WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

FINANCIAL STATEMENTS
AND
REQUIRED SUPPLEMENTARY
AND
ADDITIONAL INFORMATION

YEARS ENDED DECEMBER 31, 2008 AND 2007

WITH

INDEPENDENT AUDITOR'S REPORT

MaherDuessel

Certified Public Accountants || *Pursuing the Profession While Promoting the Public Good®*

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

YEARS ENDED DECEMBER 31, 2008 AND 2007

TABLE OF CONTENTS

MaherDuessel

Certified Public Accountants || *Pursuing the Profession While Promoting the Public Good®*

Independent Auditor's Report

Board of Directors
West Mifflin Sanitary Sewer Municipal Authority

We have audited the accompanying financial statements of the West Mifflin Sanitary Sewer Municipal Authority (Authority) as of and for the years ended December 31, 2008 and 2007, as listed in the 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 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, 2008 and 2007, 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 on pages i through vii 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 is supplementary information required by the Governmental Accounting Standards Board. 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the Authority taken as a whole. The accompanying additional information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic 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

Pittsburgh, Pennsylvania
May 7, 2009

Pittsburgh || Three Gateway Center – Six West • Pittsburgh, PA 15222 p412.471.5500 f412.471.5508
Harrisburg || 3211 North Front Street – Suite 101 • Harrisburg, PA 17110 p717.232.1230 f717.232.8230
Butler || 112 Hollywood Drive – Suite 204 • Butler, PA 16001 p724.285.6800 f724.285.6875
www.md-cpas.com

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. The following section, Management's Discussion and Analysis, has been prepared so that the Authority is in compliance with Statement No. 34 of the Government Accounting Standards Board.

FINANCIAL HIGHLIGHTS

While the West Mifflin Sanitary Sewer Municipal Authority (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. The following are key financial highlights during 2008.

- Due to local conditions during the peak consumption months, billed flow decreased 64,200,271 gal or an 8.3% decrease in billed flow from 2007. However, there was an increase in the consumption of our high volume users. This resulted in a net increase in operating revenues of $81,891 or a 1.4% increase in operating revenues for 2008.

- In 2008, the Authority treated 1,129,532,000 gallons for 6,967 customers at its two wastewater treatment plants which 679,418,029 gal was billed. The Authority also direct bills 818 customers who have their wastewater treated at ALCOSAN. These 818 customers were billed approximately 89,904,400 gal. The Authority billed for 60.2% of the water it treated. During 2007, the Authority treated 1,057,097,600 gal for whom it billed 743,618,300 gal, or 70%, 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 and private laterals 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 residential users from the billing structure.

- During 2008, the Authority paid $840,000 in principal on its outstanding Sewer Revenue Bonds. And therefore $29,295,000 remains outstanding.

- The Authority had an increase cost of operations (less depreciation) in 2008 by $229,214 or 5.7% over 2007. Treatment Plant cost, wage/benefit increases in accordance with our labor agreement with Teamsters Local 636, engineering costs, and fee collection costs account for the majority of the increase in operating cost.

- Operating revenues increased by $81,891 or 1.4%.

- The Authority essentially completed and placed into service over $2.1 million in sewer system and treatment plant improvements in 2008.

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 evaluation was performed in late 2006. The Authority Board increased sewer rates at the end of 2006 that went into effect for the January 2007 billing.

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 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 hundred gallons. Additional charges are levied for excess Biochemical Oxygen Demand (BOD) and suspended solids (SS) from industrial waste discharges into the system in the portion of the sewer system using ALCOSAN for treatment.

The Thompson Run Treatment Plant and Authority Offices are located at 1302 Lower Bull Run Road, West Mifflin, PA. The Authority also operates an additional treatment facility at 2439 New England Hollow Road. The Authority operates and maintains over 100 miles of interceptor and collector sewers, and 15 pumping or lift stations throughout the service area.

A small portion of the sewer system is connected to the Jefferson Hills sewage system that is treated at the Clairton Municipal Authority Treatment Plant. Beginning early in 2008, these 40 accounts are being billed by the WMSSMA. The Authority is billed by Jefferson Hills Borough for these customers on a quarterly payment schedule for the wastewater treatment.

The Authority's service area covers over 14 square miles in Allegheny County.

