West Mifflin Sanitary Sewer Municipal Authority

Financial Statements and
Required Supplementary Information and
Supplementary Information

Years Ended December 31, 2016 and 2015
with Independent Auditor's Report

MaherDuessel
Certified Public Accountants

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WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

YEARS ENDED DECEMBER 31, 2016 AND 2015

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MaherDuessel
Certified Public Accountants

Pittsburgh
503 Martindale Street
Suite 600
Pittsburgh, PA 15212
Main 412.471.5500
Fax 412.471.5508

Harrisburg
3003 North Front Street
Suite 101
Harrisburg, PA 17110
Main 717.232.1230
Fax 717.232.8230

Butler
112 Hollywood Drive
Suite 204
Butler, PA 16001
Main 724.285.6800
Fax 724.285.6875

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, 2016 and 2015, 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, 2016 and 2015, 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 28 through 31, 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 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 32 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
May 10, 2017

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 West Mifflin Sanitary Sewer Municipal Authority (Authority) is in compliance with Statement No. 34 of the Governmental Accounting Standards Board (GASB).

FINANCIAL HIGHLIGHTS

The following are key financial highlights during 2016:

- In 2016, the flow billed decreased by 36,546,582 gallons. This decrease can be attributed to a decrease in customer's usage from the residential and commercial users in our service area. The decreased usage can also be associated with changes in consumption period reports by Pennsylvania American Water Company.

- In 2016, the Authority treated 985,559,000 gallons for 8,878 customers at its two waste water treatment plants. Of the gallons treated, only 532,847,600 gallons were billed. In 2015, the Authority treated 1,065,253,000 gallons for 8,972 customers at its two waste water treatment plants. Of the gallons treated, only 569,394,182 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.

- On May 3, 2016, the Authority issued Sewer Revenue Bonds, Refunding Series of 2016 (2016 Bonds), in the amount of $9,820,000 to currently refund $8,765,000 of the outstanding Sewer Revenue Bonds, Series of 2009 (2009 Bonds), currently refund certain other long-term indebtedness of the Authority held by the Pennsylvania Infrastructure Investment Authority, and to pay all the costs and expenses incident to the issuance of the 2016 Bonds.

- During 2016, the Authority paid $1,145,000 in principal on its outstanding Sewer Revenue Bonds, compared with principal payments made in 2015 of $1,270,000.

- The Authority had an increase in the cost of operations (less depreciation and bad debt expense) in 2016 by $212,509 or 4.83% when compared to 2015.

- Operating revenues increased by $138,134 or 1.96% in 2016 when compared to 2015.

- The Authority essentially completed and placed into service approximately $1.7 million in sewer system and treatment plant improvements in 2016.

- 2016 marks the second year that the Authority has had to comply with the Governmental Accounting Standards Board (GASB) Statement No. 68. The standard pertains to the treatment of the net pension liability. The net pension liability is the difference between the total pension liability and the plan assets at fair value. The Authority's Statement of Net Position now contains a non-current liability of $677,311 at December 31, 2016, a decrease of $117,396, or 14.77% when compared to 2015.

- In 2016, the Authority adopted the provisions of Governmental Accounting GASB Statements No. 72 and No. 79. There were no significant changes as a result of implementation of these standards, other than the inclusion of certain additional footnote disclosures.

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, liabilities, and deferred inflows of resources 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 October 2015 that went into effect beginning with January 2016 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 14 pumping or lift stations throughout the service area.

A small portion of the sewer system is connected to the Jefferson Hills sewage system that is treated at the Clairton Municipal Authority Treatment Plant. Beginning early in 2008, 40 accounts were being billed by the WMSSMA in this service area. In 2016, 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 Manager, 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			
	2016	2015	$ Change	% Change
Assets and Deferred Outlfows of Resources				
Assets:				
Current assets	$ 3,639,324	$ 3,410,032	$ 229,292	7%
Restricted assets	6,023,399	7,797,149	(1,773,750)	-23%
Capital assets, net	21,492,077	20,644,852	847,225	4%
Other assets	271,872	291,823	(19,951)	-7%
Total Assets	31,426,672	32,143,856	(717,184)	
Deferred Outflows of Resources:				
Deferred charge on refunding	1,867,787	1,966,525	(98,738)	-5%
Deferred outflows related to pension plan	92,938	123,918	(30,980)	-25%
Total Deferred Outflows of Resources	1,960,725	2,090,443	(129,718)	
Total Assets and Deferred Outflows of Resources	$ 33,387,397	$ 34,234,299	$ (815,922)	
Liabilities, Deferred Inflows of Resources, and Net Position				
Liabilities:				
Current liabilities	$ 2,192,981	$ 1,840,405	$ 352,576	19%
Long-term liabilities	31,193,107	32,344,862	(1,151,755)	-4%
Total Liabilities	33,386,088	34,185,267	(799,179)	
Deferred Inflows of Resources	60,841	61,171	(330)	-1%
Net Position:				
Net investment in capital assets	(4,213,538)	(4,224,064)	10,526	0%
Restricted net position	1,993,664	2,242,346	(248,682)	-11%
Unrestricted net position	2,160,342	1,969,579	190,763	10%
Total Net Position	(59,532)	(12,139)	(47,393)	
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 33,387,397	$ 34,234,299	$ (846,572)	

