WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

FINANCIAL STATEMENTS

AND

REQUIRED SUPPLEMENTARY

AND

ADDITIONAL INFORMATION

YEARS ENDED DECEMBER 31, 2005 AND 2004

WITH

INDEPENDENT AUDITOR'S REPORT

MAHER DUESSEL

CERTIFIED PUBLIC ACCOUNTANTS

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

YEARS ENDED DECEMBER 31, 2005 AND 2004

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MAHER DUESSEL
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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, 2005 and 2004, 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, 2005 and 2004, 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.

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

Board of Directors
West Mifflin Sanitary Sewer Municipal Authority
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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 23 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.

Maher Duessel

April 14, 2006

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 Authority has included for 2005 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 West Mifflin Sanitary Sewer Municipal 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 reduced both commercial and recreational consumption of water. The following are key financial highlights during 2005.

- The State of Pennsylvania Department of Environmental Protection eliminated the long standing Act 339 Operating Grant Program which the Authority received $515,229.32 in 2002 and can no longer budget for because of the program elimination.

- Billed flow showed an increase of 94,412,000 gal or a 14% increase in billed flow from 2004. However, due to the change in how the sewer rates are applied to multifamily residential facilities with over 200 units, which was instituted in late 2004, the end result was a $10,277 or <1 % decrease in sewage rental revenue for 2005.

- In 2005, the Authority treated 1,078,622,000 gal for 7,355 customers at its two wastewater treatment plants which 743,618,300 gal was billed. The Authority also direct bills 825 customers who have their wastewater treated at ALCOSAN. These 825 customers were billed approximately 95,263,600 gal. The Authority billed for 69% of the water it treated. During 2004, the Authority treated 1,299,765,000 gal for whom it billed 649,205,600 gal, or 49.9%, 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.

- During 2005, the Authority paid $730,000 in principal on its outstanding Sewer Revenue Bonds. And therefore $31,690,000 remains outstanding.

- The Authority had an increase cost of operations in 2005 by $234,649 over 2004. Utility, engineering, equipment replacement, and wage/benefit increases due to the labor agreement signed with Teamsters Local 636 in December 2003, and sewer crew expenses related to the ALCOSAN Service Area Consent Order account for the majority of the increase in operating cost.

- Total Operating Revenues were flat, decreased by only $7,806 due to changes 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 or was under construction over $425,000 in sewer system and treatment plant improvements in 2005.

REQUIRED FINANCIAL STATEMENTS

The financial statement of the Authority reports information about the Authority's use of accounting methods that are similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities.

The Statement of Net 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)

	2005	2004	$ Change	% Change
Assets				
Current assets	$ 3,641,227	$ 3,140,012	$ 501,215	16%
Restricted assets	6,348,534	6,615,327	(266,793)	-4%
Capital assets	22,767,374	23,028,194	(260,820)	-1%
Other assets	1,752,779	1,586,872	165,907	10%
Total Assets	$ 34,509,914	$ 34,370,405	$ 139,509	
Liabilities and Net Assets				
Liabilities:				
Current liabilities	$ 2,006,957	$ 1,676,022	$ 330,935	20%
Long-term liabilities	31,925,718	31,722,437	203,281	1%
Total Liabilities	33,932,675	33,398,459	534,216	
Net Assets:				
Invested in capital assets, net of related debt	(8,192,606)	(7,837,371)	(355,235)	5%
Restricted net assets	5,686,659	5,939,439	(252,780)	-4%
Unrestricted net assets	3,083,186	2,869,878	213,308	7%
Total Net Assets	577,239	971,946	(394,707)	
Total Liabilities and Net Assets	$ 34,509,914	$ 34,370,405	$ 139,509	

