year	$ 365,950	$ (305,028)

See accompanying notes to financial statements.

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Cash Flows From Operating Activities:		
Cash received from customers	$ 6,922,529	$ 6,835,883
Cash payments for operating expenses	(4,603,045)	(3,885,122)
Net cash provided by (used in) operating activities	2,319,484	2,950,761
Cash Flows From Noncapital Financing Activities:		
Payment received on swap transactions	142,275	152,731
Interest paid on borrowing payable - swap	(21,239)	(23,234)
Other	118,867	83,219
Net cash provided by (used in) noncapital financing activities	239,903	212,716
Cash Flows From Capital and Related Financing Activities:		
Interest paid on debt	(1,226,932)	(1,233,506)
Interest received on restricted bond funds	44,252	39,311
Capital assets and related purchases	(405,748)	(1,046,799)
Proceeds from issuance of note payable	58,546	820,417
Payment of notes payable	(57,029)	(29,309)
Payment of bond principal	(1,165,000)	(530,000)
Net cash provided by (used in) capital and related financing activities	(2,751,911)	(1,979,886)
Cash Flows From Investing Activities:		
Sale of investments	38,912	34,335
Interest earned	39,093	15,086
Net cash provided by (used in) investing activities	78,005	49,421
Increase (Decrease) in Cash and Cash Equivalents	(114,519)	1,233,012
Cash and Cash Equivalents:		
Beginning of year	1,714,707	481,695
End of year	$ 1,600,188	$ 1,714,707
Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities:		
Operating income	$ 1,286,068	$ 2,045,179
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation and amortization	888,113	891,917
Bad debt expense	154,564	-
Change in operating assets:		
Accounts receivable	270,231	(260,793)
Prepaid expenses	(1,385)	2,557
Change in operating liabilities:		
Accounts payable	(204,625)	259,275
Accrued payroll and withholdings	(37,367)	43,268
Accrued compensated absences	(36,115)	(30,642)
Net cash provided by (used in) operating activities	$ 2,319,484	$ 2,950,761
Non-Cash Investing, Capital, and Financing Activities:		
Investment income (loss) on embedded derivative instrument	$ 409,542	$ 371,262

See accompanying notes to financial statements.

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, are 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.

Receivables

No provision for uncollectible accounts receivables as these charges are lienable charges to the property served. Any other charges that become uncollectible are charged to expense in the year. For the year ended December 31, 2012, the Authority charged $154,564 to bad debt expense.

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 begin to be depreciated when the project is completed.

Bond Issue Costs

Bond issue costs are amortized over the life of the related bonds utilizing the straight-line 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 $272,132 and $308,247 for 2012 and 2011, respectively, for compensated absences that are eligible for payment upon termination.

Basis of Accounting and Measurement Focus

The Authority’s accounts are reported as an Enterprise Fund using the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recognized when incurred.

Net Position

Governmental Accounting Standards Board (GASB) Statement No. 34, *"Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,"* requires the classification of net position into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- Net investment in capital assets – This component of net position 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 position consists of constraints placed on net position use through external restrictions. The Authority had restricted net position of $3,085,519 and $3,112,081 at December 31, 2012 and 2011, respectively. These amounts are restricted for the debt covenants.

- Unrestricted – This component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

Other Matters

The accounting policies for the interest rate swap and debt service forward delivery agreement are discussed in Note 6 and Note 7, respectively.

Adopted Pronouncements

GASB Statement No. 62, *"Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements."* This statement establishes accounting and financial reporting standards for the financial reporting statements of state and local governments by bringing together reporting literature in one place, with the guidance modified as necessary.

GASB Statement No. 63, *"Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position."* This statement provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of position and related disclosures. The primary impact of this on the Authority's 2012 financial statements relates to reporting the residual of assets, plus deferred outflows of resources, less liabilities and deferred inflows of resources, as net "position" rather than as net "assets."

Pending Pronouncements

GASB has issued Statement No. 61, *"The Financial Reporting Entity: Omnibus,"* effective for periods beginning after June 15, 2012. The objective of this statement is to improve financial reporting for a governmental financial reporting entity by modifying existing requirements for the assessment of potential component units. The effect of implementation of this statement has not yet been determined.

