West Mifflin Sanitary Sewer Municipal Authority

Financial Statements and
Required Supplementary Information and
Supplementary Information

Years Ended December 31, 2014 and 2013
with Independent Auditor's Report

MaherDuessel
Certified Public Accountants

Pittsburgh | Harrisburg | Butler

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WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

YEARS ENDED DECEMBER 31, 2014 AND 2013

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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, 2014 and 2013, 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 from 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 entity'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 entity'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, 2014 and 2013, 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 vii and 24 through 26 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 audits 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 audits 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 19, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUDIT ASSURANCE

The unmodified 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 (GASB).

FINANCIAL HIGHLIGHTS

The following are key financial highlights during 2014:

- In 2014, the flow billed increased by 5,806,328 gallons. This increase can be attributed to an increase in customer's usage from the residential and commercial users in our service area. This increase in billed volume resulted in increased operating revenues for the Authority in 2014.

- In 2014, the Authority treated 985,691,000 gallons for 8,972 customers at its two waste water treatment plants. Of the gallons treated, only 560,508,500 gallons were billed. In 2013, the Authority treated 985,838,000 gallons for 9,002 customers at its two waste water treatment plants. Of the gallons treated, only 554,702,172 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.

- In 2014, the Authority issued Sewer Revenue Bonds, Refunding Series of 2014 A, in the amount of $21,225,000 to advance refund $14,360,000 of the outstanding Sewer Revenue Bonds, Series of 2009, terminate the Debt Service Forward Delivery Agreement, and to be used to pay the costs of certain capital projects of the Authority.

- In 2014, the Authority issued Sewer Revenue Bonds, Federally Taxable, Series of 2014 B, in the amount of $275,000 to terminate the Authority's SWAP Agreement.

- During 2014, the Authority paid $1,305,000 in principal on its outstanding Sewer Revenue Bonds, Series of 2009; compared with principal payments made in 2013 of $1,270,000. As noted above, $14,360,000 of the Sewer Revenue Bonds, Series of 2009 was advance refunded with the issuance of the Sewer Revenue Bonds, Refunding Series of 2014 A. $10,015,000 of the Sewer Revenue Bonds, Series of 2009, remain outstanding as an obligation of the Authority at December 31, 2014.

- The Authority had a decrease in the cost of operations (less depreciation and bad debt expense) in 2014 by $12,228 or 0.28% when compared to 2014.

- Operating revenues increased by $511,543 or 7.9% in 2014 when compared to 2013.

- The Authority essentially completed and placed into service approximately $237,000 in sewer system and treatment plant improvements in 2014.

REQUIRED FINANCIAL STATEMENTS

The financial statements 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, deferred outflows of resources, and liabilities, with the difference reported as net position. Over time, increases and decreases to net position are one indicator of whether the financial position of the Authority is improving or deteriorating. 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's Board of Directors (Board) increased sewer rates in November 2013 that went into effect beginning with January 2014 usage.

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

The Notes to 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 $25.00 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 2014, the number of customers in this service area is 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's 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 and Assistant General, who are 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 Statements of Net Position
(In Millions of Dollars)

	2014	2013	$ Change	% Change
Assets and Deferred Outlfows of Resources				
Assets:				
Current assets	$ 2,338,905	$ 2,046,403	$ 292,502	14%
Restricted assets	9,500,948	3,465,040	6,035,908	174%
Capital assets, net	20,533,841	21,222,932	(689,091)	-3%
Other assets	311,774	331,725	(19,951)	-6%
Total Assets	32,685,468	27,066,100	5,619,368	
Deferred Outflows of Resources:				
Deferred charge on refunding	2,065,263	971,564	1,093,699	113%
Total Assets and Deferred Outflows of Resources	$ 34,750,731	$ 28,037,664	$ 6,713,067	
Liabilities and Net Position				
Liabilities:				
Current liabilities	$ 1,908,421	$ 2,164,449	$ (256,028)	-12%
Long-term liabilities	32,681,608	26,168,883	6,512,725	25%
Total Liabilities	34,590,029	28,333,332	6,256,697	
Net Position:				
Net investment in capital assets	(4,804,269)	(4,741,841)	(62,428)	1%
Restricted net position	3,223,521	3,031,259	192,262	6%
Unrestricted net position	1,741,450	1,414,914	326,536	23%
Total Net Position	160,702	(295,668)	456,370	
Total Liabilities and Net Position	$ 34,750,731	$ 28,037,664	$ 6,713,067	