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

	2005	2004	$ Change	% Change
Operating revenues	$ 5,384,866	$ 5,392,672	$ (7,806)	0%
Non-operating revenues	306,736	217,099	89,637	41%
Total revenues	5,691,602	5,609,771	81,831	1%
Operating expenses	4,385,560	4,150,911	234,649	6%
Non-operating expenses	1,722,525	1,757,220	(34,695)	-2%
Total expenses	6,108,085	5,908,131	199,954	3%
Income before capital contribution revenues	(416,483)	(298,360)	(118,123)	40%
Capital contribution revenues	21,776	546,317	(524,541)	-96%
Change in net assets	(394,707)	247,957	(642,664)	-259%
Net assets, beginning of year	971,946	723,989	247,957	34%
Net assets, end of year	$ 577,239	$ 971,946	$ (394,707)	-41%

OTHER SELECTED INFORMATION

	2005	2004	Difference	%Change
Selected Data:				
Authorized Employees	29	27	2	7.41%
Actual Employees at year-end	29	27	2	7.41%
Wastewater Treated (billons of gallons)	1.0786	1.2997	-0.2211	-17.01%
Wastewater Billed (billions of gallons)	0.740818	0.649205	0.091613	14.11%
Percentage of Billed/Treated Wastewater	68.68%	49.95%	18.73%	37.50%
Rates:				
Residential Fee	$13.00	$13.00		
Commercial Fee	$21.00	$21.00		0.00%
First 2,000 gallons/thousand	$2.50	$2.50		
Next 13,000 gallons/thousand	$3.00	$3.00		0.00%
15,001-100,000 gallons/thousand	$9.00	$9.00		
Over 100,001 gallons/thousand	$11.50	$11.50		
Average Residential Customer Bill:				
Per year	$360.00	$360.00	$0.00	0.00%
Per month *	$30.00	$30.00	$0.00	0.00%

* Based on 6,000 Gallons per month

GENERAL TRENDS AND SIGNIFICANT EVENTS

Over the last few years, the Authority has been in discussions with the representatives of the U.S. EPA, Pennsylvania Department of Environmental Protection, and the Allegheny County Health Department (the "Agencies") regarding wet weather overloads in the sanitary sewer system resulting in discharges into the service area waterways. The discharges, in the form of pump station by-passes and sanitary sewer overflows were originally designed into the Authority's system to prevent the treatment plant from being damaged by flooding during wet weather events. Today, these overflows are considered illegal under the federal Clean Water Act and the Pennsylvania Clean Streams Law. 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, 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's 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 in 2002. 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 2005, 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 $3,504,594 in 2005 vs. $3,291,770 in 2004. In 2005, operating expenses increased due to increases in fuel costs and surcharges, engineering fees, and sewer crew expense related to consent order compliance. They were somewhat offset by reductions in sewer plant operations, insurance, and collection fee costs. Plant operating cost reductions consist 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 $880,966 on plants and equipment. The Authority completed the cleaning out of the aerobic digester, the Headworks, and some pipe modifications at the New England Treatment Plant in 2005. The channel monster was replaced at the Thompson Run Treatment Plant and the Homeville Interceptor Rehabilitation project was begun in 2005. These improvements exceeded $500,000 in capital expenditures. Significant expenditures in engineering design were extended in 2005 with construction scheduled to begin in 2006 and later.

Litigation Contingency:

The Authority has no current Litigation Contingency.

DEBT

At year-end, the Authority had $31.69 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 2005 presented financial challenges, the Board of Directors and the Authority staff worked hard to position the Authority for the future. While the loss of the Act 339 Grant and reductions in water consumption by our customers 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, 2005 AND 2004

Assets

	2005	2004
Current assets:		
Cash and cash equivalents	$ 2,799,350	$ 2,386,608
Accounts receivable	758,093	729,784
Prepaid expenses	60,524	-
Interest receivable	23,260	23,620
Total current assets	3,641,227	3,140,012
Restricted assets:		
Special accounts	2,377,947	2,688,103
Debt service accounts	3,970,587	3,927,224
Total restricted assets	6,348,534	6,615,327
Capital assets (at cost)	27,027,419	26,849,467
Less: accumulated depreciation	(4,863,785)	(4,031,091)
Construction in progress	603,740	209,818
Total capital assets (at cost)	22,767,374	23,028,194
Other assets:		
Deferred charges (net of amortization of $42,381 and $37,920 for 2005 and 2004, respectively)	91,460	95,921
Bond issue costs (net of amortization of $662,365 and $574,030 for 2005 and 2004, respectively)	1,187,818	1,276,153
Cost of sewer capacity improvements (net of amortization of $31,187 and $11,612 for 2005 and 2004, respectively)	473,501	214,798
Total other assets	1,752,779	1,586,872
Total Assets	$ 34,509,914	$ 34,370,405

