

WEST MIFFLIN
SANITARY SEWER
MUNICIPAL AUTHORITY

FINANCIAL STATEMENTS
AND
REQUIRED SUPPLEMENTARY
AND
ADDITIONAL INFORMATION

YEARS ENDED DECEMBER 31, 2004 AND 2003

WITH

INDEPENDENT AUDITOR'S REPORT

MAHER DUESSEL
CERTIFIED PUBLIC ACCOUNTANTS

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

YEARS ENDED DECEMBER 31, 2004 AND 2003

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Independent Auditor's Report

Board of Directors
West Mifflin Sanitary Sewer Municipal Authority

We have audited the financial statements of the West Mifflin Sanitary Sewer Municipal Authority (Authority) as of and for the years ended December 31, 2004 and 2003, 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2 to the financial statements, the Authority adopted provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*," GASB Statement No. 37, "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*," and GASB Statement No. 38, "*Certain Financial Statement Note Disclosures*."

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

The pension information presented in the supplementary schedules and note to the supplementary pension schedules listed in the table of contents are supplementary

Board of Directors
West Mifflin Sanitary Sewer Municipal Authority
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information required by GASB. 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 20 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 22, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUDIT ASSURANCE

The unqualified (i.e. clean) opinion of our independent auditors, Maher Duessel, Certified Public Accountants, is included in this report. You will note that the West Mifflin Sanitary Sewer Municipal Authority (Authority) has included for 2004 the Management's Discussion and Analysis section, which is in compliance with Statement No. 34 of the Government Accounting Standards Board.

FINANCIAL HIGHLIGHTS

While the Authority faced a number of financial challenges, which were outside of its control, the Authority remained in compliance with all debt covenants required by its borrowing agreements. Additionally, a continued local economic downturn and extraordinarily wet weather conspired to reduce both commercial and recreational consumption of water. The following are key financial highlights during 2004.

- The State of Pennsylvania Department of Environmental Protection eliminated the long standing Act 339 Operating Grant Program which the Authority received \$515,229 in 2002 and can no longer budget for because of the program elimination.
- Due to local economic and wet weather conditions during the peak consumption months, billed flow decreased 18,668,000 gal or a 2.5% decrease in billed flow from 2003. The end result was a \$136,000 or 2.6 % decrease in operating revenues for 2004.
- In 2004, the Authority treated 1,299,765,000 gal for 8,405 customers at its two wastewater treatment plants which 649,205,600 gal was billed. The Authority also directly bills 833 customers who have their wastewater treated at ALCOSAN. These 833 customers were billed approximately 76,107,000 gal. The Authority billed for 49.9% of the water it treated. During 2003, the Authority treated 1,228,590,000 gal for whom it billed 667,780,000 gal, or 54.4%, of what was treated was actually billed to customers. The difference between what is treated vs. that which is billed is attributed to direct inflow of storm water from groundwater infiltration into the system from old and deteriorating sewer lines throughout the service area.
- In 2004, the Authority changed the way it billed large residential (>200 units) commercial properties that have one or two water meters. These properties are being billed as if each unit was an individual user. This reduced the impact of the

large consumption users from the current billing structure. This is partially the reason that the billed consumption for 2004 was less than that for 2003.

- During 2004, the Authority paid \$695,000 in principal on its outstanding Sewer Revenue Bonds. And therefore \$32,420,000 remains outstanding.
- The Authority had an increase cost of operations in 2004 by \$11,142 over 2003. Utility, insurance, and wage/benefit increases due to a new labor agreement signed with Teamsters Local 636 in December 2003, and delinquent water collections account for the majority of the increase in operating cost.
- Revenues decreased by \$262,905 due to change in water consumption, billing procedures, and demographics.
- The Authority maintained compliance with all debt covenants required by the governing Trust Indentures.
- The Authority essentially completed and placed into service over \$600,000 in sewer system and treatment plant improvements in 2004.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the Authority are compiled using the Enterprise Fund method of accounting which is similar to the methods used by private sector companies. These statements offer short-term and long-term financial information about its activities.