The Authority's Articles of Incorporation (Articles), provide that the Authority 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 employed 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)

Assets	2008	2007	$ Change	% Change
Current assets	$ 1,946,642	$ 2,770,614	$ (823,972)	-30%
Restricted assets	4,494,994	5,085,591	(590,597)	-12%
Capital assets	23,183,381	23,405,402	(222,021)	-1%
Other assets	1,441,842	1,548,252	(106,410)	-7%
Total Assets	$ 31,066,859	$ 32,809,859	$ (1,743,000)	
Liabilities and Net Assets				
Liabilities:				
Current liabilities	$ 1,759,886	$ 1,908,264	$ (148,378)	-8%
Long-term liabilities	29,988,077	30,878,741	(890,664)	-3%
Total Liabilities	31,747,963	32,787,005	(1,039,042)	
Net Assets:				
Invested in capital assets, net of related debt	(5,381,005)	(5,331,016)	(49,989)	1%
Restricted net assets	3,883,736	4,722,589	(838,853)	-18%
Unrestricted net assets	816,165	631,281	184,884	29%
Total Net Assets	(681,104)	22,854	(703,958)	
Total Liabilities and Net Assets	$ 31,066,859	$ 32,809,859	$ (1,743,000)	

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

	2008	2007	$ Change	% Change
Operating revenues	$ 5,741,330	$ 5,659,439	$ 81,891	1%
Non-operating revenues	240,693	357,304	(116,611)	-33%
Total revenues	5,982,023	6,016,743	(34,720)	-1%
Operating expenses	5,138,648	4,865,143	273,505	6%
Non-operating expenses	1,610,898	1,651,550	(40,652)	-2%
Total expenses	6,749,546	6,516,693	232,853	4%
Income before capital contribution revenues	(767,523)	(499,950)	(267,573)	54%
Capital contribution revenues	63,565	284,127	(220,562)	-78%
Change in net assets	(703,958)	(215,823)	(488,135)	226%
Net assets, beginning of year	22,854	238,677	(215,823)	-90%
Net assets, end of year	$ (681,104)	$ 22,854	$ (703,958)	-3080%

OTHER SELECTED INFORMATION

Selected Data:	2008	2007	Difference	%Change
Authorized Employees	31	31	0	0.00%
Actual Employees at year-end	31	31	0	0.00%
Wastewater Treated (billons of gallons)	1.1295	1.0571	0.0724	6.85%
Wastewater Billed (billions of gallons)	0.679418029	0.743618	-0.064199971	-8.63%
Percentage of Billed/Treated Wastewater	60.15%	70.35%	-10.19%	-14.49%
Rates:				
Residential Fee	13.00	13.00		
Commercial Fee	$21.00	$21.00		
First 2,000 gallons/thousand	$3.75	$3.75		
next 13,000 gallons/thousand	$4.25	$4.25		
15,001-100,000 gallons/thousand	$9.50	$9.50		
over 100,000 gallons/thousand	$11.75	$11.75		
Average Residential Customer Bill:				
Per year	$450.00	$450.00	$0.00	0.00%
Per Month	$37.50	$37.50	$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 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, ALCOSAN and the Allegheny County Health Department through a 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. The Authority General Manager also serves on the newly created ALCOSAN Regional Stakeholder Group. This Group was formed by ALCOSAN in developing their long-term wet weather plan as required by their Consent Order with EPA. Cooperation among neighboring communities is expected to help reduce the overall compliance cost to the Authority.

FINANCIAL CONDITION

The Authority raised sewer rates beginning in 2007. This was the first increase in over 4 years.

In order to offset a reduction in revenues, the Authority utilized its reserves in 2008.

RESULTS OF OPERATIONS

Operating Revenue:

In 2008, 100% of operating revenue was derived from customer billing for sewage treatment service, tap-in fees, pretreatment permits, and interest on investments. This includes residential commercial and industrial customers.

Operating Expenses:

Total operating expenses, before depreciation was $4,253,276 in 2008 vs. $4,024,062 in 2007. In 2008, operating expenses increased in sewage treatment expenses, and payroll/benefits. There were reductions in sewer crew expenses, office supplies, pretreatment expenses, advertisements, and professional services.

Depreciation and Non-Operating Expenses:

The Authority had a depreciation expense of $885,372 on plants and equipment in 2008. In 2008, the Authority completed the New England Digester Lid replacement, and two sewer extensions along Clairton Road, a sewer extension in the Guenther Plan, and a sewer extension on Vermont Avenue. The total constructed value of these improvements exceeds $2.1 million.

Litigation Contingency:

The Authority has no current Litigation Contingency

DEBT

At year-end, the Authority had $29,889,313 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 2008 presented financial challenges, the Board of Directors and the Authority staff worked hard to position the Authority for the future. The Authority responded by taking advantage of cost cutting through the implementation and use of new technologies and operating procedures.

The Authority is looking at a cooperative agreement with the Pittsburgh Water and Sewer Authority to treat the wastewater from about 1,000 customers that would be connected by gravity to the Authority's sewer system and be treated at the Thomson Run Plant. The Authority is also looking into the feasibility of using waste methane gas currently being flared off from the Authority's two digesters to fuel its vehicle fleet.

