

WEST MIFFLIN
SANITARY SEWER
MUNICIPAL AUTHORITY

FINANCIAL STATEMENTS
AND
SUPPLEMENTARY AND ADDITIONAL INFORMATION

YEARS ENDED DECEMBER 31, 2002 AND 2001

WITH

INDEPENDENT AUDITOR'S REPORT

MAHER DUESSEL
CERTIFIED PUBLIC ACCOUNTANTS

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

YEARS ENDED DECEMBER 31, 2002 AND 2001

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MAHER DUESSEL

CERTIFIED PUBLIC ACCOUNTANTS

THREE GATEWAY CENTER - SIX WEST
PITTSBURGH, PA 15222

(412) 471-5500
FAX (412) 471-5508

Independent Auditor's Report

Board of Directors
West Mifflin Sanitary Sewer Municipal Authority

We have audited the financial statements of the West Mifflin Sanitary Sewer Municipal Authority (Authority) as of and for the years ended December 31, 2002 and 2001, as identified in the preceding table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority at December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

The pension information presented in the supplementary schedules and note to the supplementary pension schedules listed in the table of contents is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the above mentioned financial statements taken as a whole. The accompanying additional information found on page 21 is presented for additional analysis only and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.



April 11, 2003

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

BALANCE SHEETS

DECEMBER 31, 2002 AND 2001

Assets	2002	2001	Liabilities and Fund Equity	2002	2001
Current assets:			Liabilities:		
Cash and cash equivalents	\$ 2,016,838	\$ 1,508,869	Current liabilities:		
Accounts receivable	1,008,449	540,169	Accounts payable	\$ 70,126	\$ 491,473
Interest receivable	27,159	27,159	Accrued compensated absences	151,211	126,024
Due from employees	597	947	Current portion of long-term debt	665,000	640,000
Total current assets	<u>3,053,043</u>	<u>2,077,144</u>	Total current liabilities	<u>940,852</u>	<u>1,308,449</u>
Restricted assets:			Current liabilities (payable from restricted assets):		
Special accounts	3,168,733	4,497,127	Bond interest payable	701,550	713,375
Debt service accounts	<u>3,988,403</u>	<u>3,866,053</u>	Long-term liabilities:		
Total restricted assets	<u>7,157,136</u>	<u>8,363,180</u>	Deferred fee	385,132	401,700
Property, plant, and equipment (at cost):			Bonds payable (net of deferred loss on advance refunding of \$364,026 and \$388,151 for 2002 and 2001, respectively)	<u>32,750,974</u>	<u>33,391,849</u>
Less: accumulated depreciation	25,882,643	22,482,249	Total long-term liabilities	<u>33,136,106</u>	<u>33,793,549</u>
Construction in progress	<u>(2,456,031)</u>	<u>(1,633,802)</u>	Total Liabilities	<u>34,778,508</u>	<u>35,815,373</u>
Total property, plant, and equipment (at cost)	<u>287,477</u>	<u>2,838,952</u>			
Other assets:	23,714,089	23,687,399	Fund equity:		
Deferred charges (net of amortization of \$28,998 and \$24,537 for 2002 and 2001, respectively)	104,843	109,304	Contributions in aid of construction (net of accumulated amortization of \$51,207)	644,651	644,651
Bond issue costs (net of amortization of \$387,647 and \$292,907 for 2002 and 2001, respectively)	1,462,536	1,557,276	Retained earnings, unrestricted	69,569	(630,694)
Other assets	<u>1,081</u>	<u>35,027</u>	Total Fund Equity	<u>714,220</u>	<u>13,957</u>
Total other assets	<u>1,568,460</u>	<u>1,701,607</u>			
Total Assets	<u>\$ 35,492,728</u>	<u>\$ 35,829,330</u>	Total Liabilities and Fund Equity	<u>\$ 35,492,728</u>	<u>\$ 35,829,330</u>

See accompanying notes to financial statements.