OTHER SELECTED INFORMATION

	2014	2013	Difference
Selected Data:			
Authorized Employees	25	26	-1
Actual Employees at year-end	24	25	-1
Wastewater Treated (billons of gallons)	0.955691	0.985838	-0.030147
Wastewater Billed (billions of gallons)	0.560508	0.554702	0.005806
Percentage of Billed/Treated Wastewater	58.65%	56.27%	2.38%
Rates:			
Residential Fee	$17	$17	$0.00
Commercial Fee	$25.00	$25.00	$0.00
First 2,000 gallons/thousand	$7.58	$6.83	$0.00
next 13,000 gallons/thousand	$7.58	$6.83	$0.00
15,001-100,000 gallons/thousand	$11.25	$10.50	$0.00
over 100,000 gallons/thousand	$13.25	$12.50	$0.00
Average Residential Customer Bill:			
Per year	$749.76	$695.76	$54.00
Per Month	$62.48	$57.98	$4.50

* Based on 6,000 Gallons per month

GENERAL TRENDS AND SIGNIFICANT EVENTS

Proceeds from the Authority's bond issue in 2014, Sewer Revenue Bonds, Refunding Series of 2014 A, will be used for upgrades to the Authority's plants, pump stations, and operating systems. The Authority plans to use these proceeds to upgrade the Authority's treatment process to omit the use of chlorine at both the Thompson Run and New England sewage treatment plants. These upgrades will create savings to the Authority's rate payers and make the community safer. In order to omit chlorine from the treatment process, upgrades will be made to UV system at Thompson Run and a new UV system will be purchased for the New England sewage treatment plant. These upgrades will allow for both the Thompson Run and New England sewage treatment plants to comply with chlorine regulations required by the State and NPDES permitting.

Planned upgrades to pump stations will help eliminate some infiltration issues. Force main pipe will be replaced at some pumping stations and pump and shaft upgrades will be made to make the stations run more efficiently. These changes will allow for utility savings to the Authority, as well as a savings in the treatment.

RESULTS OF OPERATIONS

Operating Revenue

In 2014 and 2013, 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 $4,363,407 in 2014 vs. $4,375,636 in 2013. In 2014, operating expenses increased in pretreatment expenses, office supplies, fee collection costs, engineering fees, seminars, professional services, miscellaneous expenses, and purchased sewer treatment. There were reductions in sewage treatment plants, utilities, sewer crew expenses, payroll, payroll taxes, benefits, communications, postage, advertisements, and insurance.

Non-Operating Revenues and Non-Operating Expenses

The Authority experienced significant fluctuations in Non-operating Revenue (Expense) between 2014 and 2013 primarily due to the Authority's termination of its Debt Service Forward Delivery and SWAP Agreements. The termination of the Authority's Debt Service Forward Delivery Agreement resulted in a loss of $269,609, and the termination of the Authority's SWAP Agreement resulted in a gain of $220,480. The Authority also incurred $405,523 in bond issue costs related to the issuance of the Sewer Revenue Bonds, Series of 2014 A & B.

Depreciation

The Authority had a depreciation expense of $888,000 on plants and equipment in 2014 and 2013. In 2014 and 2013, respectively, the Authority completed almost $237,000 and $485,000 in various capital projects throughout the sewer system and treatment plants.

DEBT

At December 31, 2014, the Authority had $31,515,000 in bond debt.

In 2014, the Authority was not in compliance with the rate covenant, as its operating surplus was less than 110% of the debt service requirements. The Authority raised sewer rates effective January 1, 2014, engaged in a consulting project which reviewed the Authority's funding needs and rate structure through 2018, and will continue cost containment measures in order for the Authority to continue to meet its rate covenant at December 31, 2015.

FINAL COMMENTS

While fiscal year 2014 presented financial challenges, the Board and the Authority staff worked hard to position the Authority for the future. The Authority responded by taking advantage of cost cutting through reduced staff size and implementation of new operating procedures. In additions to decreased costs, an increase in rates resulted in the Authority having a positive change in net position of approximately $456,000 during 2014.

The Authority is looking at a cooperative agreement with the Pittsburgh Water and Sewer Authority to treat the wastewater from about 800 customers that would be connected by gravity to the Authority's sewer system and be treated at the Thompson Run Plant.