GASB has issued Statement No. 65, *"Items Previously Reported as Assets and Liabilities,"* effective for periods beginning after December 15, 2012. The objective of this statement is to improve financial reporting for a governmental financial reporting entity by reclassifying certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. In addition, this statement recognizes certain items currently being reported as assets and liabilities as outflows of resources and inflows of resources. The effect of implementation of this statement has not yet been determined.

GASB has issued Statement No. 67, *"Financial Reporting for Pension Plans,"* effective for financial statements for periods beginning after June 15, 2013, and has also issued Statement No. 68, *"Accounting and Financial Reporting for Pensions,"* effective for fiscal years beginning after June 15, 2014. These statements revise existing guidance for the financial reports of most pension plans, and establish new financial reporting requirements for most governments that provide their employees with pension benefits.

Subsequent Events

Subsequent events have been evaluated through the Independent Auditor's Report date, which is the date the financial statements were available to be issued.

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 trusteed assets, as otherwise permitted by the trust indenture of 2009. Throughout the years ended December 31, 2012 and 2011, the Authority invested its funds in such authorized investments.

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, 2012 and 2011, respectively, $930,399 and $1,306,201 of the Authority's bank balance of $1,430,399 and $1,556,201 was exposed to custodial credit risk. Any exposed 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. These deposits have a carrying amount of $1,429,262 and $1,543,850 as of December 31, 2012 and 2011, respectively, all of which is reported as current assets in the statements of net position.

In addition to the deposit noted above, included in cash and cash equivalents on the statements of net position are investments with the Pennsylvania Local Government Investment Trust (PLGIT) of $101,361 and $101,333 for 2012 and 2011, respectively. The fair value of the Authority's investments with PLGIT (an external investment pool) is the same as the value of pool shares. All investments in the investment pool that are not SEC-registered are subject to oversight by the Commonwealth of Pennsylvania.

In addition to the deposits noted above, included in cash and cash equivalents on the statements of net position are short-term investments with the external investment pool (INVEST) of $69,565 and $69,524 in 2012 and 2011, respectively. The fair value of the Authority's investments in INVEST is the same as the value of the pool shares. All investments in the investment pool that are not SEC-registered are subject to oversight by the Commonwealth of Pennsylvania.

At December 31, 2012, the Authority held the following investment balances:

	Fair Market Value	Maturity in Years Less than 1 Year
Money markets	$ 1,902,201	$ 1,902,201
Corporate bonds	657,366	657,366
U.S. agencies	975,608	975,608
Total	$ 3,535,175	$ 3,535,175

At December 31, 2011, the Authority held the following investment balances:

	Fair Market Value	Maturity in Years Less than 1 Year
Money markets	$ 1,945,178	$ 1,945,178
Corporate bonds	741,546	741,546
U.S. agencies	887,140	887,140
Total	$ 3,573,864	$ 3,573,864

The fair value of the Authority's investments is the same as their carrying amount. Investments of $3,535,175 at December 31, 2012 and $3,573,864 at December 31, 2011 are included as restricted investments on the statements of net position.

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 not subject to interest rate risk, as all of its investments at December 31, 2012 and 2011 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. The Authority's Wells Fargo money market funds of

$1,902,201 and J.P. Morgan corporate bonds of $657,366 were rated Aa3 and A2, respectively, at December 31, 2012.

As of December 31, 2011, the Authority's Wells Fargo money market funds of $1,945,178 and J.P. Morgan corporate bonds of $657,366 were rated Aa3 and A2, respectively.

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 five percent of the Authority's investments are in Wells Fargo money market funds and J.P. Morgan corporate bonds. These investments are 54% and 19%, respectively, of the Authority's total investments at December 31, 2012.