The statement of net assets includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to Authority creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Authority, and assessing the liquidity and financial flexibility of the Authority.

All of the current year's revenue and expenses are accounted for in the statement of operating revenues, expenses, and changes in net assets. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all its costs through its sewage disposal rates and other fees. The Authority's rate studies are updated periodically to reflect both the operating and long-term capital requirements of the Authority. The most recent rate study was completed in mid 2002.

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

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events, if any.

SUMMARY OF ORGANIZATION AND BUSINESS

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

The Thompson Run Treatment Plant and Authority Offices are located at 1302 Lower Bull Run Road, West Mifflin, PA. The Authority also operates an additional treatment facility at 2439 New England Hollow Road. The Authority operates and maintains over 100 miles of interceptor and collector sewers, and 14 pumping or lift stations throughout the service area. A small portion of the sewer system is connected to the Jefferson Hills sewage system that is treated at the Clairton Municipal Authority Treatment Plant. These 40 accounts are currently billed by Jefferson Hills to the individual customer directly. Although the Authority owns the sanitary sewers it does not collect any fees to operate them or maintain them. The Authority's service area covers over 14 square miles in Allegheny County.

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

FINANCIAL ANALYSIS

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

Condensed Statement of Net Assets
(In Millions of Dollars)

<u>Assets</u>	<u>2004</u>	<u>2003</u>	<u>\$ Change</u>	<u>% Change</u>
Current assets	\$ 3,140,012	\$ 3,244,691	\$ (104,679)	-3%
Restricted assets	6,615,327	7,098,225	(482,898)	-7%
Capital assets	23,028,194	23,002,149	26,045	0%
Other assets	1,586,872	1,584,004	2,868	0%
Total assets	\$ 34,370,405	\$ 34,929,069	\$ (558,664)	
<u>Liabilities and Net Assets</u>				
Liabilities:				
Current liabilities	\$ 1,676,022	\$ 1,758,109	\$ (82,087)	-5%
Long term liabilities	31,722,437	32,446,971	(724,534)	-2%
Total Liabilities	33,398,459	34,205,080	(806,621)	
Net Assets:				
Invested in capital assets, net of related debt	(7,837,371)	(8,555,818)	718,447	-8%
Restricted net assets	5,939,439	6,409,158	(469,719)	-7%
Unrestricted net assets	2,869,878	2,870,649	(771)	0%
Total Net Assets	971,946	723,989	247,957	
Total Liabilities and Net Assets	\$ 34,370,405	\$ 34,929,069	\$ (558,664)	

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

	2004	2003	\$ Change	% Change
Operating revenues	\$ 5,392,672	\$ 5,655,577	\$ (262,905)	-5%
Non-operating revenue	217,099	271,048	(53,949)	-20%
Total revenues	5,609,771	5,926,625	(316,854)	-5%
Operating expenses	4,150,911	4,139,769	11,142	0%
Non-operating expense	1,757,220	1,799,735	(42,515)	-2%
Total expenses	5,908,131	5,939,504	(31,373)	-1%
Income before capital contribution revenues	(298,360)	(12,879)	(285,481)	2217%
Capital contribution Revenues	546,317	22,648	523,669	2312%
Change in net assets	247,957	9,769	238,188	2438%
Net assets, beginning of year	723,989	714,220	9,769	1%
Net assets, end of year	\$ 971,946	\$ 723,989	\$ 247,957	34%