Liabilities and Net Assets

	2005	2004
Liabilities:		
Current liabilities:		
Accounts payable	$ 311,475	$ 58,318
Accrued payroll	19,299	13,477
Accrued compensated absences	227,267	198,339
Current portion of long-term debt	787,041	730,000
Total current liabilities	1,345,082	1,000,134
Current liabilities (payable from restricted assets):		
Bond interest payable	661,875	675,888
Long-term liabilities:		
Deferred fee	1,042,428	351,996
Note payable	251,237	-
Bonds payable (net of deferred loss on advance refunding of $297,947 and $319,559 for 2005 and 2004, respectively)	30,632,053	31,370,441
Total long-term liabilities	31,925,718	31,722,437
Total Liabilities	33,932,675	33,398,459
Net Assets:		
Invested in capital assets, net of related debt	(8,192,606)	(7,837,371)
Restricted net assets	5,686,659	5,939,439
Unrestricted net assets	3,083,186	2,869,878
Total Net Assets	577,239	971,946
Total Liabilities and Net Assets	$ 34,509,914	$ 34,370,405

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, 2005 AND 2004

	2005	2004
Operating Revenues:		
Sewer rentals	$ 5,384,866	$ 5,392,672
Operating Expenses:		
Sewer system operation	3,266,435	3,079,743
Purchased sewer treatment	238,159	212,027
Depreciation and amortization	880,966	859,141
Total operating expenses	4,385,560	4,150,911
Operating Income	999,306	1,241,761
Nonoperating Revenues (Expenses):		
Interest income	253,490	161,243
Other revenue	47,447	55,856
Interest on sewer revenue bonds	(1,646,432)	(1,679,644)
Amortization of bond issue costs and deferred charges	(76,093)	(77,576)
Income (loss) on swap	5,799	-
Total nonoperating revenues (expenses)	(1,415,789)	(1,540,121)
Income (Loss) Before Capital Contribution Revenues	(416,483)	(298,360)
Capital Contribution Revenues:		
Tapping/connection fees	21,776	49,208
Contributions	-	497,109
Total capital contribution revenues	21,776	546,317
Change in Net Assets	(394,707)	247,957
Net Assets:		
Beginning of year	971,946	723,989
End of year	$ 577,239	$ 971,946

See accompanying notes to financial statements.

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
Cash Flows From Operating Activities:		
Cash received from customers	$ 5,356,557	$ 5,478,975
Cash payments for operating expenses	(3,277,211)	(3,395,678)
Net cash provided by (used in) operating activities	2,079,346	2,083,297
Cash Flows From Noncapital Financing Activities:		
Other	114,928	208,396
Net cash provided by (used in) noncapital financing activities	114,928	208,396
Cash Flows From Capital and Related Financing Activities:		
Interest paid on debt	(1,677,013)	(1,709,391)
Interest received on restricted bond funds	196,599	113,243
Acquisition of sewer capacity improvements	(278,278)	(103,133)
Capital assets and related purchases	(602,162)	(446,686)
Proceeds from swap	707,000	-
Proceeds from note payable	278,278	-
Payment of bond principal	(730,000)	(695,000)
Net cash provided by (used in) capital and related financing activities	(2,105,576)	(2,840,967)
Cash Flows From Investing Activities:		
Sale of investments	266,793	482,898
Interest earned	57,251	51,538
Net cash provided by (used in) investing activities	324,044	534,436
Increase (Decrease) in Cash and Cash Equivalents	412,742	(14,838)
Cash and Cash Equivalents:		
Beginning of year	2,386,608	2,401,446
End of year	$ 2,799,350	$ 2,386,608
Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities:		
Operating income	$ 999,306	$ 1,241,761
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation and amortization	880,966	859,141
Change in operating assets:		
Accounts receivable	(28,309)	86,303
Prepaid expenses	(60,524)	-
Change in operating liabilities:		
Accounts payable	253,157	(130,886)
Accrued payroll and withholdings	5,822	4,475
Accrued compensated absences	28,928	22,503
Net cash provided by (used in) operating activities	$ 2,079,346	$ 2,083,297
Non-Cash:		
Contributions of capital assets	$ -	$ 432,839

See accompanying notes to financial statements.