	Condensed Statements of Net Position			
	2015	2014	$ Change	% Change
Assets and Deferred Outlfows of Resources				
Assets:				
Current assets	$ 3,410,032	$ 2,338,905	$ 1,071,127	46%
Restricted assets	7,797,149	9,500,948	(1,703,799)	-18%
Capital assets, net	20,644,852	20,533,841	111,011	1%
Other assets	291,823	311,774	(19,951)	-6%
Total Assets	32,143,856	32,685,468	(541,612)	
Deferred Outflows of Resources:				
Deferred charge on refunding	1,966,525	2,065,263	(98,738)	-5%
Deferred outflows related to pension plan	123,918	-	123,918	100%
Total Deferred Outflows of Resources	2,090,443	2,065,263	25,180	
Total Assets and Deferred Outflows of Resources	$ 34,234,299	$ 34,750,731	$ (516,432)	
Liabilities, Deferred Inflows of Resources, and Net Position				
Liabilities:				
Current liabilities	$ 1,840,405	$ 1,908,421	$ (68,016)	-4%
Long-term liabilities	32,344,862	33,510,917	(1,166,055)	-3%
Total Liabilities	34,185,267	35,419,338	(1,234,071)	
Deferred Inflows of Resources	61,171	-	61,171	100%
Net Position:				
Net investment in capital assets	(4,224,064)	(5,633,578)	1,409,514	-25%
Restricted net position	2,242,346	3,223,521	(981,175)	-30%
Unrestricted net position	1,969,579	1,741,450	228,129	13%
Total Net Position	(12,139)	(668,607)	656,468	
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 34,234,299	$ 34,750,731	$ (516,432)	

OTHER SELECTED INFORMATION

	2016	2015	Difference
Selected Data:			
Authorized Employees	24	24	0
Actual Employees at year-end	23	24	-1
Wastewater Treated (billons of gallons)	0.98559	1.065253	-0.079663
Wastewater Billed (billions of gallons)	0.532848	0.569394	-0.036546
Percentage of Billed/Treated Wastewater	54.06%	53.45%	0.61%
Rates:			
Residential Fee	$17	$17	$0.00
Commercial Fee	$25.00	$25.00	$0.00
First 2,000 gallons/thousand	$8.08	$7.58	$0.00
next 13,000 gallons/thousand	$8.08	$7.58	$0.00
15,001-100,000 gallons/thousand	$12.00	$11.25	$0.00
over 100,000 gallons/thousand	$14.12	$13.25	$0.00
Average Residential Customer Bill:			
Per year	$785.76	$749.76	$36.00
Per Month	$65.48	$62.48	$3.00

* Based on 6,000 Gallons per month

	2015	2014	Difference
Selected Data:			
Authorized Employees	24	25	-1
Actual Employees at year-end	24	24	0
Wastewater Treated (billons of gallons)	1.065253	0.955691	0.109562
Wastewater Billed (billions of gallons)	0.569394	0.560508	0.008886
Percentage of Billed/Treated Wastewater	53.45%	58.65%	-5.20%
Rates:			
Residential Fee	$17	$17	$0.00
Commercial Fee	$25.00	$25.00	$0.00
First 2,000 gallons/thousand	$7.58	$7.58	$0.00
next 13,000 gallons/thousand	$7.58	$7.58	$0.00
15,001-100,000 gallons/thousand	$11.25	$11.25	$0.00
over 100,000 gallons/thousand	$13.25	$13.25	$0.00
Average Residential Customer Bill:			
Per year	$749.76	$749.76	$0.00
Per Month	$62.48	$62.48	$0.00

* 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.

Continued 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 2016 and 2015, 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 and bad debt expense was $4,608,500 in 2016 vs. $4,395,991 in 2015. In 2016, operating expenses increased in sewage treatment plants, sewer crew expenses, payroll, payroll taxes, benefits, office supplies, postage, fee collection costs, insurance, purchased sewer treatment, and miscellaneous expenses. There were reductions in utilities, pretreatment expenses, communications, advertisements, engineering fees, seminars, and professional services.

Total operating expense, before depreciation was $4,395,991 in 2015 vs. $4,363,407 in 2014. In 2015, operating expenses increased in sewage treatment plants, utilities, sewer crew expenses, payroll taxes, benefits, office supplies, postage, advertisements, fee collection costs, insurance, miscellaneous expenses, purchased sewer treatment, and depreciation and amortization. There were reductions in pretreatment expenses, payroll, communications, engineering fees, seminars, and professional services.

Non-Operating Revenues and Non-Operating Expenses

The Authority experienced significant reductions in Non-operating Revenue (Expense) between 2016 and 2015 primarily due to the Authority's $214,871 issuance costs related to the 2016 bonds. In addition, interest expense on bonds and notes payable increased by $331,703.

The Authority experienced significant reductions in Non-operating Revenue (Expense) between 2015 and 2014 primarily due to the Authority's termination of its Debt Service Forward Delivery and SWAP Agreements in 2014. 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 in 2014. The Authority also incurred $405,523 in bond issue costs related to the issuance of the Sewer Revenue Bonds, Series of 2014 A & B, in 2014.

Depreciation

The Authority had a depreciation expense of $1,059,848 and $927,882 on plants and equipment in 2016 and 2015, respectively. In 2016 and 2015, respectively, the Authority completed approximately $1.7 million and $651,000 in various capital projects throughout the sewer system and treatment plants. Additionally, the Authority reports approximately $505,000 in construction in progress, with approximately $75,000 remaining in construction commitments at December 31, 2016.