**WEST MIFFLIN SANITARY SEWER
MUNICIPAL AUTHORITY**

STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN FUND EQUITY

YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002	2001
Operating Revenues:		
Sewer rentals	\$ 5,412,267	\$ 3,936,031
Refunds	350	42,487
Total operating revenues	5,412,617	3,978,518
Operating Expenses:		
Sewer system operation	2,820,583	2,735,906
Purchased sewer treatment	205,032	15,999
Depreciation	822,229	726,214
Total operating expenses	3,847,844	3,478,119
Operating Income	1,564,773	500,399
Nonoperating Revenues (Expenses):		
Commonwealth of Pennsylvania-Act 339 subsidy	515,229	198,970
Interest income	240,495	577,585
Other revenue	203,367	86,908
Interest on sewer revenue bonds	(1,742,256)	(1,752,960)
Amortization of bond issue costs and deferred charges	(81,345)	(65,076)
Nonoperating revenues (expenses)	(864,510)	(954,573)
Net Income (Loss)	700,263	(454,174)
Retained Earnings:		
Beginning of year	(630,694)	(176,520)
End of year	69,569	(630,694)
Contributed Capital:	644,651	644,651
Total Fund Equity	\$ 714,220	\$ 13,957

See accompanying notes to financial statements.

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002	2001
Cash Flows From Operating Activities:		
Operating income	\$ 1,564,773	\$ 500,399
Adjustments to reconcile operating income to cash provided by:		
Depreciation	822,229	726,214
(Increase) decrease in operating assets:		
Accounts receivable	(467,930)	(53,415)
Prepaid expenses	-	59,222
Other assets	33,946	(16,766)
Increase (decrease) in operating liabilities:		
Accounts payable	(421,347)	440,301
Accrued payroll and withholdings	3,563	4,220
Accrued compensated absences	25,187	17,171
	1,560,421	1,677,346
Cash Flows From Noncapital Financing Activities:		
Commonwealth of Pennsylvania-Act 339 subsidy	515,229	198,970
Other receipts	203,367	86,908
	718,596	285,878
Cash Flows From Capital and Related Financing Activities:		
Interest paid on debt	(1,712,100)	(1,725,973)
Interest received on restricted bond funds	211,548	531,231
Property, plant, equipment, and related purchases	(848,919)	(4,360,531)
Other capital activity	-	59,268
Payment of bond principal	(640,000)	(300,000)
Proceeds from fee agreement	-	401,700
	(2,989,471)	(5,394,305)
Cash Flows From Investing Activities:		
Sale of investments	1,206,044	3,131,645
Interest earned	12,379	46,354
	1,218,423	3,177,999
Increase (Decrease) in Cash and Cash Equivalents	507,969	(253,082)
Cash and Cash Equivalents		
Beginning of year	1,508,869	1,761,951
End of year	\$ 2,016,838	\$ 1,508,869

See accompanying notes to financial statements.

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

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 U.S. generally accepted accounting principles for governmental enterprise funds. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that the costs of providing the service to the general public, including depreciation, is financed or recovered primarily through user charges.

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

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized. The accompanying financial statements are presented on an accrual basis whereby revenues are recognized when earned, irrespective of when they are billed or collected, and expenses are recognized when incurred. Investments are recorded at fair value. The Authority prepares a budget on the accrual basis at the beginning of each year. The Authority capitalizes eligible net interest costs as part of the cost of constructing various sewer projects when material.

Statements of Cash Flows

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

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

Restricted Assets

The Authority has established certain restricted asset accounts to satisfy the requirements of a bond trust indenture. In accordance with the terms of the 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.

Fixed Assets

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

Bond Issue Costs

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

Contributed Capital

This fund equity account is used to accumulate the amount of permanent capital contributed to the Authority. These contributions include governmental capital grants and user assessments.

For the year ended December 31, 2001, the Authority adopted the Government Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions.* This statement requires governments to recognize capital contributions to proprietary funds and to other governmental agencies that use proprietary fund accounting as revenues, not contributed capital. Typically, when a new accounting standard is adopted, prior periods are restated; however, governments are not permitted to restate contributed capital arising from periods prior to implementation of this standard until the Board issues one or more statements requiring the restatement of those prior-period balances. As a result, contributed capital will remain the same until the adoption of GASB Statement No. 34 (discussed below).

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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

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 \$151,211 and \$126,024 for 2002 and 2001, respectively for compensated absences that are eligible for payment upon termination.

GAAP Hierarchy

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

Pending Pronouncements

GASB Statement No. 34, *"Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments,"* was issued in June 1999. The Statement establishes accounting and financial reporting standards for general purpose external financial reporting by state and local governments as well as specific standards for the basic financial statements, Management's Discussion and Analysis (MD&A), and certain required supplementary information (RSI) other than MD&A.

The requirements of this Statement are effective in three phases based on total revenues in the first fiscal year ending after June 15, 1999. It is anticipated that the Authority would be required to implement the Statement for the year ended December 31, 2004.