1. Reporting Entity

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

2. Summary of Significant Accounting Policies

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

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 $227,267 and $198,339 for 2005 and 2004, 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."*

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 $5,686,659 and $5,939,439 at December 31, 2005 and 2004, respectively. These amounts are restricted for the debt covenants.

- 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."

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 as supplemented and amended in 1998. Throughout the years ended December 31, 2005 and 2004, the Authority invested its funds in such authorized investments. The Authority does not have a formal investment policy which addresses custodial credit risk, interest rate risk, credit risk, or concentration of credit risk.

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. As of December 31, 2005, $1,470,953 of the Authority's bank balance of $1,770,953 was exposed to custodial credit risk. This 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. This deposit has a carrying amount of $1,758,484 as of December 31, 2005, all of which is reported as current assets in the statements of net assets.

In addition to the deposit noted above, included in cash and cash equivalents on the statements of net assets are investments with the Pennsylvania Local Government Investment Trust (PGLIT) of $540,866 for 2005. The fair value of the Authority's investments with PLGIT (an external investment pool) is the same as the value of pool shares.

In addition to the deposits noted above, included in cash and cash equivalents on the statement of net assets are short-term investments with INVEST of $500,000. The fair value of the Authority's investments in the external investment pool (INVEST) is the same as the value of the pool shares.

At December 31, 2005, the Authority held the following investment balances:

	Fair Market Value	Maturity in Years: Less than 1 Year
Money markets	$ 1,900,624	$ 1,900,624
Commercial paper	391,000	391,000
U.S. Agencies	574,000	574,000
INVEST	2,377,947	2,377,947
Investment agreements	1,104,963	1,104,963
Total	$ 6,348,534	$ 6,348,534

The fair value of the Authority's investments is the same as their carrying amount.

Investments of $6,348,534 are included as non-current restricted investments on the statement of net assets. The fair value of the Authority's investments in the external investment pool (INVEST) is the same as the value of the pool shares.

Interest Rate Risk – Interest rate risk is the risk that changes in the interest rates will adversely affect the fair market value of the Authority's investments. The Authority is not subject to interest rate risk as all of its investments at December 31, 2005 had maturities of less than one year.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. As of December 31, 2005, the Authority's investments in the state investment pool (INVEST) and the guaranteed investment contracts were rated AAA by Standard & Poor's. The majority of the Authority's investments in commercial paper were rated A1+ by S&P. The Authority also held $574,000 of FNMA and FHLMC investments which were rated Aaa by Moody's. The Authority also held $1,104,963 of TMG Financial Investment agreements which were rated Aa3 by Moody's.

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 5 percent of the Authority's investments are in First American Government Obligation Funds, FNMA, INVEST, and TMG Financial. These investments are 29.9%, 6.2%, 37.4%, and 17.4%, respectively, of the Authority's total investments.

4. Capital Assets

A summary of changes in capital assets is as follows:

	Balance at December 31, 2004	Additions	Transfers/ Deletions	Balance at December 31, 2005
Capital assets, not being depreciated:				
Construction in progress	$ 209,818	$ 420,242	$ (26,320)	$ 603,740
Capital assets, being depreciated:				
Plant and system	25,531,627	5,185	(7,692)	25,529,120
Vehicles and equipment	398,822	140,825	(22,596)	517,051
Other capital improvements	919,018	62,230	-	981,248
Total capital assets, being depreciated	26,849,467	208,240	(30,288)	27,027,419
Less accumulated depreciation	(4,031,091)	(861,392)	28,698	(4,863,785)
Total capital assets, being depreciated, net	22,818,376	(653,152)	(1,590)	22,163,634
Total capital assets, net	$ 23,028,194	$ (232,910)	$ (27,910)	$ 22,767,374