DEBT

At December 31, 2016, the Authority had $30,155,000 in bond debt.

In 2016, the Authority was in compliance with the rate covenant, as its operating surplus was more than 110% of the debt service requirements.

At December 31, 2015, the Authority had $30,245,000 in bond debt.

In 2015, the Authority was in compliance with the rate covenant, as its operating surplus was more than 110% of the debt service requirements.

FINAL COMMENTS

While fiscal year 2016 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 increasing rates, refunding debt to lower future debt service payments, and attempted cost-cutting through implementation of new operating procedures.

The Authority is looking at a potential 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, 2016 AND 2015

Assets and Deferred Outflows of Resources

	2016	2015
Assets:		
Current assets:		
Cash and cash equivalents	$ 2,483,575	$ 2,317,276
Accounts receivable - user fees	1,005,345	937,543
Accounts receivable - nonuser fees	7,945	4,317
Prepaid expenses	110,313	99,098
Interest receivable	32,146	51,798
Total current assets	3,639,324	3,410,032
Restricted assets:		
Construction fund	3,552,027	5,204,959
Debt service accounts	2,471,372	2,592,190
Total restricted assets	6,023,399	7,797,149
Capital assets (at cost)	35,480,967	33,744,934
Less: accumulated depreciation	(14,507,857)	(13,467,960)
Construction in progress	518,967	367,878
Total capital assets, net (at cost)	21,492,077	20,644,852
Other assets:		
Cost of sewer capacity improvements (net of amortization of $250,650 and $230,699 for 2016 and 2015, respectively)	271,872	291,823
Total other assets	271,872	291,823
Total Assets	31,426,672	32,143,856
Deferred Outflows of Resources:		
Deferred charge on refunding	1,867,787	1,966,525
Deferred outflows of resources for pension	92,938	123,918
Total Deferred Outflows of Resources	1,960,725	2,090,443
Total Assets and Deferred Outflows of Resources	$ 33,387,397	$ 34,234,299

Liabilities, Deferred Inflows of Resources, and Net Position

	2016	2015
Liabilities:		
Current liabilities:		
Accounts payable	$ 475,105	$ 363,121
Accrued payroll	30,672	30,706
Current portion of accrued compensated absences	24,627	-
Current portion of notes payable	14,869	71,734
Total current liabilities	545,273	465,561
Current liabilities (payable from restricted assets):		
Current portion of bonds payable long-term	1,170,000	1,025,000
Bond interest payable	477,708	349,844
Total current liabilities (payable from restricted assets)	1,647,708	1,374,844
Long-term liabilities:		
Accrued compensated absences	303,364	314,666
Notes payable	100,610	1,005,802
Bonds payable	28,985,000	29,220,000
Unamortized bond premium	1,126,822	1,009,687
Net pension liability	677,311	794,707
Total long-term liabilities	31,193,107	32,344,862
Total Liabilities	33,386,088	34,185,267
Deferred Inflows of Resources:		
Deferred inflows of resources for pension	60,841	61,171
Net Position:		
Net investment in capital assets	(4,213,538)	(4,224,064)
Restricted net position	1,993,664	2,242,346
Unrestricted net position	2,160,342	1,969,579
Total Net Position	(59,532)	(12,139)
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 33,387,397	$ 34,234,299

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, 2016 AND 2015

	2016	2015
Operating Revenues:		
Sewer rentals	$ 7,188,742	$ 7,050,608
Operating Expenses:		
Sewer system operation	4,012,303	3,901,962
Purchased sewer treatment	596,197	494,029
Depreciation and amortization	1,059,848	927,882
Bad debt expense	1,050	-
Total operating expenses	5,669,398	5,323,873
Operating Income	1,519,344	1,726,735
Nonoperating Revenues (Expenses):		
Interest income	187,987	145,368
Other revenue	51,163	19,309
Interest on sewer revenue bonds and notes payable	(1,483,184)	(1,151,480)
Amortization of bond discount and bond premium	(40,157)	(48,042)
Bond issue costs	(214,871)	-
Realized loss on investments	(153,929)	(33,321)
Unrealized gain (loss) on investments	43,153	(75,101)
Total nonoperating revenues (expenses)	(1,609,838)	(1,143,267)
Income (Loss) Before Capital Contribution Revenues	(90,494)	583,468
Capital Contribution Revenues:		
Tap-in fees	43,101	73,000
Change in Net Position	(47,393)	656,468
Net Position:		
Beginning of year	(12,139)	(668,607)
End of year	$ (59,532)	$ (12,139)

See accompanying notes to financial statements.