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, 2014 AND 2013

Assets and Deferred Outflows of Resources

	2014	2013
Assets:		
Current assets:		
Cash and cash equivalents	$ 1,294,800	$ 1,050,123
Accounts receivable - user fees	936,015	923,533
Accounts receivable - nonuser fees	4,450	7,905
Prepaid expenses	94,948	56,242
Interest receivable	8,692	8,600
Total current assets	2,338,905	2,046,403
Restricted assets:		
Construction fund	6,016,825	768
Debt service accounts	3,484,123	3,464,272
Total restricted assets	9,500,948	3,465,040
Capital assets (at cost)	33,093,870	32,878,755
Less: accumulated depreciation	(12,560,029)	(11,696,287)
Construction in progress	-	40,464
Total capital assets, net (at cost)	20,533,841	21,222,932
Other assets:		
Cost of sewer capacity improvements (net of amortization of $210,748 and $190,797 for 2014 and 2013, respectively)	311,774	331,725
Total other assets	311,774	331,725
Total Assets	32,685,468	27,066,100
Deferred Outflows of Resources:		
Deferred charge on refunding	2,065,263	971,564
Total Assets and Deferred Outflows of Resources	$ 34,750,731	$ 28,037,664

Liabilities and Net Position

	2014	2013
Liabilities:		
Current liabilities:		
Accounts payable	$ 274,967	$ 330,242
Accrued payroll	21,405	14,081
Current portion of accrued compensated absences	2,394	3,630
Current portion of notes payable	79,053	77,715
Total current liabilities	377,819	425,668
Current liabilities (payable from restricted assets):		
Current portion of bonds payable long-term	1,270,000	1,305,000
Bond interest payable	260,602	433,781
Total current liabilities (payable from restricted assets)	1,530,602	1,738,781
Long-term liabilities:		
Unearned fee	-	209,344
Borrowing payable - swap	-	400,857
Embedded derivative instrument - liability (asset)	-	27,623
Accrued compensated absences	298,689	282,768
Notes payable	1,077,536	1,156,588
Bonds payable (net of bond discount of $0 and $283,297 for 2014 and 2013)	30,245,000	24,091,703
Unamortized bond premium	1,060,383	-
Total long-term liabilities	32,681,608	26,168,883
Total Liabilities	34,590,029	28,333,332
Net Position:		
Net investment in capital assets	(4,804,269)	(4,741,841)
Restricted net position	3,223,521	3,031,259
Unrestricted net position	1,741,450	1,414,914
Total Net Position	160,702	(295,668)
Total Liabilities and Net Position	$ 34,750,731	$ 28,037,664

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, 2014 AND 2013

	2014	2013
Operating Revenues:		
Sewer rentals	$ 6,972,588	$ 6,461,045
Operating Expenses:		
Sewer system operation	3,884,961	3,959,862
Purchased sewer treatment	478,446	415,773
Depreciation and amortization	888,000	888,000
Total operating expenses	5,251,407	5,263,635
Operating Income	1,721,181	1,197,410
Nonoperating Revenues (Expenses):		
Interest income	68,803	65,904
Other revenue	60,776	140,578
Gain on disposal of fixed asset	772	-
Interest on sewer revenue bonds and notes payable	(1,118,065)	(1,149,495)
Amortization of bond discount and bond premium	(13,431)	(19,261)
Bond issue costs	(405,523)	-
Investment gain (loss) on embedded derivative instrument	220,480	(287,733)
Loss on debt service forward delivery agreement	(269,609)	-
Interest expense on borrowing payable - swap	-	(19,336)
Income on swap transactions	92,821	119,560
Realized loss on investments	(13,326)	(5,485)
Unrealized gain (loss) on investments	99,539	(98,983)
Total nonoperating revenues (expenses)	(1,276,763)	(1,254,251)
Income (Loss) Before Capital Contribution Revenues	444,418	(56,841)
Capital Contribution Revenues:		
Tapping/connection fees	11,952	5,736
Change in Net Position	456,370	(51,105)
Net Position:		
Beginning of year	(295,668)	(244,563)
End of year	$ 160,702	$ (295,668)

See accompanying notes to financial statements.