4. Capital Assets

A summary of changes in capital assets is as follows:

	Balance at December 31, 2011	Additions	Transfers/ Deletions	Balance at December 31, 2012
Capital assets, not being depreciated:				
Construction in progress	$ 875,226	$ 284,054	$ (1,130,593)	$ 28,687
Capital assets, being depreciated:				
Plant and system	28,699,513	1,246,811	-	29,946,324
Vehicles and equipment	687,505	705	-	688,210
Other capital improvements	1,754,615	4,771	-	1,759,386
Total capital assets, being depreciated	31,141,633	1,252,287	-	32,393,920
Less accumulated depreciation	(9,960,078)	(868,162)	-	(10,828,240)
Total capital assets, being depreciated, net	21,181,555	384,125	-	21,565,680
Total capital assets, net	$ 22,056,781	$ 668,179	$ (1,130,593)	$ 21,594,367

	Balance at December 31, 2010	Additions	Transfers/ Deletions	Balance at December 31, 2011
Capital assets, not being depreciated:				
Construction in progress	$ -	$ 933,389	$ (58,163)	$ 875,226
Capital assets, being depreciated:				
Plant and system	28,603,613	95,900	-	28,699,513
Vehicles and equipment	627,787	59,718	-	687,505
Other capital improvements	1,740,958	13,657	-	1,754,615
Total capital assets, being depreciated	30,972,358	169,275	-	31,141,633
Less accumulated depreciation	(9,088,112)	(871,966)	-	(9,960,078)
Total capital assets, being depreciated, net	21,884,246	(702,691)	-	21,181,555
Total capital assets, net	$ 21,884,246	$ 230,698	$ (58,163)	$ 22,056,781

5. LONG-TERM DEBT

Current interest bonds payable at December 31, 2012 are composed of the following individual issues:

Sewer Revenue Bonds	Balance at December 31, 2011	Retirements	Balance at December 31, 2012	Due Within One Year
2009	$ 28,115,000	$ 1,165,000	$ 26,950,000	$ 1,270,000

Sewer Revenue Bonds, Refunding Series of 2009, due in annual principal installments or mandatory sinking fund payments through August 1, 2028.	$ 26,950,000
Less: deferred loss on advance refunding	(1,037,619)
Less: discount on bonds	(302,558)
Less: current portion	(1,270,000)
Total bonds payable - long-term	$ 24,339,823

On September 15, 2009, the Authority issued $29,320,000 of Sewer Revenue Bonds, Refunding Series of 2009, bearing interest rates ranging from 2% to 4.625%. The proceeds of the bonds were used to currently refund all of the outstanding Sewer Revenue Bonds, Series of 1998 in the amount of $27,985,000. A supplemental indenture (2009 Bond Indenture) was made and entered into as of September 15, 2009, between the Authority and the Trustee, Wells Fargo Bank, N.A.

The 2009 Bond Indenture includes rate covenants that the Authority must meet on an annual basis. The Authority must generate operating surplus annually equal to 110% of the debt service requirements with respect to all outstanding bonds during the current fiscal year of the Authority. This calculation can only include operating revenues of the Authority and is not permitted to include the surplus of the revenue fund. In 2012, the Authority was not in compliance with the rate covenant, as its operating surplus was less than 110% of the debt service requirements (the necessary surplus was short approximately $293,000). The Authority will work with the Trustee and bond counsel to assess the appropriateness of its rate structure and look for additional revenue sources in order for the debt covenant to be met at December 31, 2013.

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

December 31,	Principal	Interest	Total
2013	$ 1,270,000	$ 1,079,174	$ 2,349,174
2014	1,305,000	1,041,074	2,346,074
2015	1,350,000	998,662	2,348,662
2016	1,395,000	951,411	2,346,411
2017	1,450,000	902,586	2,352,586
2018-2022	8,070,000	3,677,727	11,747,727
2023-2027	9,865,000	1,779,325	11,644,325
2028	2,245,000	103,831	2,348,831
	$ 26,950,000	$ 10,533,790	$ 37,483,790

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 $170,736 and $183,556 at December 31, 2012 and 2011, respectively.