OTHER SELECTED INFORMATION

	2004	2003	Difference
<u>Selected Data:</u>			
Authorized employees	27	27	0
Actual employees at year-end	27	27	0
Wastewater treated (billions of gallons)	1,299,765,000	1,228,590,000	71,175,000
Wastewater billed (billions of gallons)	649,205,600	667,780,000	(18,574,400)
Percentage of billed/treated wastewater	49.95%	54.35%	-4.41%
<u>Rates:</u>			
Residential fee	\$13.00	\$13.00	
Commercial fee	\$21.00	\$21.00	
First 2,000 gallons/thousand	\$2.50	\$2.50	
next 13,000 gallons/thousand	\$3.00	\$3.00	
15,001-100,000 gallons/thousand	\$9.00	\$9.00	
over 100,001 gallons/thousand	\$11.50	\$11.50	
<u>Average Residential Customer Bill:</u>			
Per year	\$360.00	\$360.00	\$0.00
Per month	\$30.00	\$30.00	\$0.00

GENERAL TRENDS AND SIGNIFICANT EVENTS

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

Authority compliance costs related to the ALCOSAN area Consent Order have been estimated to be between \$2 and \$3 million. Over the past several years, the ALCOSAN and the Allegheny County Health Department through joint effort have created the 3 Rivers Wet Weather Demonstration Project (3 Rivers) in order to encourage innovative, less expensive methods of sewer repair and foster cooperative arrangements among municipalities that share the same watersheds drainage basins. The Authority is an active participant in the 3 Rivers program. The Authority General Manager serves on the Stakeholders, Southern Basin Managers, and Southern Basin Group Committees of the 3 Rivers program. Cooperation among neighboring communities is expected to help reduce the overall compliance cost to the Authority.

FINANCIAL CONDITION

As already noted, the Authority was negatively impacted by the loss of the Pennsylvania Act 339 Operating Grant and unusually wet weather during the spring, summer, and fall months. The Authority was able to remain in compliance with all of its debt service requirements mandated under the existing Trust Agreements.

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

RESULTS OF OPERATIONS

Operating Revenue:

In 2004, 100% of operating revenue was derived from customer billing for sewage treatment service. This includes residential commercial and industrial clients as well as hauled in sewage sludge from other communities.

Operating Expenses:

Total operating expense, before depreciation was \$3,291,770 in 2004 vs \$3,311,393 in 2003. In 2004, operating expenses increased in fuel surcharges, engineering fees, insurance, and professional services. They were effectively offset by reductions in sewer plant operations, sewer crew expenditures, and utilities. This is an illustration of the efforts by the employees of the Authority to find the least costly item to purchase and then when only absolutely necessary.

Depreciation and Non-Operating Expenses:

The Authority had a depreciation expense of \$859,141 on plants and equipment. The Authority completed the Delwar Road Sewer Project and two projects on the Streets Run Interceptor. The Streets Run projects in one instance are a joint project with Baldwin Borough, Brentwood Borough, and Whitehall Borough. In the other instance, it is a joint project with all of the three communities and the City of Pittsburgh Water and Sewer Authority. The Authority also completed a vactor unloading station and replace the muffin monster at the Thompson Run Plant, new headworks at the New England Plant, and relined the wet well at the Airport Pump Station. These improvements exceeded \$1 million.

Litigation Contingency:

The Authority has no current litigation contingency.

DEBT

At year-end, the Authority had \$32.42 million in long-term debt.

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

FINAL COMMENTS

While fiscal year 2004 presented financial challenges, the Board and the Authority staff worked hard to position the Authority for the future. While the loss of the Act 339 Operating Grant and higher than usual precipitation had a negative impact on its revenue stream, the Authority responded by taking advantage of cost cutting through the implementation and use of new technologies and operating procedures.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGER