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Cash Flows From Operating Activities:		
Cash received from customers	$ 6,960,106	$ 6,462,985
Cash payments for operating expenses	(4,431,924)	(4,326,432)
Net cash provided by (used in) operating activities	2,528,182	2,136,553
Cash Flows From Noncapital Financing Activities:		
Payment received on swap transactions	92,821	119,560
Debt service forward delivery agreement termination payment	(464,000)	-
Swap termination payment	(208,000)	-
Interest paid on borrowing payable - swap	-	(19,336)
Other	72,728	146,314
Net cash provided by (used in) noncapital financing activities	(506,451)	246,538
Cash Flows From Capital and Related Financing Activities:		
Interest paid on debt	(1,060,537)	(1,114,268)
Interest received on restricted bond funds	68,803	51,518
Capital assets and related purchases	(196,186)	(496,612)
Proceeds from issuance of bonds	22,564,608	-
Payment to refunded bond escrow agent/fund	(15,418,765)	-
Payment for bond issue costs	(397,023)	-
Payment of notes payable	(77,714)	(76,410)
Payment of bond principal	(1,305,000)	(1,270,000)
Net cash provided by (used in) capital and related financing activities	4,178,186	(2,905,772)
Cash Flows From Investing Activities:		
Purchase of investments	(5,955,148)	(34,333)
Interest earned	(92)	6,949
Net cash provided by (used in) investing activities	(5,955,240)	(27,384)
Increase (Decrease) in Cash and Cash Equivalents	244,677	(550,065)
Cash and Cash Equivalents:		
Beginning of year	1,050,123	1,600,188
End of year	$ 1,294,800	$ 1,050,123
Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities:		
Operating income	$ 1,721,181	$ 1,197,410
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation and amortization	888,000	888,000
Change in operating assets:		
Accounts receivable	(9,027)	(1,894)
Prepaid expenses	(38,706)	(831)
Change in operating liabilities:		
Accounts payable	(55,275)	39,580
Accrued payroll and withholdings	7,324	22
Accrued compensated absences	14,685	14,266
Net cash provided by (used in) operating activities	$ 2,528,182	$ 2,136,553
Non-Cash Investing, Capital, and Financing Activities:		
Investment gain (loss) on embedded derivative instrument	$ 220,480	$ (287,733)
Loss on debt service forward delivery agreement	$ (269,609)	$ -

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

In general, no provision is made for uncollectible accounts receivables as these charges are lienable charges to the property served and service can be shut off. Charges that become uncollectible are charged to expense in the year. The Authority charged no bad debt expense for 2014 and 2013.

Unamortized Premium and Unamortized Discount

Bond premiums and discounts are deferred and amortized over the life of the bonds on a straight-line basis.

Deferred Charge on Refunding

In accordance with applicable guidance, the excess of the reacquisition price over the net carrying amount of refunded debt is recorded as a deferred outflow of resources on the statement of net position and amortized as a component of interest expense over the term of the refunding issue.

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.

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 $301,083 and $286,398 for 2014 and 2013, respectively, for compensated absences that are eligible for payment upon termination.

Net Position

Accounting standards require 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, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows or resources attributable to the unspent amount is not included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflow of resources is included in the same net position component (restricted or unrestricted) as the unspent amount.

- Restricted – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets. The Authority had restricted net position of $3,223,521 and $3,031,259 at December 31, 2014 and 2013, respectively. These amounts are restricted for the debt covenants.

- Unrestricted – This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

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.

Pending Pronouncements

GASB has issued the following statements that will become effective in future years as shown below. Management has not yet determined the impact of these statements on the Authority's financial statements.

- GASB Statement No. 68, *"Accounting and Financial Reporting for Pensions."* This statement establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through certain types of pension plans, as well as for nonemployer governments that have a legal obligation to contribute to those plans. This statement will become effective for the December 31, 2015 year-end.

- GASB Statement No. 71, *"Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68."* This statement improves accounting and financial reporting by addressed an issue in GASB Statement No. 68 concerning transition provisions related to certain pension contributions made to defined benefit plans prior to implementation of GASB Statement No. 68 by employers and non-employer contributing entities. This statement will become effective for the December 31, 2015 year-end.

- GASB Statement No. 72, *"Fair Value Measurement and Application."* This statement addresses accounting and financial reporting issues related to fair value measurements. This statement will become effective for the December 31, 2016 year-end.