	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

5. LONG-TERM DEBT

Current interest bonds payable at December 31, 2005 are composed of the following individual issues:

Sewer Revenue Bonds	Balance at December 31, 2004	Retirements	Balance at December 31, 2005	Due Within One Year
1996	$ 2,210,000	$ (320,000)	$ 1,890,000	$ 335,000
1998	30,210,000	(410,000)	29,800,000	425,000
	$ 32,420,000	$ (730,000)	$ 31,690,000	$ 760,000

Guaranteed Sewer Revenue Bonds, Series of 1996, due in annual principal installments or mandatory sinking fund payments through August 1, 2010.	$ 1,890,000
Sewer Revenues Bonds, Series of 1998 due in annual principal installments or mandatory sinking fund payments through August 1, 2028.	29,800,000
	31,690,000
Less: deferred loss on advance refunding	(297,947)
Less: current portion	(760,000)
Total bonds payable	$ 30,632,053

On July 15, 1996, the Authority issued $14,915,000 of Guaranteed Sewer Revenue Bonds, Series of 1996 (current interest bonds) bearing interest rates ranging from 5% to 6.25%. 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. The interest rates on these bonds ranged from 4.3% to 5%. 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:

December 31,	Principal	Interest	Total
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	930,000	1,419,950	2,349,950
2011-2015	5,405,000	6,347,200	11,752,200
2016-2020	6,885,000	4,863,750	11,748,750
2021-2025	8,790,000	2,961,500	11,751,500
2026-2028	6,400,000	650,499	7,050,499
	$ 31,690,000	$ 22,362,725	$ 54,052,725

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 9 below, the Authority has agreed to share in the costs related to this project. Accordingly, the Authority is also responsible for a share of the PennVest loan. Payments are required to be paid to PWSA through fiscal year 2024. The outstanding balance of the loan is $278,278 at December 31, 2005.

The following summarizes the required payments for the PWSA loan:

December 31,	Principal	Interest	Total
2006	$ 27,041	$ 8,639	$ 35,680
2007	18,730	4,654	23,384
2008	12,601	4,032	16,633
2009	11,824	6,151	17,975
2010	12,081	6,016	18,097
2011-2015	66,087	24,402	90,489
2016-2020	76,653	13,836	90,489
2021-2024	53,261	2,542	55,803
	$ 278,278	$ 70,272	$ 348,550

6. Interest Rate Swap

During fiscal year 2005, the Authority entered into a pay-variable, receive-variable basis interest rate swap contract. The interest rate swap is effective on the first day of each month which began on May 1, 2005 and terminates on August 1, 2028.

The intention of the swap is to effectively exchange a tax-exempt money market rate for a taxable money market rate. Doing so will enable the Authority to extract the financial benefits currently available in the swap market and better manage its interest rate risks and interest costs.

Under the Basis Swap, the Authority will make a payment every month equal to the average of the Bond Market Association (BMA) Swap Index for that month. The BMA Swap Index is an average of a large number of currently outstanding tax-exempt Variable Rate Demand Bonds (VRDBs). Like the floating interest rate on VRDBs, the BMA Swap Index is re-set every week. In exchange for the Authority's monthly payment, the Counterparty will make a payment to the Authority based upon a taxable money market rate known as 1-month LIBOR. The actual amount will be determined based upon a mathematical formula equal to 64% of 1-month LIBOR plus 30 basis points.

The Authority received an up-front payment from the Counterparty at closing of approximately $707,000. This up-front payment is included in deferred fee on the statements of net assets at December 31, 2005. This liability will periodically be re-evaluated based on changes in the market value of the swap.

The interest payments on the interest rate swap are calculated based on a notional amount of $30,210,000, which began reducing on August 1, 2005. At December 31, 2005, the current notional amount is $29,800,000. The swap will expire on August 1, 2028.