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

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

STATEMENTS OF NET ASSETS

DECEMBER 31, 2004 AND 2003

	Assets			Liabilities and Net Assets		
	2004	2003		2004	2003	
Current assets:			Liabilities:			
Cash and cash equivalents	\$ 2,386,608	\$ 2,401,446	Current liabilities:			
Accounts receivable	729,784	816,087	Accounts payable	\$ 58,318	\$ 189,204	
Interest receivable	23,620	27,158	Accrued payroll	13,477	9,002	
Total current assets	3,140,012	3,244,691	Accrued compensated absences	198,339	175,836	
Restricted assets:			Current portion of long-term debt	730,000	695,000	
Special accounts	2,688,103	2,996,217	Total current liabilities	1,000,134	1,069,042	
Debt service accounts	3,927,224	4,102,008	Current liabilities (payable from restricted assets):			
Total restricted assets	6,615,327	7,098,225	Bond interest payable	675,888	689,067	
Capital assets (at cost)	26,849,467	26,232,598	Long-term liabilities:			
Less: accumulated depreciation	(4,031,091)	(3,278,455)	Deferred fee	351,996	368,564	
Construction in progress	209,818	48,006	Bonds payable (net of deferred loss on advance refunding of \$319,559 and \$341,593 for 2004 and 2003, respectively)	31,370,441	32,078,407	
Total capital assets (at cost)	23,028,194	23,002,149	Total long-term liabilities	31,722,437	32,446,971	
Other assets:			Total Liabilities	33,398,459	34,205,080	
Deferred charges (net of amortization of \$37,920 and \$33,459 for 2004 and 2003, respectively)	95,921	100,382	Net Assets:			
Bond issue costs (net of amortization of \$574,030 and \$483,866 for 2004 and 2003, respectively)	1,276,153	1,366,297	Invested in capital assets, net of related debt	(7,837,371)	(8,555,818)	
Cost of sewer capacity improvements, (net of amortization of \$11,612 and \$5,951 for 2004 and 2003, respectively)	214,798	117,325	Restricted net assets	5,939,439	6,409,158	
Total other assets	1,586,872	1,584,004	Unrestricted net assets	2,869,878	2,870,649	
Total Assets	\$ 34,370,405	\$ 34,929,069	Total Net Assets	971,946	723,989	
			Total Liabilities and Net Assets	\$ 34,370,405	\$ 34,929,069	

See accompanying notes to financial statements.

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	2003
Operating Revenues:		
Sewer rentals	\$ 5,392,672	\$ 5,655,577
Operating Expenses:		
Sewer system operation	3,079,743	3,105,935
Purchased sewer treatment	212,027	205,458
Depreciation and amortization	859,141	828,376
Total operating expenses	4,150,911	4,139,769
Operating Income	1,241,761	1,515,808
Nonoperating Revenues (Expenses):		
Interest income	161,243	216,253
Other revenue	55,856	54,795
Interest on sewer revenue bonds	(1,679,644)	(1,711,796)
Amortization of bond issue costs and deferred charges	(77,576)	(87,939)
Total nonoperating revenues (expenses)	(1,540,121)	(1,528,687)
Income (Loss) Before Capital Contribution Revenues	(298,360)	(12,879)
Capital Contribution Revenues:		
Tapping/connection fees	49,208	22,648
Contributions	497,109	-
Total capital contribution revenues	546,317	22,648
Changes in Net Assets	247,957	9,769
Net Assets:		
Beginning of year	723,989	714,220
End of year	\$ 971,946	\$ 723,989

See accompanying notes to financial statements.