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Cash Flows From Operating Activities:		
Cash received from customers	$ 7,120,940	$ 7,049,080
Cash payments for operating expenses	(4,584,814)	(4,386,319)
Net cash provided by (used in) operating activities	2,536,126	2,662,761
Cash Flows From Noncapital Financing Activities:		
Other	94,264	92,309
Cash Flows From Capital and Related Financing Activities:		
Interest paid on debt	(1,355,946)	(1,062,237)
Interest received on restricted bond funds	187,987	145,368
Capital assets and related purchases	(1,473,623)	(1,018,942)
Proceeds from issuance of bonds	9,644,824	-
Payment to refund bond and notes payable	(9,712,622)	-
Authority bond issuance contribution	(90,000)	-
Payment for bond issue costs	(214,871)	-
Payment of notes payable	(14,435)	(79,053)
Payment of bond principal	(1,145,000)	(1,270,000)
Net cash provided by (used in) capital and related financing activities	(4,173,686)	(3,284,864)
Cash Flows From Investing Activities:		
Purchase of investments	1,689,943	1,595,376
Interest earned	19,652	(43,106)
Net cash provided by (used in) investing activities	1,709,595	1,552,270
Increase (Decrease) in Cash and Cash Equivalents	166,299	1,022,476
Cash and Cash Equivalents:		
Beginning of year	2,317,276	1,294,800
End of year	$ 2,483,575	$ 2,317,276
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Operating income	$ 1,519,344	$ 1,726,735
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,059,848	927,882
Bad debt expense	1,050	-
Accounts receivable	(71,430)	(1,395)
Prepaid expenses	(11,215)	(4,150)
Deferred outflows of resources related to pension	30,980	(123,918)
Accounts payable	111,984	88,154
Accrued payroll and withholdings	(34)	9,301
Accrued compensated absences	13,325	13,583
Net pension liability	(117,396)	(34,602)
Deferred inflows of resources related to pension	(330)	61,171
Net cash provided by (used in) operating activities	$ 2,536,126	$ 2,662,761

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 operations 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.

Fair Value Measurement

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

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 bad debt expense of $1,050 for 2016. The Authority charged no bad debt expense for 2015.

Unamortized Premiums

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority has two items that qualify for reporting in this category:

> 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.
>
> In conjunction with pension accounting requirements, the net difference between projected and actual earnings on pension plan investments is recorded as deferred outflows of resources related to pensions on the statement of net position. These amounts are determined based on the actuarial valuation performed for the plan. Note 6 presents additional information about the pension plan.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has one item that qualifies for reporting in this category:

> In conjunction with pension accounting requirements, the difference between expected and actual experience and the net difference between projected and actual earnings on pension plan investments is recorded as a deferred inflow of resources related to pensions on the statement of net position. This amount is determined based on the actuarial valuation performed for the pension plan. Note 6 presents additional information about the pension plan.

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. Capital assets are defined by the Authority as assets with an initial, individual cost of more than $500 and an estimated useful life in excess of one year. 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.

Depreciation is calculated using the following estimated useful lives:

	Years
Land improvement	10-20
Buildings and improvement	20-40
Vehicles	5-15
Software/computers	5
Office furniture and equipment	5-10
Machinery and equipment	10-20

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 $327,991 and $314,666 for 2016 and 2015, 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 $1,993,664 and $2,242,346 at December 31, 2016 and 2015, 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.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources related to pensions, and pension expense, employer contributions are recognized as a reduction of the net pension liability upon payment into the pension trust. Investments are reported at fair value.

Adopted Pronouncements

The requirements of the following Governmental Accounting Standards Board (GASB) Statements were adopted for the Authority's December 31, 2016 financial statements:

GASB Statement No. 72, *"Fair Value Measurement and Application."* This Statement addresses accounting and financial reporting issues related to fair value measurements. This pronouncement required additional disclosures related to investments, which have been incorporated into Note 3.

GASB Statement No. 76, *"Hierarchy of Generally Accepted Accounting Principles for State and Local Governments."* This Statement identifies the hierarchy of generally accepted accounting principles (GAAP), reduces this hierarchy to two categories of authoritative GAAP, and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55.

GASB Statement No. 79, *"Certain External Investment Pools and Pool Participants."* This Statement addresses accounting and reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for the election to measure all of its investments at amortized cost for financial reporting purposes. This pronouncement required additional disclosures related to investments, which have been incorporated into Note 3.

Pending Pronouncements

GASB has issued several statements that will become effective in future years including Statement Nos. 74 (OPEB Plans), 75 (OPEB Employer), 80 (Component Units), 81 (Split-Interest Agreements), 82 (Pensions), 83 (Asset Retirement Obligations), 84 (Fiduciary Activities), and 85 (Omnibus). Management has not yet determined the impact of these Statements on the Borough's financial statements.

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, 2016 and 2015, 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, 2016 and 2015, respectively, $1,996,367 and $1,925,229 of the Authority's bank balance of $2,246,367 and $2,181,819 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 $2,229,668 and $2,165,039 as of December 31, 2016 and 2015, 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 $252,902 and $151,235 for 2016 and 2015, 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. The Authority's investments in PLGIT-Class of $126,384 has no minimum initial investment requirement and has a minimum investment period of one day. The Authority's investments in PLGIT-Prime of $126,518 has no minimum initial investment requirement, a minimum investment period of one day, and penalty for more than two withdrawals in a calendar month.

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 $1,005 and $1,002 in 2016 and 2015, 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. The Authority can withdraw funds from the external investment pool without limitations or fees upon adequate notice. Otherwise, breakage fees may be charged.