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, 2014 and 2013, 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, 2014 and 2013, respectively, $964,499 and $643,041 of the Authority's bank balance of $1,221,089 and $899,631 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 $1,192,395 and $879,137 as of December 31, 2014 and 2013, 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 $101,403 and $101,385 for 2014 and 2013, 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 $1,002 and $69,601 in 2014 and 2013, 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, 2014, the Authority held the following investment balances:

	Fair Market Value	Maturity in Years Less than 1 Year
Money markets	$ 8,264,671	$ 8,264,671
Corporate bonds	657,366	657,366
U.S. agencies	578,911	578,911
Total	$ 9,500,948	$ 9,500,948

At December 31, 2013, the Authority held the following investment balances:

	Fair Market Value	Maturity in Years Less than 1 Year
Money markets	$ 1,943,127	$ 1,943,127
Corporate bonds	657,366	657,366
U.S. agencies	864,547	864,547
Total	$ 3,465,040	$ 3,465,040

The fair value of the Authority's investments is the same as their carrying amount. Investments of $9,500,948 at December 31, 2014 and $3,465,040 at December 31, 2013 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, 2014 and 2013 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 $8,264,671 and J.P. Morgan corporate bonds of $657,366 were rated Aa3 and A2, respectively, at December 31, 2014.

As of December 31, 2013, the Authority's Wells Fargo money market funds of $1,943,127 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 J.P. Morgan corporate bonds at December 31, 2014 and 2013. These investments are 7% and 19% of the Authority's total investments at December 31, 2014 and 2013, respectively.

4. CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	Balance at December 31, 2013	Additions	Transfers/ Deletions	Balance at December 31, 2014
Capital assets, not being depreciated:				
Construction in progress	$ 40,464	$ -	$ (40,464)	$ -
Capital assets, being depreciated:				
Plant and system	30,307,624	204,024	-	30,511,648
Vehicles and equipment	800,861	31,159	(21,535)	810,485
Other capital improvements	1,770,270	1,467	-	1,771,737
Total capital assets, being depreciated	32,878,755	236,650	(21,535)	33,093,870
Less accumulated depreciation	(11,696,287)	(868,049)	4,307	(12,560,029)
Total capital assets, being depreciated, net	21,182,468	(631,399)	(17,228)	20,533,841
Total capital assets, net	$ 21,222,932	$ (631,399)	$ (57,692)	$ 20,533,841

	Balance at December 31, 2012	Additions	Transfers/ Deletions	Balance at December 31, 2013
Capital assets, not being depreciated:				
Construction in progress	$ 28,687	$ 12,903	$ (1,126)	$ 40,464
Capital assets, being depreciated:				
Plant and system	29,946,324	361,300	-	30,307,624
Vehicles and equipment	688,210	112,651	-	800,861
Other capital improvements	1,759,386	10,884	-	1,770,270
Total capital assets, being depreciated	32,393,920	484,835	-	32,878,755
Less accumulated depreciation	(10,828,240)	(868,047)	-	(11,696,287)
Total capital assets, being depreciated, net	21,565,680	(383,212)	-	21,182,468
Total capital assets, net	$ 21,594,367	$ (370,309)	$ (1,126)	$ 21,222,932

5. LONG-TERM DEBT

Current interest bonds payable at December 31, 2014 are composed of the following individual issues:

	Balance December 31, 2013	New Issues	Payments	Refunded	Balance December 31, 2014	Due Within One Year
Bonds Payable	$ 25,680,000	$ 21,500,000	$ 1,305,000	$ 14,360,000	$ 31,515,000	$ 1,270,000

	At December 31st 2014	2013
Sewer Revenue Bonds, Refunding Series of 2014 A, due in annual principal installments or mandatory sinking fund payments through August 1, 2035.	$ 21,225,000	$ -
Sewer Revenue Bonds, Series of 2014 B, federally taxable, due in one annual principal installment or mandatory sinking fund payment on August 1, 2015.	275,000	-
Sewer Revenue Bonds, Series of 2009, due in annual principal installments or mandatory sinking fund payments through August 1, 2028.	10,015,000	25,680,000
	31,515,000	25,680,000
Less: discount on bonds	-	(283,297)
Less: current portion	(1,270,000)	(1,305,000)
Total bonds payable - long-term	$ 30,245,000	$ 24,091,703

Sewer Revenue Bonds, Series of 2014 A

On November 20, 2014, the Authority issued Sewer Revenue Bonds, Refunding Series of 2014 A (2014 A Bonds), in the amount of $21,225,000 to advance refund $14,360,000 of the outstanding Sewer Revenue Bonds, Series of 2009 (2009 Bonds), terminate the Debt Service Forward Delivery Agreement, and to be used to pay the costs of certain capital projects of the Authority. The 2014 A Bonds bear interest semi-annually at rates ranging from 2.000% to 5.000%. A first supplemental indenture amending the original indenture dated September

15, 2009 was made and entered into as of November 20, 2014, between the Authority and the Trustee, Wells Fargo Bank, N.A.