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	2003
Cash Flows From Operating Activities:		
Cash received from customers	\$ 5,478,975	\$ 5,848,537
Cash payments for operating expenses	(3,395,678)	(3,213,203)
Net cash provided by (used in) operating activities	2,083,297	2,635,334
Cash Flows From Noncapital Financing Activities:		
Other	208,396	73,159
Net cash provided by (used in) noncapital financing activities	208,396	73,159
Cash Flows From Capital and Related Financing Activities:		
Interest paid on debt	(1,709,391)	(1,683,720)
Interest received on restricted bond funds	113,243	168,740
Acquisition of sewer capacity improvements	(103,133)	(123,277)
Capital assets and related purchases	(446,686)	(110,484)
Payment of bond principal	(695,000)	(665,000)
Net cash provided by (used in) capital and related financing activities	(2,840,967)	(2,413,741)
Cash Flows From Investing Activities:		
Sale of investments	482,898	58,911
Interest earned	51,538	30,945
Net cash provided by (used in) investing activities	534,436	89,856
Increase (Decrease) in Cash and Cash Equivalents	(14,838)	384,608
Cash and Cash Equivalents:		
Beginning of year	2,401,446	2,016,838
End of year	\$ 2,386,608	\$ 2,401,446
Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities:		
Operating income	\$ 1,241,761	\$ 1,515,808
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation and amortization	859,141	828,376
Change in operating assets:		
Accounts receivable	86,303	192,960
Change in operating liabilities:		
Accounts payable	(130,886)	119,078
Accrued payroll and withholdings	4,475	(45,513)
Accrued compensated absences	22,503	24,625
Net cash provided by (used in) operating activities	\$ 2,083,297	\$ 2,635,334
Non-Cash:		
Contributions of capital assets	\$ 432,839	\$ -

See accompanying notes to financial statements.

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004 AND 2003

1. REPORTING ENTITY

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of Accounting and Measurement Focus

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

Statements of Cash Flows

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

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004 AND 2003

Restricted Assets

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

Capital Assets

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

Bond Issue Costs

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

Sick Leave

Employees of the Authority earn and are entitled to accumulate sick days based on length of service. The Authority has established a liability of \$198,339 and \$175,836 for 2004 and 2003, respectively for compensated absences that are eligible for payment upon termination.

GAAP Hierarchy

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

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004 AND 2003

Net Assets

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

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted – This component of net assets consists of constraints placed on net assets use through external restrictions. The Authority had restricted net assets of \$5,939,439 and \$6,409,158 at December 31, 2004 and 2003, respectively. These amounts are restricted for the debt covenants and the bond trustees.
- Unrestricted – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Adoption of Pronouncements

During fiscal year 2004, the Authority adopted the provisions of GASB Statement No. 34, "*Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*," GASB Statement No. 37, "*Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*," and GASB Statement No. 38, "*Certain Financial Statement Note Disclosures*." These Statements establish accounting and financial reporting standards for external financial reporting by state and local governments as well as specific standards for the financial statements, Management’s Discussion and Analysis (MD&A), and certain required supplementary information (RSI) other than MD&A.

The most significant changes involve presenting the Authority’s statements of cash flows using the direct method, presentation of net assets and presenting a Management’s Discussion and Analysis section.

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004 AND 2003

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, 2004 and 2003, 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 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, 2004:

	Total Category 1	Total Category 3	Bank Balance	Carrying Amount
Deposits	\$ 200,000	\$ 2,031,246	\$ 2,231,246	\$ 2,225,843

At December 31, 2003:

	Total Category 1	Total Category 3	Bank Balance	Carrying Amount
Deposits	\$ 100,000	\$ 2,155,778	\$ 2,255,778	\$ 2,242,244

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004 AND 2003

Investments

GASB requires disclosure of investments (including certain amounts qualifying for classification as "cash and cash equivalents" for purposes of the statements of net assets and statements of cash flows) delineated in prescribed categories intended to give some indication of the level or risk assumed by the Authority.

At December 31, 2004 and 2003, all categorized Authority investments (summarized below) met the criteria for Category 2, which includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or its trust department or agent in the Authority's name. Category 1 would include investments that are insured or registered or for which securities are held by the Authority or its agent in the Authority's name. Category 3 would include uninsured and unregistered investments for which the securities are held by the broker or dealer, or its trust department or agent, but not in the Authority's name.