The Authority makes net swap payments as required by the terms of the contract, that is, receiving/paying the net amount between the two variable rates as noted above for the term of the swap from/to the Counterparty. During 2005, the Authority received payments from the Counterparty in the amount of $20,118. The Authority made payments to the Counterparty of $14,319. The net amount of $5,799 is reported as income on swap on the Statement of Revenues, Expenses, and Changes in Net Assets.

As of December 31, 2005, the swap had a fair value of $(1,445,036). The mark to market value is an estimated net present value of the expected cash flows calculated using relevant mid-market data inputs and based on the assumption of no unusual market conditions or forced liquidation.

The Authority has the ability to early terminate the swap and to cash settle the transaction on any business day by providing prior notice to the Counterparty. Evidence that the Authority has sufficient funds available to pay any amount payable to the counterparty must be provided at the time notice is given. At early termination, the Authority will be required to pay or receive a settlement amount which is comprised of the market value of the terminated transaction based on market quotations and any amounts accrued under the contract.

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

- Credit risk is the risk that a Counterparty will not fulfill its obligations. On December 31, 2005, the interest rate swap counterparty was rated Aa2 by

Moody's Investors Services, Inc., a nationally recognized statistical rating organization. If the Counterparty failed to perform according to the terms of the swap agreement, there is some risk of loss to the Authority, up to the fair market value of the swap. Performance of the Counterparty as it relates to this transaction is unsecured.

- Interest rate risk is the risk that changes in interest rates will adversely affect the fair values of the Authority's financial instruments or the Authority's cash flows. Because a Basis Swap does not involve the issuance of refunding bonds, the Authority may preserve the ability to do yet another refunding. The Authority is exposed to interest rate risk to the extent that changes in the variable rates being paid do not exactly correlate to changes in the variable rates received.

- Termination risk is the risk that a derivative's unscheduled end will affect the Authority's asset/liability strategy or will present the Authority with potentially significant unscheduled termination payments to the Counterparty. The Counterparty to the transaction does not have the ability to voluntarily terminate the swap; however, the Authority is exposed to termination risk in the event that the Counterparty defaults.

- Basis risk is the risk that arises when variable interest rates on the interest rate swap components are based on different indexes. The Authority is subject to basis risk on the swap as the Authority will receive an amount based on 64% of the average of 1-month LIBOR for the previous month, plus .30% times the notional amount outstanding under the swap and the Authority will make a monthly floating rate payment to the Counterparty based on a different index, the Bond Market Association Index for the preceding month times the notional amount outstanding under the swap.

7. DEBT SERVICE FORWARD DELIVERY AGREEMENT

In November 2001, the Authority entered into a debt service forward delivery agreement for both the Series 1996 and 1998 bonds issues. As part of the agreement, the Authority received a fee of approximately $402,000 in exchange for monthly prepaying certain debt service amounts into an escrow account and allowing the counterparty to retain the respective interest earnings. This amount has been deferred and is being amortized into earnings over the term of the bonds using the straight-line method. The unamortized portions of $335,428 and $351,996 are included as deferred fees on the statements of net assets at December 31, 2005 and 2004, respectively. The Authority has the ability to early terminate this agreement by calling or refunding the respective bond series by providing the counterparty with 15 days prior notice and paying to the counterparty and amount that approximates the fair value of the contract at termination. The fair value of the contracts at December 31, 2005 for the 1996 bonds and the 1998 bonds is $291,506 and $818,992, respectively. The fair market value was determined based on the cost-basis methodology.

8. PENSION PLAN

Description of Plan

The Authority's Pension Plan (plan) is a single-employer defined benefit pension plan. The plan was established on August 21, 1996 and is governed by the Board of Directors of the Authority which may amend plan provisions, and which is responsible for the management of plan assets. The Board of Directors has delegated the Authority to manage certain plan assets to 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 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, 2005, participants in the plan were as follows:

Active	27
In payment status:	
Retirement benefits	3
Disability benefits	1
Deferred	1
Total	32

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, 2005, the following plan information is presented:

Actuarial valuation date	1/1/2005
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar Closed
Amortization period	11 years
Asset valuation method	4 Year Smoothing
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	n/a
Underlying inflation rate	3.00%

Three-Year Trend Information

Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed
12/31/2003	$ 88,127	95%
12/31/2004	84,292	95%
12/31/2005	99,032	97%

Net pension assets, the amount the plan has been funded in excess of required contributions, of $68,148, $70,861, and $74,928 exist for the plan at December 31, 2005, 2004, and 2003, respectively.