The following summarizes the required payments for the PWSA loan:

December 31	Principal	Interest	Total
2013	$ 13,206	$ 4,892	$ 18,098
2014	13,604	4,494	18,098
2015	14,013	4,085	18,098
2016	14,435	3,663	18,098
2017	14,869	3,228	18,097
2018-2022	81,338	9,151	90,489
2023-2024	19,271	336	19,607
	$ 170,736	$ 29,849	$ 200,585

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 were 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 became due and payable according to the amortization schedule in the loan agreement. During 2010, the Authority received a final amortization schedule from PennVest in which $16,766 was reclassified from a PennVest loan to a grant. The outstanding balance of the loan is $288,339 and $305,224 at December 31, 2012 and 2011, respectively.

The following summarizes the required payments for the PennVest loan:

December 31,	Principal	Interest	Total
2013	$ 16,027	$ 7,579	$ 23,606
2014	16,465	7,142	23,607
2015	16,915	6,692	23,607
2016	17,376	6,230	23,606
2017	17,851	5,756	23,607
2018-2022	96,837	21,195	118,032
2023-2027	106,868	7,236	114,104
	$ 288,339	$ 61,830	$ 350,169

In June 2011, PennVest approved a loan up to the amount of $1,237,000 to fund the construction of improvements to the community sewer system, bearing interest at 1% for the 240 months of the loan term. Interest-only payments on the unpaid principal sum were payable monthly beginning with the first calendar month following a loan advance and ending on May 1, 2012. On June 1, 2012, the unpaid principal and interest became due and payable according to the preliminary amortization schedule in the loan agreement. Although the Authority's final draw down on the loan occurred in December 2012, the Authority has not received a final amortization schedule from PennVest. The outstanding balance of the loan is $851,638 and $820,417 at December 31, 2012 and 2011, respectively.

The following summarizes the required payments for the PennVest loan:

December 31,	Principal	Interest	Total
2013	$ 45,897	$ 9,576	$ 55,473
2014	46,358	9,115	55,473
2015	46,824	8,649	55,473
2016	47,294	8,179	55,473
2017	47,769	7,704	55,473
2018-2022	246,143	31,224	277,367
2023-2027	258,757	18,610	277,367
2028-2031	112,596	3,985	116,581
	$ 851,638	$ 97,042	$ 948,680

At December 31, 2012, the PWSA loan and the PennVest loans are presented as notes payable on the statements of net position in the amount of $1,235,583 (long-term) and $75,130 (short-term). At December 31, 2011, the PWSA loan and the PennVest loans are presented as notes payable on the statements of net position in the amount of $1,242,248 (long-term) and $66,948 (short-term).

In conjunction with their swap transaction described in Note 6, the Authority received an upfront cash payment. A portion of the upfront cash payment received by the Authority was considered to be a borrowing at a rate of 4.565%. As of December 31, 2012 and 2011, the borrowing had an outstanding balance of $442,278 and $485,476, respectively. Principal and interest payments are made monthly and will continue until the borrowing's final maturity in 2028, as summarized in the table below. Principal and interest payments are aggregated into the net monthly payments the Authority has received from the counterparty in 2012.

Year Ending June 30,	Principal	Interest	Total
2013	$ 41,421	$ 19,336	$ 60,757
2014	39,826	17,444	57,270
2015	38,679	15,673	54,352
2016	38,549	13,897	52,446
2017	37,132	12,167	49,299
2018-2022	157,726	37,534	195,260
2023-2027	85,056	8,986	94,042
2028	3,889	67	3,956
Total	$ 442,278	$ 125,104	$ 567,382

6. INTEREST RATE SWAP

During fiscal year 2005, the Authority entered into a pay-variable, receive-variable basis interest rate swap contract ("Basis Swap"). The interest rate swap was effective on the first day of each month, which began on May 1, 2005. The intention of the swap was to effectively exchange a tax-exempt money market rate for a taxable money market rate.

During 2005, the Authority received an up-front payment from the counterparty at closing of approximately $707,000. The upfront cash payment received by the Authority at the time the swap was entered into is considered to be a borrowing at a rate of 4.565%. As of December 31, 2012 and 2011, the borrowing had an outstanding balance of $442,278 and $485,476, respectively, and is disclosed in more detail in Note 5.