	2004	2003
	<u>Fair Value</u>	<u>Fair Value</u>
Categorized investments:		
Repurchase agreement	\$ 1,104,964	\$ 1,104,964
Cash equivalent mortgage backed and other asset backed securities	206,000	185,000
Cash equivalent corporate debt securities	790,000	785,000
Uncategorized investments:		
Money market funds	1,934,348	2,478,217
Collective pooled investments	<u>2,740,780</u>	<u>2,704,246</u>
Total investments	<u>\$ 6,776,092</u>	<u>\$ 7,257,427</u>

All investments are carried at fair value at December 31, 2004 and December 31, 2003.

Of the collective pooled investments shown above, \$160,765 and \$159,202 are presented on the statements of net assets, along with deposits of \$2,225,843 and \$2,242,244, as aggregate cash and cash equivalents of \$2,386,608 and \$2,401,446 at December 31, 2004 and 2003, respectively.

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004 AND 2003

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: 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 are not SEC-registered are subject to oversight by the Commonwealth of Pennsylvania.

4. CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	Balance at December 31, 2003	Additions	Transfers/ Deletions	Balance at December 31, 2004
Capital assets, not being depreciated				
Construction in progress	\$ 48,006	\$ 186,888	\$ (25,076)	\$ 209,818
Capital assets, being depreciated				
Plant and system	24,969,141	613,976	(51,490)	25,531,627
Vehicles and equipment	370,471	77,705	(49,354)	398,822
Other capital improvements	892,986	26,032	-	919,018
Total capital assets, being depreciated	26,232,598	717,713	(100,844)	26,849,467
Less accumulated depreciation	(3,278,455)	(853,480)	100,844	(4,031,091)
Total capital assets, being depreciated, net	22,954,143	(135,767)	-	22,818,376
Total capital assets, net	\$ 23,002,149	\$ 51,121	\$ (25,076)	\$ 23,028,194

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004 AND 2003

	Balance at December 31, 2002	Additions	Transfers/ Deletions	Balance at December 31, 2003
Capital assets, not being depreciated				
Construction in progress	\$ 287,477	\$ 205,773	\$ (445,244)	\$ 48,006
Capital assets, being depreciated				
Plant and system	24,675,592	293,549	-	24,969,141
Vehicles and equipment	342,483	27,988	-	370,471
Other capital improvements	864,568	28,418	-	892,986
Total capital assets, being depreciated	25,882,643	349,955	-	26,232,598
Less accumulated depreciation	(2,456,031)	(822,424)	-	(3,278,455)
Total capital assets, being depreciated, net	23,426,612	(472,469)	-	22,954,143
Total capital assets, net	\$ 23,714,089	\$ (266,696)	\$ (445,244)	\$ 23,002,149

5. LONG-TERM DEBT

Current interest bonds payable at December 31, 2004 are composed of the following individual issues:

Sewer Revenue Bonds	Balance at December 31, 2003	Retirements	Balance at December 31, 2004	Due Within One Year
1996	\$ 2,515,000	\$ (305,000)	\$ 2,210,000	\$ 320,000
1998	30,600,000	(390,000)	30,210,000	410,000
	\$ 33,115,000	\$ (695,000)	\$ 32,420,000	\$ 730,000

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004 AND 2003

Guaranteed Sewer Revenue Bonds, Series of 1996 due in annual principal installments or mandatory sinking fund payments through August 1, 2010.	\$ 2,210,000
Sewer Revenues Bonds, Series of 1998 due in annual principal installments or mandatory sinking fund payments through August 1, 2028.	<u>30,210,000</u>
	<u>32,420,000</u>
Less: deferred loss on advance refunding	(319,559)
Less: current portion	<u>(730,000)</u>
Total bonds payable	<u><u>\$31,370,441</u></u>

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 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

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004 AND 2003

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:

<u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 730,000	\$ 1,622,130	\$ 2,352,130
2006	760,000	1,588,500	2,348,500
2007	795,000	1,552,928	2,347,928
2008	840,000	1,511,380	2,351,380
2009	885,000	1,467,018	2,352,018
2010-2014	5,150,000	6,604,150	11,754,150
2015-2019	6,555,000	5,191,500	11,746,500
2020-2024	8,370,000	3,380,000	11,750,000
2025-2028	8,335,000	1,067,249	9,402,249
	<u>\$ 32,420,000</u>	<u>\$ 23,984,855</u>	<u>\$ 56,404,855</u>

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

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004 AND 2003

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 attainment of age 62 and completion of 25 years of credited service. The accrued benefit is equal to \$40 times years of credited service at determination. The normal form of payment is a monthly pension benefit payable for life with 120 payments guaranteed.

At January 1, 2003, participants in the plan were as follows:

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

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

Funding Status and Progress

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

For the year ended December 31, 2004, the following plan information is presented:

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004 AND 2003

Actuarial valuation date	1/1/2003
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar Closed
Amortization period	12 years
Asset valuation method	4 Year Smoothing
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	0.00%
Underlying inflation rate	3.00%

Three-Year Trend Information

<u>Year</u> <u>Ending</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage of</u> <u>APC Contributed</u>
12/31/2002	\$ 85,709	100%
12/31/2003	88,127	100%
12/31/2004	84,292	100%

Net pension assets, the amount the plan has been funded in excess of required contributions, of \$79,228, \$74,928, and \$70, 861 exist for the plan at December 31, 2004, 2003, and 2002, respectively.

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

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004 AND 2003

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, 2004, 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 statement of net assets.

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.

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004 AND 2003

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, 2004 amounted to approximately \$350,000.

Consent Order

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

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.

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
1/1/1999	\$ 829,170	\$ 1,357,220	\$ (528,050)	61.09%	\$ 1,053,447	(50.13)%
1/1/2001	1,043,139	1,524,953	(481,814)	68.40%	1,036,770	(46.47)%
1/1/2003	1,132,487	1,638,664	(506,177)	69.11%	1,213,976	(41.70)%

Source: Actuarial reports

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

See accompanying note to the supplementary pension schedules.

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYERS AND OTHER CONTRIBUTING ENTITIES

YEAR ENDED DECEMBER 31, 2004

<u>Year Ended December 31,</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
1999	\$ 46,821	293%
2000	82,051	102%
2001	82,051	100%
2002	81,709	100%
2003	83,827	100%
2004	80,225	100%

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

See accompanying note to supplementary pension schedules.

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NOTE TO THE SUPPLEMENTARY PENSION SCHEDULES

YEAR ENDED DECEMBER 31, 2004

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	1/1/2003
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar Closed
Amortization period	12 years
Asset valuation method	4 Year Smoothing
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	0.00%
Underlying inflation rate	3.00%

ADDITIONAL INFORMATION

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

ANALYSIS OF OPERATING REVENUES AND EXPENSES

YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	2003
Operating Revenues:		
Sewage rentals	\$ 5,390,966	\$ 5,652,303
Refunds	1,706	3,274
Total operating revenues	\$ 5,392,672	\$ 5,655,577
Operating Expenses:		
Sewer system operation:		
Sewage treatment plants	\$ 302,426	\$ 398,433
Utilities	375,437	357,075
Sewer crew expenses	13,225	48,793
Pretreatment expenses	1,605	407
Payroll	1,364,556	1,301,840
Payroll taxes	106,202	104,374
Benefits	359,184	358,758
Office supplies	9,909	13,055
Communications	23,420	26,634
Postage	3,658	4,104
Advertisements	1,482	1,829
Printing	207	527
Fee collection costs	240,393	258,389
Engineering fees	46,948	39,859
Insurance	184,961	145,142
Seminars	2,990	5,611
Professional services	42,303	39,018
Refunds	-	1,247
Miscellaneous expenses	837	840
Purchased sewer treatment	212,027	205,458
Depreciation	859,141	828,376
Total operating expenses	\$ 4,150,911	\$ 4,139,769