At December 31, 2016, the Authority held the following investment balances:

		Maturity in Years			
	Fair Market Value	Less than 1 year	1-5 Years	6-10 Years	More than 10 years
Money markets	$ 2,119,136	$ 2,119,136	$ -	$ -	$ -
Private debt obligations	657,366	-	-	-	657,366
Municipal bonds	2,033,400	-	-	1,025,645	1,007,755
U.S. agencies	1,213,497	1,213,497	-	-	-
Total	$ 6,023,399	$ 3,332,633	$ -	$ 1,025,645	$ 1,665,121

At December 31, 2015, the Authority held the following investment balances:

		Maturity in Years			
	Fair Market Value	Less than 1 year	1-5 Years	6-10 Years	More than 10 years
Money markets	$ 1,894,591	$ 1,894,591	$ -	$ -	$ -
Private debt obligations	657,366	-	-	-	657,366
Municipal bonds	1,077,398	-	-	562,458	514,940
U.S. agencies	4,167,794	4,167,794	-	-	-
Total	$ 7,797,149	$ 6,062,385	$ -	$ 562,458	$ 1,172,306

The fair value of the Authority's investments is the same as their carrying amount. Investments of $6,023,999 at December 31, 2016 and $7,797,149 at December 31, 2015 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.

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 Treasury Instruments Fund #506 money market funds of $3,255 were rated Aaa, Institutional Class #1751 money market funds of $2,115,882 were rated Aaa-mf, and municipal bonds of $479,959, $545,686, $502,305, and $505,450 were rated A1, A3, Aa2, and A2, respectively, at December 31, 2016. The guarantor of the private debt obligation of $657,366 is a company with a AAA rating at December 31, 2016.

As of December 31, 2015, the Authority's BlackRock Temp B #24 money market funds of $1,894,591 and municipal bonds of $1,077,398 were rated AAA and A2, respectively, at December 31, 2015. The guarantor of the private debt obligation of $657,366 is a company with a AAA rating at December 31, 2015.

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 private debt obligations at December 31, 2016 and 2015. These investments are 11% and 8% of the Authority's total investments at December 31, 2016 and 2015, respectively. More than five percent of the Authority's investments are in municipal bonds at December 31, 2016 and 2015. These investments are 34% and 14% of the Authority's total investments at December 31, 2016 and 2015, respectively.

The Authority has the following recurring fair value measurements as of December 31, 2016:

	Level 1	Level 2	Level 3	Total
Money markets	$ 2,119,136	$ -	$ -	$ 2,119,136
Pivate debt obligations	-	-	657,366	657,366
Municpal bonds	-	2,033,400	-	2,033,400
U.S. agencies	-	1,213,497	-	1,213,497
	$ 2,119,136	$ 3,246,897	$ 657,366	$ 6,023,399

The Authority has the following fair value measurements as of December 31, 2015:

	Level 1	Level 2	Level 3	Total
Money markets	$ 1,894,591	$ -	$ -	$ 1,894,591
Private debt obligations	-	-	657,366	657,366
Municpal bonds	-	1,077,398	-	1,077,398
U.S. agencies	-	4,167,794	-	4,167,794
	$ 1,894,591	$ 5,245,192	$ 657,366	$ 7,797,149

Money markets classified in Level 1 of the fair value hierarchy at December 31, 2016 and 2015 are valued using prices quoted in active markets for those securities. Municipal bonds and U.S. agencies classified in Level 2 of the fair value hierarchy December 31, 2016 and 2015 are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Private debt obligations classified in Level 3 December 31, 2016 and 2015 are valued based on the underlying assets of the collateralized trust held by the guarantor of the private debt obligation.

4. CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	Balance at December 31, 2015	Additions	Transfers/ Deletions	Balance at December 31, 2016
Capital assets, not being depreciated:				
Construction in progress	$ 367,878	$ 505,349	$ (354,260)	$ 518,967
Capital assets, being depreciated:				
Plant and system	31,068,219	1,309,413	354,260	32,731,892
Vehicles and equipment	888,368	44,302	-	932,670
Other capital improvements	1,788,347	28,058	-	1,816,405
Total capital assets, being depreciated	33,744,934	1,381,773	354,260	35,480,967
Less accumulated depreciation	(13,467,960)	(1,039,897)	-	(14,507,857)
Total capital assets, being depreciated, net	20,276,974	341,876	354,260	20,973,110
Total capital assets, net	$ 20,644,852	$ 847,225	$ -	$ 21,492,077

	Balance at December 31, 2014	Additions	Transfers/ Deletions	Balance at December 31, 2015
Capital assets, not being depreciated:				
Construction in progress	$ -	$ 367,878	$ -	$ 367,878
Capital assets, being depreciated:				
Plant and system	30,511,648	556,571	-	31,068,219
Vehicles and equipment	810,485	77,883	-	888,368
Other capital improvements	1,771,737	16,610	-	1,788,347
Total capital assets, being depreciated	33,093,870	651,064	-	33,744,934
Less accumulated depreciation	(12,560,029)	(907,931)	-	(13,467,960)
Total capital assets, being depreciated, net	20,533,841	(256,867)	-	20,276,974
Total capital assets, net	$ 20,533,841	$ 111,011	$ -	$ 20,644,852

5. LONG-TERM DEBT

Current interest bonds payable at December 31, 2016 are composed of the following individual issues:

	Balance December 31, 2015	New Issues	Payments	Refunded	Balance December 31, 2016	Due Within One Year
Bonds Payable	$ 30,245,000	$ 9,820,000	$ 1,145,000	$ 8,765,000	$ 30,155,000	$ 1,170,000

	At December 31st 2016	2015
Sewer Revenue Bonds, Refunding Series of 2014 A, due in annual principal installments or mandatory sinking fund payments through August 1, 2035.	$ 20,335,000	$ 20,785,000
Sewer Revenue Bonds, Refunding Series of 2016, due in annual principal installments or mandatory sinking fund payments through August 1, 2028.	9,700,000	-
Sewer Revenue Bonds, Series of 2009, due in annual principal installments or mandatory sinking fund payments through August 1, 2017.	120,000	9,460,000
	30,155,000	30,245,000
Less: current portion	(1,170,000)	(1,025,000)
Total bonds payable - long-term	$ 28,985,000	$ 29,220,000