In September 2006, the Authority amended the initial swap agreement to change the structure of the swap agreement to a constant maturity swap (CMS). The swap agreement was also amended in 2007 and 2008 to extend the effective date. The 2008 amendment extended the effective date until October 31, 2009.

In November 2009, with the issuance of the Refunding Bonds discussed in Note 5, the CMS swap was terminated and a new Basis Swap was started. On August 1, 2022, the Basis Swap will convert to a CMS with a final maturity on August 1, 2028. The interest payments on the Basis Swap were calculated based on a notional amount of $29,320,000, which began reducing on July 1, 2010 through conversion on August 1, 2022. The notional amount on the CMS will continue to reduce through final maturity on August 1, 2028.

The Authority received a payment of $224,550 from the counterparty in order to pay fees associated with the 2009 swap transactions. The Authority paid these fees to all required parties in 2009. The early termination fee payable by the Authority related to the 2006 extended CMS has been included in the new swap agreement effectively by moving the date on which the Basis Swap ends, and the CMS swap begins, closer to the trade date.

Starting on December 1, 2009, the Authority began making payments every month equal to the average of the USD-Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index for that month. The SIFMA Municipal 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 SIFMA Municipal Swap Index is re-set every week. Under the Basis Swap, 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 USD-LIBOR-BBA three month swap rate through August 1, 2022. The actual amount will be determined based upon a mathematical formula equal to 65% of USD-LIBOR-BBA plus 0.30% three month swap rate. Under the CMS starting on September 1, 2022, 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 USD-ISDA five-year swap rate through the termination date of August 1, 2028. The actual amount will be determined based upon a mathematical formula equal to 59.91% of USD-ISDA five-year Swap Rate.

As of December 31, 2012 and 2011, the swap had a fair value of $301,531 and ($64,813), respectively. As the swap is considered to be an investment type derivative instrument per accounting standards, it is reported as a derivative asset/liability on the statements of net position. The changes in fair market value of $366,344 and $371,262 during fiscal years 2012 and 2011, respectively, are recorded as a component of investment income on the statements of revenues, expenses, and changes in net position. The mark to market value is calculated using a combination of the zero-coupon method and an option pricing model.

The Authority is not at risk for a collateral call, as the Master Agreement specifically excludes such a provision for a collateral call or contingencies on the part of the Authority.

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

- Credit risk is the risk that a counterparty will not fulfill its obligations. On December 31, 2012, the interest rate swap counterparty was rated Aa3 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. However, as of December 31, 2012, the swap had a positive fair market value to the Authority and, as such, the Authority had no credit risk exposure related to this transaction. Performance of the counterparty as it relates to this transaction is unsecured. In the event that the counterparty's rating is downgraded to a certain level (and based on the fair value of the swap at the time of the downgrade), the counterparty would be required to post collateral to support its obligations under the swap. As of December 31, 2012, there is no collateral posted by the counterparty related to this transaction, nor has there been any collateral posted since inception of the swap.

- 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 without the consent of the Authority unless the bonds that the swap relates to ceases to exist, except in the case of a refunding; however, the Authority is exposed to termination risk 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 basis swap is highly sensitive to changes in interest rates; changes in the variable rates will have a material effect on the basis swap's fair market value.

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 $224,297 and $239,250 are included as deferred fees on the statements of net position at December 31, 2012 and 2011, 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 an amount that approximates the fair value of the contract at termination.

As part of the issuance of the 2009 Bonds in Note 5, the 1996 debt service forward delivery agreement was terminated. In addition, the original 1998 debt service forward delivery agreement was amended to remove the prior trustee and add the current trustee and to change the 1998 bonds to the 2009 bonds. The original delivery date has remained unchanged from the original agreement.

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 Bank of NY Mellon. 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.

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 of 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, 2011, participants in the plan were as follows:

Active	30
In payment status:	
Retirement benefits	7
Disability benefits	1
Deferred	1
Total	39

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. As a condition of participation, union employees are to contribute $40 per month and management employees are to contribute $21 per month of their salary as stipulated in the Act.