The cash flow savings of the refunding portion of the 2014 A Bonds is approximately $961,000 and the economic gain is approximately $3,500,000.

Sewer Revenue Bonds, Series of 2014 B

On November 20, 2014, the Authority issued Sewer Revenue Bonds, Federally Taxable, Series of 2014 B (2014 B Bonds), in the amount of $275,000 to terminate the Authority's SWAP Agreement. The 2014 B bonds bear interest semi-annually at 1.000%.

Sewer Revenue Bonds, Series of 2009

On September 15, 2009, the Authority issued $29,320,000 of Sewer Revenue Bonds, Refunding Series of 2009 (2009 Bonds), bearing interest rates ranging from 2% to 4.625%. The proceeds of the 2009 Bonds were used to currently refund all of the outstanding Sewer Revenue Bonds, Series of 1998 in the amount of $27,985,000. As noted above, $14,360,000 of the 2009 Bonds was advance refunded with the issuance of the 2014 A Bonds. At December 31, 2014, $14,360,000 of the defeased 2009 Bonds remains outstanding. $10,015,000 of the 2009 Bonds remain outstanding at December 31, 2014 as an obligation of the Authority.

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 2014, the Authority was in compliance with the rate covenant, as its operating surplus was greater than 110% of the debt service requirements.

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

December 31,	Principal	Interest	Total
2015	$ 1,270,000	$ 1,044,112	$ 2,314,112
2016	1,025,000	1,288,378	2,313,378
2017	1,055,000	1,259,253	2,314,253
2018	1,090,000	1,224,925	2,314,925
2019	1,130,000	1,183,785	2,313,785
2020-2024	6,445,000	5,126,995	11,571,995
2025-2029	8,070,000	3,496,330	11,566,330
2030-2034	10,050,000	1,513,400	11,563,400
2035	1,380,000	55,200	1,435,200
	$ 31,515,000	$ 16,192,378	$ 47,707,378

Current interest notes payable at December 31, 2014 are composed of the following:

	Balance December 31, 2013	New Loans	Payments	Balance December 31, 2014	Due Within One Year
PennVest loans	$ 1,234,303	$ -	$ 77,714	$ 1,156,589	$ 79,053

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 to be paid to PWSA through fiscal year 2024. The outstanding balance of the loan is $143,927 and $157,530 at December 31, 2014 and 2013, respectively.

The following summarizes the required payments for the PWSA loan:

December 31,	Principal	Interest	Total
2015	$ 14,013	$ 4,085	$ 18,098
2016	14,435	3,663	18,098
2017	14,869	3,229	18,098
2018	15,317	2,781	18,098
2019	15,778	2,320	18,098
2020-2024	69,515	4,386	73,901
	$ 143,927	$ 20,464	$ 164,391

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 $255,848 and $272,312 at December 31, 2014 and 2013, respectively.

The following summarizes the required payments for the PennVest loan:

December 31,	Principal	Interest	Total
2015	$ 16,915	$ 6,692	$ 23,607
2016	17,376	6,230	23,606
2017	17,851	5,756	23,607
2018	18,338	5,268	23,606
2019	18,839	4,767	23,606
2020-2024	102,198	15,834	118,032
2025-2027	64,331	2,561	66,892
	$ 255,848	$ 47,108	$ 302,956

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. During 2013, the Authority received a final amortization schedule from PennVest. The outstanding balance of the loan is $756,814 and $804,061 at December 31, 2014 and 2013, respectively.