<u>Sewer Revenue Bonds, Refunding Series of 2016</u>

On May 3, 2016, the Authority issued Sewer Revenue Bonds, Refunding Series of 2016 (2016 Bonds), in the amount of $9,820,000 to currently refund $8,765,000 of the outstanding Sewer Revenue Bonds, Series of 2009 (2009 Bonds), currently refund certain other long-term indebtedness of the Authority held by the Pennsylvania Infrastructure Investment Authority, and to pay all the costs and expenses incident to the issuance of the 2016 Bonds. The 2016 Bonds bear interest semi-annually at rates ranging from 0.700% to 2.625%. A second supplemental indenture amending the original indenture dated September 15, 2009 was made and entered into as of May 3, 2016, between the Authority and the Trustee, Wells Fargo Bank, N.A.

Sewer Revenue Bonds, Refunding 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 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.

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, $8,765,000 was currently refunded with the issuance of the 2016 Bonds and $14,360,000 of the 2009 Bonds was advance refunded with the issuance of the 2014 A Bonds. At December 31, 2016, none of the defeased 2009 Bonds remains outstanding. $120,000 of the 2009 Bonds remain outstanding at December 31, 2016 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 2016, 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
2017	$ 1,170,000	$ 1,146,499	$ 2,316,499
2018	1,195,000	1,122,069	2,317,069
2019	1,225,000	1,088,669	2,313,669
2020	1,270,000	1,042,119	2,312,119
2021	1,325,000	986,119	2,311,119
2022-2026	7,420,000	4,146,394	11,566,394
2027-2031	8,905,000	2,662,525	11,567,525
2032-2035	7,645,000	728,400	8,373,400
	$ 30,155,000	$ 12,922,794	$ 43,077,794

Current interest notes payable at December 31, 2016 are composed of the following:

	Balance December 31, 2015	New Loans	Payments	Refunded	Balance December 31, 2016
PennVest loans	$ 1,077,536	$ -	$ 14,435	$ 947,622	$ 115,479

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 $115,479 and $129,914 at December 31, 2016 and 2015, respectively.

The following summarizes the required payments for the PWSA loan:

December 31,	Principal	Interest	Total
2017	$ 14,869	$ 3,229	$ 18,098
2018	15,317	2,781	18,098
2019	15,778	2,320	18,098
2020	16,253	1,844	18,097
2021	16,743	1,355	18,098
2022-2024	36,519	1,187	37,706
	$ 115,479	$ 12,716	$ 128,195

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. As noted above, $238,933 was currently refunded with the issuance of the 2016 Bonds. There is no outstanding balance on the loan as of December 31, 2016.

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 preliminary amortization schedule from PennVest. During 2015, the Authority received a final amortization schedule from PennVest. As noted above, $708,689 was currently refunded with the issuance of the 2016 Bonds. There is no outstanding balance on the loan as of December 31, 2016.

At December 31, 2016, the PWSA loan is presented as notes payable on the statement of net position in the amount of $100,610 (long-term) and $14,869 (short-term). At December 31, 2015, the PWSA loan and the PennVest loans are presented as notes payable on the statement of net position in the amount of $1,005,802 (long-term) and $71,734 (short-term).

6. PENSION PLAN

Description of Plan

The Authority's Pension Plan (plan) is a single-employer defined benefit pension plan established under the provisions of Act 205 of 1984 of the Commonwealth of Pennsylvania (Act). The plan was established on August 21, 1996 and is governed by the Board of Directors (Board) of the Authority, which may amend plan provisions, and which is responsible for the management of plan assets. The Board 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, hired prior to December 31, 2006. 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 December 31, 2015, the date of the most recent valuation, plan membership consisted of the following:

Active	19
In payment status:	
Retirement benefits	13
Disability benefits	0
Surviving spouse benefits	0
Deferred	2
Total	34

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

Benefits Provided – Employees

Retirement Benefit – For normal retirement, a participant is entitled to begin receiving benefits at the age of 65 and completion of 15 years of credited service. The scheduled monthly retirement benefit is payable monthly during the participant's lifetime, with 120 payments guaranteed. The amount of monthly pension is equal to $40 times years of continuous service. For special retirement, a participant is eligible after attainment of age 62 and 25 years of service, at which time the participant may commence receiving the unreduced accrued benefit.

Disability Benefit – A participant is eligible for disability benefits if there is total and permanent disablement that qualifies the participant for Social Security disability benefits. The participant is then eligible for immediate monthly payment of the accrued benefit.

Death Benefit – If a participant's death occurs after vesting but before retirement, and is vested, 100% of the contributions plus interest will be refunded to the designated beneficiary.

Cost-of-Living Adjustments – Benefit terms do not provide for annual cost-of-living adjustments to each member's retirement allowance subsequent to the member's retirement date.

Contributions

The Authority is required to contribute an actuarially determined amount necessary to fund the plan using the actuarial basis specified by statute. The Act requires that annual contributions be based upon the calculation of the Minimum Municipal Obligation (MMO). The MMO calculation is based upon the biennial actuarial valuation.

Under the terms of the plan, all participating employees are required to contribute under the plan.