The most significant changes involve presenting a Management's Discussion and Analysis section and the accounting for contributed capital.

As required by GASB Statement No. 34, the Authority will also be required to adopt GASB Statement No. 37, *"Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus."* The provisions of this Statement clarify MD&A minimum requirements.

Additionally, as required by GASB Statement No. 34, the Authority will also be required to adopt GASB Statement No. 38, *"Certain Financial Statement Note Disclosures."* This Statement modifies, establishes, and rescinds certain financial

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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

statement disclosure requirements such as, debt service requirements to maturity, obligations under leases for each of the five subsequent years and in five-year increments thereafter, and details about major components of receivable and payable balances.

Reclassifications

Certain prior year amounts were reclassified to conform to the current year presentation.

3. CASH AND INVESTMENTS

The trust indenture authorizes the Authority to invest in obligations of the U.S. government and government-sponsored agencies and instrumentalities; certificates of deposits, fully insured or collateralized; certain commercial paper and repurchase agreements; and highly rated bank promissory notes or investment funds or trusts. Throughout the years ended December 31, 2002 and 2001, the Authority invested its funds in only one or more of the above-authorized investments.

Cash and Deposits

The following is a summary of the Authority's cash deposits and time deposits which are insured by the Federal Depository Insurance Company (Category 1) or were not insured or collateralized in the Authority's name, but were 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 (Category 3).

At December 31, 2002:

	Total Category 1	Total Category 3	Bank Balance	Carrying Amount
Deposits	<u>\$ 100,000</u>	<u>\$ 1,765,746</u>	<u>\$ 1,865,746</u>	<u>\$ 1,858,987</u>

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DECEMBER 31, 2002 AND 2001

At December 31, 2001:

	Total Category 1	Total Category 3	Bank Balance	Carrying Amount
Deposits	\$ 100,000	\$ 865,000	\$ 965,000	\$ 963,169

Investments

Category 1 investments are those investments which are insured and registered or are held by the Authority or its agent in the Authority's name.

Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Authority's name.

The Treasury-backed money market funds held by the Trustee are deposits in highly liquid money market funds related to Treasury-backed repurchase agreements.

Throughout the years ended December 31, 2002 and 2001, the Authority invested through its Trustee, National City Bank, in accordance with an investment agreement (repurchase agreement) with TMG Financial Products, Inc., dated August 21, 1996, and later Morgan Guaranty Trust Company. The investments include monies invested in the Armada family of mutual funds (Armada Government Money Market Fund), the total of which was \$894,266 and \$976,213 at December 31, 2002 and 2001, respectively.

Shares of Armada Funds are not bank deposits or obligations of, or guaranteed or endorsed or otherwise supported by National City Bank or its parent company or any of its affiliates. Share of Armada Funds are not insured or guaranteed by the U.S. Government, FDIC, or any governmental agency or state. An investment in Armada Funds involves investment risk including the possible loss of principal amounts invested.

The Authority's collective pooled investments are held in the Pennsylvania Local Government Investment Trust (PLGIT) and the Pennsylvania Treasurer's INVEST Program. Deposits with the Pennsylvania Treasurer's INVEST Program are not pledged with collateral either on an individual or pooled basis to secure the deposits of the participants. Instead, INVEST Daily Pool Investments are themselves secure:

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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

Treasuries and Federal Agencies, repurchase agreements (collateralized at 102 percent) and Certificates of Deposit (collateralized at 120 percent). The money market funds and pooled investments cannot be classified by risk category because they are not evidenced by securities that exist in physical or book entry form. With regard to these external investment pools, the fair value of the Authority's position in the external investment pool is the same as the value of the pool shares. All investments in an external investment pool that is not SEC registered are subject to oversight by the Commonwealth of Pennsylvania.

At December 31, 2002:

	Category	Carrying Amount	Market Value
U.S. Government Securities held by:			
Trustee	2	\$ 3,767,725	\$ 3,767,725
Armada Government: Money Market Fund	Uncategorized	894,266	894,266
Collective Pooled Investments	Uncategorized	2,652,996	2,652,996
		\$ 7,314,987	\$ 7,314,987

At December 31, 2001:

	Category	Carrying Amount	Market Value
U.S. Government Securities held by:			
Trustee	2	\$ 3,876,799	\$ 3,876,799
Armada Government Money Market Fund	Uncategorized	976,213	976,213
Collective Pooled Investments	Uncategorized	4,055,868	4,055,868
		\$ 8,908,880	\$ 8,908,880

Of the collective pooled investments shown above, \$157,851 and \$545,700 are presented on the balance sheet, along with deposits of \$1,858,987 and \$963,169, as aggregate cash and cash equivalents of \$2,016,838 and \$1,508,869 at December 31, 2002 and 2001, respectively.