The following summarizes the required payments for the PennVest loan:

December 31,	Principal	Interest	Total
2015	$ 48,125	$ 7,348	$ 55,473
2016	48,609	6,865	55,474
2017	49,097	6,376	55,473
2018	49,590	5,883	55,473
2019	50,089	5,385	55,474
2020-2024	258,093	19,274	277,367
2025-2029	253,211	6,070	259,281
	$ 756,814	$ 57,201	$ 814,015

At December 31, 2014, the PWSA loan and the PennVest loans are presented as notes payable on the statements of net position in the amount of $1,077,536 (long-term) and $79,053 (short-term). At December 31, 2013, the PWSA loan and the PennVest loans are presented as notes payable on the statements of net position in the amount of $1,156,588 (long-term) and $77,515 (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, 2014 and 2013, the borrowing had an outstanding balance of $0 and $400,857, respectively. Principal and interest payments were made monthly and continued until the Authority terminated the SWAP agreement with the issuance of the 2014 B Bonds, as noted above. Principal and interest payments are aggregated into the net monthly payments the Authority has received from the counterparty in 2014.

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, 2014 and 2013, the borrowing had an outstanding balance of $0 and $400,857, 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. 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 termination in November 2014.

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 was 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 termination in November 2014. 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.

In November 2014, with issuance of the 2014 B Bonds discussed in Note 5, the Basis Swap was terminated at a cost of $208,000 to the Authority and is recorded as an investment gain on embedded derivative instrument of $220,480 on the statement of revenues, expenses, and changes in net position.

As of December 31, 2014 and 2013, the swap had a fair value of $0 and $(27,623), respectively. As the swap was considered to be an investment type derivative instrument per accounting standards, it was reported as a derivative asset/liability on the statements of net position. The changes in fair value of $329,154 and $(329,154) during fiscal years 2014 and 2013, 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.

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 unearned and was amortized into earnings over the term of the bonds using the straight-line method. The unamortized portions of $0 and $209,344 are included as unearned fees on the statements of net position at December 31, 2014 and 2013, 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. As part of the issuance of the 2014 A Bonds in Note 5, the 2009 debt service forward delivery agreement was terminated at a cost of $464,000 to the Authority and is recorded as a loss on debt service forward delivery agreement of $(269,609) on the statements of revenues, expenses, and changes in net position.

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 New York 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 five 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, 2013, participants in the plan were as follows:

Active	23
In payment status:	
Retirement benefits	9
Disability benefits	1
Surviving spouse benefits	2
Deferred	2
Total	37

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, 2014, the following plan information is presented:

Annual pension cost	$ 157,102
Contributions made	$ 157,102
Actuarial valuation date	1/1/2013
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar Closed
Amortization period	4 years
Asset valuation method	3-Year Smoothing
Actuarial assumptions:	
Investment rate of return	7.25%
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
12/31/2012	$ 110,505	100%	$ 81,227
12/31/2013	159,449	100%	81,227
12/31/2014	157,102	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, 2013, 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
$1,667,589	$ 2,760,605	$(1,093,016)	60.41%	$1,409,101	(77.57)%

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, 2014, 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, 2014.

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.

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
1/1/2009	$ 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)%
1/1/2013	1,667,589	2,760,605	(1,093,016)	60.41%	1,409,101	(77.57)%

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 FUNDING CONTRIBUTIONS FROM EMPLOYERS AND OTHER CONTRIBUTING ENTITIES

YEAR ENDED DECEMBER 31, 2014

Year Ended December 31,	Annual Required Contribution	Percentage Contributed
2009	$ 91,954	109%
2010	97,471	106%
2011	108,787	100%
2012	110,505	100%
2013	159,449	100%
2014	157,102	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, 2014

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	1/1/2013
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar Closed
Amortization period	4 years
Asset valuation method	3-Year Smoothing
Actuarial assumptions:	
Investment rate of return	7.25%
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, 2014 AND 2013

	2014	2013
Operating Revenues:		
Sewage rentals	$ 6,972,588	$ 6,461,045
Operating Expenses:		
Sewer system operation:		
Sewage treatment plants	$ 352,284	$ 390,559
Utilities	426,183	438,869
Sewer crew expenses	18,813	28,581
Pretreatment expenses	1,490	-
Payroll	1,668,585	1,685,336
Payroll taxes	125,796	136,461
Benefits	669,214	679,273
Office supplies	19,856	19,822
Communications	24,572	27,539
Postage	1,000	3,099
Advertisements	1,697	1,898
Fee collection costs	270,678	241,820
Engineering fees	117,775	65,742
Insurance	75,182	137,122
Seminars	339	-
Professional services	103,474	97,814
Miscellaneous expenses	8,023	5,927
Purchased sewer treatment	478,446	415,773
Depreciation and amortization	888,000	888,000
Total operating expenses	$ 5,251,407	$ 5,263,635