During 2016, the Authority paid the calculated MMO of $194,661 into the plan. During 2015, the Authority paid the calculated MMO of $188,271 into the plan.

Net Pension Liability

Measurement Date and Actuarial Assumptions – The Authority's net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of January 1, 2015. There were no plan changes between the January 1, 2015 valuation and the December 31, 2016 measurement date. Standard actuarial techniques were used to roll forward the total pension liability from the valuation date to the measurement date.

Actuarial Assumptions – The total pension liability was determined by an actuarial valuation using the following actuarial assumptions, applied to all periods in the measurement:

Actuarial cost method	Entry age normal
Actuarial assumptions:	
Investment rate of return	6.5%
Projected salary increases	n/a
Underlying inflation rate	3.0%

Actuarial assumptions based on actuarial experience study for the period January 1, 2013 to December 31, 2014.

RP-2000 Healthy Annuitant Mortality Table, with adjustment for mortality improvements based on 75% of Scale AA.

Changes in Actuarial Assumptions – No significant changes were made to the actuarial assumptions used in the January 1, 2015 valuation since the previous actuarial valuation on January 1, 2013.

Investment Policy – The plan's policies in regard to the allocation of invested assets is established and may be amended by the Board by a majority vote of its members. It is the policy of the Board to pursue an investment strategy that balances asset growth with risk tolerance achieving an average annual return of 6.5% over a 10-year period, maintain the liquidity to have the ability to pay all benefits and expense obligations when due in accordance with the plan provision, diversify the assets to experience a positive total investment return preserving capital and purchase power against economic inflation, and continue to grow assets at a rate above and beyond that of the actuarial assumption of 6.5% per year.

Long-Term Expected Rate of Return – The long-term expected rate of return on plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The following were the asset allocation policy and best estimates of arithmetic real rates of return for each major asset class included in the plan's target asset allocations as of December 31, 2016 and 2015:

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Domestic Equities	55%	7.16%
International Equities	5%	2.57%
Fixed Income	40%	3.34%
	100%	

Rate of Return – The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. For the years ended December 31, 2016 and 2015, the annual money-weighted rate of return on the plan investments, net of investment expense, was 6.72% and -0.75%, respectively.

Concentrations – The plan had no investment concentrations at December 31, 2016 or 2015.

Discount Rate – The discount rate used to measure the total pension liability for the plan was 6.5%. The projection of cash flows used to determine the discount rate assumed the plan member contributions will be made at the current contribution rate and that the Authority's contributions will be made based on the yearly MMO calculation. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability – Changes in the Authority's net pension liability are as follows:

	Total Pension Liability	Plan Net Position	Net Pension Liability
Balances at 12/31/15	$ 2,959,405	$ 2,164,698	$ 794,707
Changes for the year:			
Service cost	27,787	-	27,787
Interest	188,551	-	188,551
Employer contributions	-	194,661	(194,661)
Member contributions	-	9,120	(9,120)
Net investment income (loss)	-	136,462	(136,462)
Benefits payments, including refunds of employee contributions	(158,756)	(158,756)	-
Differences between expected and actual experience	(5,953)	-	(5,953)
Administrative expenses	-	(12,462)	12,462
Balances 12/31/16	$ 3,011,034	$ 2,333,723	$ 677,311

	Total Pension Liability	Plan Net Position	Net Pension Liability
Balances at 12/31/14	$ 2,981,360	$ 2,152,051	$ 829,309
Changes for the year:			
Service cost	27,835	-	27,835
Interest	189,475	-	189,475
Employer contributions	-	188,271	(188,271)
Member contributions	-	9,120	(9,120)
Net investment income (loss)	-	(15,918)	15,918
Benefits payments, including refunds of employee contributions	(168,826)	(168,826)	-
Differences between expected and actual experience	(70,439)	-	(70,439)
Administrative expenses	-	-	-
Balances 12/31/15	$ 2,959,405	$ 2,164,698	$ 794,707

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability of the plan calculated using the discount rates described above, as well as what the plan's net pension liabilities would be if they were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

	1% Decrease (5.5%)	Discount Rate (6.5%)	1% Increase (7.5%)
Pension Plan	$ 1,022,916	$ 677,311	$ 386,764

Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions – For the years ended December 31, 2016 and 2015, the Authority recognized pension expense of $98,795 and $90,922, respectively. At December 31, 2016, the Authority reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 57,018
Net difference between projected and actual earnings on pension plan investments	92,938	3,823
	$ 92,938	$ 60,841

At December 31, 2015, the Authority reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 61,171
Net difference between projected and actual earnings on pension plan investments	123,918	-
	$ 123,918	$ 61,171

The net amount of deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ending December 31:	
2017	$ 19,918
2018	19,918
2019	19,916
2020	(11,061)
2021	(10,106)
Thereafter	(6,488)
	$ 32,097

7. 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, 2016, 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.

8. 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.

9. 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 approximately $75,000 of construction commitments related to construction of the sewer system at December 31, 2016.

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. The obligations for the consent order terminated on March 30, 2015.

The Authority finalized and signed a consent order with the Allegheny County Health Department on December 22, 2015 that requires the Authority to submit a source reduction study by December 1, 2017 that identifies the types of projects, or a combination or projects that would most effectively reduce flows within areas of the Authority's sewer system with high flows, eliminate the Authority sanitary sewer overflows, and reduce flows downstream from the Authority's sewer system and/or at its connection with the Alcosan interceptor system. The source reduction study shall also include at least one flow reduction demonstration project that shall be completed by August 1, 2017. By December 1, 2017, as part of the source reduction study, the Authority shall submit a report detailing the completion of the demonstration project and, to the extent feasible, quantifying its effectiveness at reducing flows.