For the year ended December 31, 2012, the following plan information is presented:

Annual pension cost	$ 110,505
Contributions made	$ 110,505
Actuarial valuation date	1/1/2011
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar Closed
Amortization period	6 years
Asset valuation method	3-Year Smoothing
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	n/a
Underlying inflation rate	3.00%

Three-Year Trend Information

Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
12/31/2010	$ 97,471	106%	$ 81,227
12/31/2011	108,787	100%	81,227
12/31/2012	110,505	100%	81,227

As the net pension asset, the amount the plan has been funded in excess of required contributions, is not material to the financial statements, it has not been recorded on the statements of net position.

Funded Status

The Authority's funded status and related information as of the latest actuarial valuation date, January 1, 2011, 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
$1,582,271	$ 2,547,518	$ (965,247)	62.11%	$1,413,350	(68.29)%

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.

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, 2012, 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 position.

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 position. The related liability is also included on the statements of net position.

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 had no construction commitments related to construction of the sewer system at December 31, 2012.

Consent Order

The Authority finalized and signed a consent order with the Allegheny County Health Department on February 26, 2004 that 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 $1.75 million. Cooperation among neighboring communities is expected to help reduce the overall compliance cost to the Authority.

12. 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.

13. FINANCIAL POSITION

Operating revenue for the year ended December 31, 2012 was $6,648,227, a decrease of approximately $450,000 from December 31, 2011 largely as a result of decreased usage from the prior year. However, for the year ended December 31, 2012, the Authority had positive net position of $365,950, an increase of $670,978 from December 31, 2011.

As a result of this decrease in operating revenue, the Authority was not in compliance with the rate covenant in 2012, as its operating surplus was less than 110% of the debt service requirements (the necessary surplus was short approximately $293,000). The Authority will work with the Trustee and bond counsel to assess the appropriateness of its rate structure and look for additional revenue sources in order for the debt covenant to be met at December 31, 2013.

Required Supplementary Information

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

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
1/1/2007	$ 1,539,604	$ 1,878,895	$ (339,291)	81.94%	$ 1,483,343	(22.87)%
1/1/2009	1,596,829	2,122,955	(526,126)	75.22%	1,618,471	(32.51)%
1/1/2011	1,582,271	2,547,518	(965,247)	62.11%	1,413,350	(68.29)%

Source: Actuarial reports

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

See accompanying note to the supplementary pension schedules.

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYERS AND OTHER CONTRIBUTING ENTITIES

YEAR ENDED DECEMBER 31, 2012

Year Ended December 31,	Annual Required Contribution	Percentage Contributed
2007	$ 110,610	100%
2008	109,109	100%
2009	91,954	109%
2010	97,471	106%
2011	108,787	100%
2012	110,505	100%

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

See accompanying note to the supplementary pension schedules.

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

NOTE TO THE SUPPLEMENTARY PENSION SCHEDULES

YEAR ENDED DECEMBER 31, 2012

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	1/1/2011
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar Closed
Amortization period	6 years
Asset valuation method	3-Year Smoothing
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	n/a
Underlying inflation rate	3.00%

Supplementary Information

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

ANALYSIS OF OPERATING REVENUES AND EXPENSES

YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Operating Revenues:		
Sewage rentals	$ 6,648,227	$ 7,096,676
Operating Expenses:		
Sewer system operation:		
Sewage treatment plants	$ 318,402	$ 277,374
Utilities	406,504	465,125
Sewer crew expenses	21,305	25,433
Pretreatment expenses	36	222
Payroll	1,715,796	1,684,662
Payroll taxes	160,864	147,566
Benefits	681,279	606,287
Office supplies	22,118	10,126
Communications	24,986	30,206
Postage	3,833	3,300
Advertisements	1,402	1,149
Printing	-	286
Fee collection costs	306,074	274,638
Engineering fees	49,296	25,700
Insurance	130,030	150,514
Professional services	55,013	34,830
Miscellaneous expenses	4,837	27,964
Purchased sewer treatment	417,707	394,198
Depreciation and amortization	888,113	891,917
Bad debt expense	154,564	-
Total operating expenses	$ 5,362,159	$ 5,051,497