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

4. FIXED ASSETS

A summary of changes in fixed assets is as follows:

	Balance at December 31, 2001	Additions	Transfers/ Deletions	Balance at December 31, 2002
Plant and system	\$ 21,418,861	\$ 3,256,731	\$ -	\$ 24,675,592
Vehicles and equipment	342,483	-	-	342,483
Other capital improvements	720,905	143,663	-	864,568
Construction in progress	2,838,952	848,919	(3,400,394)	287,477
Total	25,321,201	4,249,313	(3,400,394)	26,170,120
Less accumulated depreciation	(1,633,802)	(822,229)	-	(2,456,031)
Net property, plant, and equipment	\$ 23,687,399	\$ 3,427,084	\$ (3,400,394)	\$ 23,714,089

	Balance at December 31, 2000	Additions	Transfers/ Deletions	Balance at December 31, 2001
Plant and system	\$ 11,951,775	\$ -	\$ 9,467,086	\$ 21,418,861
Vehicles and equipment	331,883	-	10,600	342,483
Other capital improvements	353,745	-	367,160	720,905
Construction in progress	8,382,535	4,360,531	(9,904,114)	2,838,952
Total	21,019,938	4,360,531	(59,268)	25,321,201
Less accumulated depreciation	(907,588)	(726,214)	-	(1,633,802)
Net property, plant, and equipment	\$ 20,112,350	\$ 3,634,317	\$ (59,268)	\$ 23,687,399

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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

5. LONG-TERM DEBT

Current interest bonds payable at December 31, 2002 are composed of the following individual issues:

	<u>Balance at December 31, 2001</u>	<u>Retirements</u>	<u>Balance at December 31, 2002</u>
<u>Sewer Revenue Bonds</u>			
1996	\$ 3,085,000	\$ (280,000)	\$ 2,805,000
1998	<u>31,335,000</u>	<u>(360,000)</u>	<u>30,975,000</u>
	<u>\$ 34,420,000</u>	<u>\$ (640,000)</u>	<u>\$ 33,780,000</u>

Guaranteed Sewer Revenue Bonds, Series of 1996 due in annual principal installments or mandatory sinking fund payments through August 1, 2010. First principal payment was due August 1, 2000.

\$ 2,805,000

Sewer Revenues Bonds, Series of 1998 due in annual principal installments or mandatory sinking fund payments through August 1, 2010. First principal payment was due August 1, 2001.

30,975,000

33,780,000

Less: deferred loss on advance refunding

(364,026)

Less: current portion

(665,000)

Total bonds payable

\$32,750,974

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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

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

The Authority issued \$31,370,000 of Sewer Revenue Bonds, Series of 1998, to undertake a project (1998 project) consisting of (1) the refunding portion of the Guaranteed Sewer Revenue Bonds, Series of 1996 (refunded bonds) in the amount of \$11,310,000; (2) the undertaking of various capital improvements to the Authority's sewer system; and (3) payment of costs incurred in connection with the issuance of the 1998 Bonds. In order to advance refund the \$11,310,000 of 1996 refunded bonds, the Trustee, acting as escrow agent, used \$11,772,084 of the Series of 1998 bonds proceeds to purchase certain State and Local Government Series Securities, and hold these in an irrevocable escrow fund. The Authority irrevocably directed payment of the Guaranteed Sewer Revenue Bonds, Series of 1996 originally scheduled to mature on April 1 of the years 2015, 2020, 2024, and 2026, principal totaling \$11,310,000, together with interest thereon when due, and irrevocably called such Series of 1996 bonds for redemption on April 1, 2006 at par plus accrued interest. The advance refunding met the requirements of an in-substance defeasance and the bonds were removed from the Authority's long-term debt.

The advance refunding resulted in an economic (net present value) savings of \$228,836 and an accounting deferred loss of \$462,084. In accordance with GASB No. 23, "*Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*," the deferred loss on refunding of \$462,084 is being amortized over the life of the bond issue and is netted as a contra account against the bonds payable on the financial statements.