10. 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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN THE AUTHORITY'S NET PENSION LIABILITY AND RELATED RATIOS

Last 10 Fiscal Years[1]

	2016	2015
Total Pension Liability:		
Service cost	$ 27,787	$ 27,835
Interest	188,551	189,475
Differences between expected and actual experience	(5,953)	(70,439)
Benefit payments, including refunds of member contributions	(158,756)	(168,826)
Net Changes in Total Pension Liability	51,629	(21,955)
Total Pension Liability - Beginning	2,959,405	2,981,360
Total Pension Liability - Ending (a)	$ 3,011,034	$ 2,959,405
Plan Fiduciary Net Position:		
Contributions - employer	$ 194,661	$ 188,271
Contributions - member	9,120	9,120
Net investment income (loss)	136,462	(15,918)
Benefit payments, including refunds of member contributions	(158,756)	(168,826)
Administrative expense	(12,462)	-
Net Change in Plan Fiduciary Net Position	169,025	12,647
Plan Fiduciary Net Position - Beginning	2,164,698	2,152,051
Plan Fiduciary Net Position - Ending (b)	$ 2,333,723	$ 2,164,698
Net Pension Liability - Ending (a-b)	$ 677,311	$ 794,707
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.5%	73.1%
Covered Employee Payroll	$ 1,253,376	$ 1,211,986
Net Pension Liability as a Percentage of Covered Employee Payroll	54.04%	65.57%

1 The amounts presented for each fiscal year were determined as of the measurement date, which is December 31 of the immediately preceding fiscal year. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the Authority is presenting information for those years only for which information is available.

See accompanying notes to the supplementary pension schedules.

WEST MIFFLIN SANITARY SEWER
MUNICIPAL AUTHORITY

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULES OF AUTHORITY'S CONTRIBUTIONS

FOR THE YEARS ENDING DECEMBER 31, 2009 - DECEMBER 31, 2016

Schedule of Authority's Contributions	2016	2015	2014	2013	2012
Actuarially determined contribution	$ 194,661	$ 188,271	$ 157,102	$ 159,449	$ 110,505
Contributions in relation to the actuarially determined contribution	194,661	188,271	157,102	159,449	110,505
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered employee payroll	$ 1,666,172	$ 1,496,897	$ 1,385,242	$ 1,526,418	$ 1,544,179
Contributions as a percentage of covered employee payroll	11.68%	12.58%	11.34%	10.45%	7.16%

Schedule of Authority's Contributions	2011	2010	2009
Actuarially determined contribution	$ 108,787	$ 97,471	$ 84,408
Contributions in relation to the actuarially determined contribution	108,787	103,379	91,579
Contribution deficiency (excess)	$ -	$ (5,908)	$ (7,171)
Covered employee payroll	$ 1,614,210	$ 1,702,266	$ 1,603,361
Contributions as a percentage of covered employee payroll	6.74%	6.07%	5.71%

Note: Information prior to 2009 is unavailable

See accompanying notes to the supplementary pension schedules.

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF AUTHORITY'S INVESTMENT RETURNS

Last 10 Fiscal Years[1]

Investment Returns	**2016**	**2015**
Annual money-weighted rate of return, net of investment expense	6.72%	-0.75%

1 The amounts presented for each fiscal year were determined as of the measurement date, which is December 31 of the immediately preceding fiscal year. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the Authority is presenting information for those years only for which information is available.

See accompanying notes to the supplementary pension schedules.

Actuarial Methods and Assumptions

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	1/1/2015
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar Closed
Remaining amortization period	4 years
Asset valuation method	3-Year Smoothing
Actuarial assumptions:	
Investment rate of return	6.50%
Projected salary increases	n/a
Underlying inflation rate	3.00%
Pre- and Post-Mortality Assumptions:	RP-2000 (generational, AA)
Retirement age	Normal Retirement Age

Benefit Changes

No benefit terms were modified.

Changes in Actuarial Assumptions

No significant changes were made to the actuarial assumptions used in the 1/1/15 valuation since the previous actuarial valuation on 1/1/13.

Supplementary Information

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

ANALYSIS OF OPERATING REVENUES AND EXPENSES

YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Operating Revenues:		
Sewage rentals	$ 7,188,742	$ 7,050,608
Operating Expenses:		
Sewer system operation:		
Sewage treatment plants	$ 399,142	$ 376,648
Utilities	417,716	446,286
Sewer crew expenses	66,053	39,432
Pretreatment expenses	603	-
Payroll	1,699,092	1,644,811
Payroll taxes	135,159	134,000
Benefits	691,963	695,597
Office supplies	25,934	26,299
Communications	19,275	21,632
Postage	1,503	1,106
Advertisements	1,484	1,912
Fee collection costs	278,074	274,249
Engineering fees	56,675	46,928
Insurance	147,410	119,152
Seminars	-	90
Professional services	56,519	65,117
Miscellaneous expenses	15,701	8,703
Purchased sewer treatment	596,197	494,029
Depreciation and amortization	1,059,848	927,882
Bad debt expense	1,050	-
Total operating expenses	$ 5,669,398	$ 5,323,873