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

9. DEFERRED COMPENSATION PLAN

The Authority offers its employees a deferred compensation plan (plan) created in accordance with the Internal Revenue Service Code Section 457. The plan, available to all eligible, full-time Authority employees, permits them to defer a portion of their salaries until future years. Participation in the plan is optional. The deferred compensation is not available to the employees until termination, retirement, death, or unforeseeable emergency.

At December 31, 2005, all amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, were held in trust solely for the benefit of the participants. Investments are managed by the plan's trustee under several investment options selected by the participant. Under the provisions of GASB Statement No. 32, *"Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans,"* the deferred compensation plan is not required to be included in the Authority's financial statements.

10. INTERMUNICIPAL AGREEMENT

On July 18, 2000, Baldwin Borough, Whitehall Borough, Brentwood Borough, and the Authority entered into an intermunicipal agreement to participate in the construction of the Streets Run Trunk Sewer Rehabilitation Project. As part of this agreement, the Authority will be responsible for maintaining an allocated portion of the Interceptor sewer lines based on an Allegheny County Board of Viewers allocation dated September 18, 1950. The costs incurred to rehabilitate the lines are being amortized over their useful life. The net unamortized balance is reported as cost of sewer capacity improvements on the statements of net assets.

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

11. Commitments and Contingencies

Contingencies

The Authority is party to a number of actual and possible matters of litigation. The ultimate outcome of such matters is not expected to be material to the Authority's financial statements.

Commitments

The Authority is involved in various contracts related to the construction of the sewer system. Construction commitments related to these projects at December 31, 2005 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.

12. Risk Management

The Authority is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors or omissions; and injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not significantly exceeded commercial insurance coverage in the past. There were no significant changes in insurance coverage during the year.

REQUIRED SUPPLEMENTARY INFORMATION

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Excess of Assets Over (Under) AAL	Funded Ratio	Covered Payroll	Excess (Deficiency) as a Percentage of Covered Payroll
1/1/2001	$ 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)%
1/1/2005	1,219,954	1,762,266	(542,312)	69.23%	1,317,539	(41.16)%

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, 2005

Year Ended December 31,	Annual Required Contribution	Percentage Contributed
2000	$ 82,051	102%
2001	82,051	100%
2002	81,709	100%
2003	83,827	100%
2004	80,225	100%
2005	96,319	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

YEAR ENDED DECEMBER 31, 2005

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	1/1/2005
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar Closed
Amortization period	11 years
Asset valuation method	4 Year Smoothing
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	n/a
Underlying inflation rate	3.00%

ADDITIONAL INFORMATION

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

ANALYSIS OF OPERATING REVENUES AND EXPENSES

YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
Operating Revenues:		
Sewage rentals	$ 5,380,689	$ 5,390,966
Refunds	4,177	1,706
Total operating revenues	$ 5,384,866	$ 5,392,672
Operating Expenses:		
Sewer system operation:		
Sewage treatment plants	$ 295,869	$ 302,426
Utilities	383,531	375,437
Sewer crew expenses	46,409	13,225
Pretreatment expenses	991	1,605
Payroll	1,435,117	1,364,556
Payroll taxes	108,617	106,202
Benefits	396,280	359,184
Office supplies	39,360	9,909
Communications	22,659	23,420
Postage	3,397	3,658
Advertisements	1,522	1,482
Printing	461	207
Fee collection costs	226,733	240,393
Engineering fees	103,522	46,948
Insurance	149,907	184,961
Seminars	5,101	2,990
Professional services	28,106	42,303
Miscellaneous expenses	18,853	837
Purchased sewer treatment	238,159	212,027
Depreciation	880,966	859,141
Total operating expenses	$ 4,385,560	$ 4,150,911