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

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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

December 31,	Principal	Interest	Total
2003	\$ 665,000	\$ 1,683,720	\$ 2,348,720
2004	695,000	1,653,760	2,348,760
2005	730,000	1,622,130	2,352,130
2006	760,000	1,588,500	2,348,500
2007	795,000	1,570,012	2,365,012
Thereafter	30,135,000	19,204,213	49,339,213
	\$33,780,000	\$ 27,322,335	\$ 61,102,335

6. PENSION PLAN

Description of Plan

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

The plan is available to any person employed on a full-time, permanent basis by the Authority. Pension benefits become 100 percent vested after the completion of 5 years of credited service. Eligibility for the normal retirement benefit is after the attainment of age 65 and completion for 15 years of credited service or attains age 62 and completes 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, 2001, participants in the plan were as follows:

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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

Active	26
In payment status:	
Retirement benefits	3
Disability benefits	1
Deferred	1
Total	31

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.

Three-Year Trend Information

Ending	Cost (APC)	Contributed
12/31/2000	\$ 82,051	102%
12/31/2001	82,051	100%
12/31/2002	81,709	100%

No material pension obligation (asset) exists for the plan at December 31, 2002, 2001, and 2000.

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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

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, 2002, 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. The total assets held in the deferred compensation plan as of December 31, 2002 and 2001 were \$179,169 and \$161,981, respectively. 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. CONTINGENCIES AND COMMITMENTS

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.

In addition, former officials of the Authority are under investigation for a variety of matters relating to activities that occurred during 2000 and prior years. The impact on the financial position of the Authority as a result of the investigation can not presently be determined but is not expected to be significant.

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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

Commitments

The Authority is involved in various contracts related to the construction of the sewer system. Construction commitments related to this project at December 31, 2002 and 2001 amounted to approximately \$2,600,000 and \$3,000,000, respectively.

9. 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.

10. FINANCIAL POSITION

Through cost containment measures began in 2001 and continued through 2002, along with the merger of 843 Alcosan customers into the Authority's rate payment system and an increase in sewer rates, the Authority was able to achieve significant net income in 2002. This reversed the trend of significant net losses from 2000 and 2001 and allowed the Authority to regain positive retained earnings as of December 31, 2002.

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
1/1/97	\$ 666,537	\$ 956,384	\$ (289,847)	69.69%	\$ 648,050	(44.73)%
1/1/99	829,170	1,357,220	(528,050)	61.09%	1,053,447	(50.13)%
1/1/01	1,043,139	1,524,953	(481,814)	68.40%	1,036,770	(46.47)%

Source: Actuarial reports

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

See accompanying note to the supplementary pension schedules.

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYERS AND OTHER CONTRIBUTING ENTITIES

FOR THE YEAR ENDED DECEMBER 31, 2002

<u>Year Ended December 31,</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
1998	\$ 41,688	101%
1999	46,821	293%
2000	82,051	102%
2001	82,051	100%
2002	81,709	100%

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

See accompanying note to supplementary pension schedules.

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

NOTE TO THE SUPPLEMENTARY PENSION SCHEDULES

DECEMBER 31, 2002

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	1/1/01
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar Closed
Amortization period	N/A
Asset valuation method	Fair Value
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	N/A

N/A = not applicable

ADDITIONAL INFORMATION

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

ANALYSIS OF OPERATING REVENUES AND EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2002

	2002	2001
Operating Revenues:		
Sewage rentals	\$ 5,412,267	\$ 3,936,031
Refunds	350	42,487
Total operating revenues	\$ 5,412,617	\$ 3,978,518
Operating Expenses:		
Sewer system operation:		
Sewage treatment plants	\$ 321,496	\$ 388,419
Utilities	347,521	369,940
Sewer crew expenses	22,525	30,616
Pretreatment expenses	1,056	1,553
Payroll	1,248,581	1,128,933
Payroll taxes	98,971	81,355
Benefits	299,586	280,773
Office supplies	6,355	6,201
Communications	25,361	24,628
Postage	7,269	2,872
Advertisements	1,068	2,190
Printing	2,312	1,077
Fee collection costs	220,440	173,829
Engineering fees	23,319	65,656
Insurance	91,291	114,047
Seminars	1,597	4,615
Professional services	46,593	47,451
Refunds	406	4,253
Miscellaneous expenses	54,836	7,498
Purchased sewer treatment	205,032	15,999
Depreciation	822,229	726,214
Total operating expenses	\$ 3,847,844	\$ 3,478,119