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, 2008 AND 2007

Assets

	2008	2007
Current assets:		
Cash and cash equivalents	$ 913,945	$ 1,855,962
Accounts receivable	954,945	806,103
Grant receivable	1,123	33,449
Prepaid expenses	53,729	52,200
Interest receivable	22,900	22,900
Total current assets	1,946,642	2,770,614
Restricted assets:		
Construction fund	609,114	1,197,245
Debt service accounts	3,885,880	3,888,346
Total restricted assets	4,494,994	5,085,591
Capital assets (at cost)	29,919,658	28,009,429
Less: accumulated depreciation	(7,332,140)	(6,473,536)
Construction in progress	595,863	1,869,509
Total capital assets (at cost)	23,183,381	23,405,402
Other assets:		
Deferred charges (net of amortization of $55,764 and $51,303 for 2008 and 2007, respectively)	78,077	82,538
Bond issue costs (net of amortization of $915,149 and $833,151 for 2008 and 2007, respectively)	935,034	1,017,032
Cost of sewer capacity improvements (net of amortization of $91,040 and $71,089 for 2008 and 2007, respectively)	428,731	448,682
Total other assets	1,441,842	1,548,252
Total Assets	$ 31,066,859	$ 32,809,859

Liabilities and Net Assets

	2008	2007
Liabilities:		
Current liabilities:		
Accounts payable	$ 230,881	$ 213,221
Accrued payroll	3,254	32,015
Line of credit	-	163,289
Current portion of long-term debt	29,493	29,997
Total current liabilities	263,628	438,522
Current liabilities (payable from restricted assets):		
Current portion of bonds payable long-term	885,000	840,000
Bond interest payable	611,258	629,742
Total current liabilities (payable from restricted assets)	1,496,258	1,469,742
Long-term liabilities:		
Deferred fee	285,724	302,292
Deferred revenue	676,261	676,261
Accrued compensated absences	287,228	266,823
Notes payable	564,820	594,458
Bonds payable (net of deferred loss on advance refunding of $235,956 and $256,093 for 2008 and 2007, respectively)	28,174,044	29,038,907
Total long-term liabilities	29,988,077	30,878,741
Total Liabilities	31,747,963	32,787,005
Net Assets:		
Invested in capital assets, net of related debt	(5,381,005)	(5,331,016)
Restricted net assets	3,883,736	4,722,589
Unrestricted net assets	816,165	631,281
Total Net Assets	(681,104)	22,854
Total Liabilities and Net Assets	$ 31,066,859	$ 32,809,859

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, 2008 AND 2007

	2008	2007
Operating Revenues:		
Sewer rentals	$ 5,741,330	$ 5,659,439
Operating Expenses:		
Sewer system operation	3,932,737	3,714,295
Purchased sewer treatment	320,539	309,767
Depreciation and amortization	885,372	841,081
Total operating expenses	5,138,648	4,865,143
Operating Income	602,682	794,296
Nonoperating Revenues (Expenses):		
Interest income	183,176	285,167
Other revenue	57,517	56,355
Interest on sewer revenue bonds and notes payable	(1,540,002)	(1,578,704)
Amortization of bond issue costs and deferred charges	(70,896)	(72,846)
Gain on sale of vehicle	-	5,000
Income on swap	-	10,782
Total nonoperating revenues (expenses)	(1,370,205)	(1,294,246)
Income (Loss) Before Capital Contribution Revenues	(767,523)	(499,950)
Capital Contribution Revenues:		
Tapping/connection fees	63,565	17,387
Grant revenue	-	266,740
Total capital contribution revenues	63,565	284,127
Change in Net Assets	(703,958)	(215,823)
Net Assets:		
Beginning of year	22,854	238,677
End of year	$ (681,104)	$ 22,854

See accompanying notes to financial statements.

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
Cash Flows From Operating Activities:		
Cash received from customers	$ 5,592,488	$ 5,566,150
Cash payments for operating expenses	(4,245,501)	(4,052,480)
Net cash provided by (used in) operating activities	1,346,987	1,513,670
Cash Flows From Noncapital Financing Activities:		
Grant revenue received	32,326	343,255
Other	156,782	121,205
Net cash provided by (used in) noncapital financing activities	189,108	464,460
Cash Flows From Capital and Related Financing Activities:		
Interest paid on debt	(1,575,054)	(1,612,583)
Interest received on restricted bond funds	142,668	228,471
Capital assets and related purchases	(643,400)	(1,355,398)
Proceeds from sale of vehicle	-	5,000
Proceeds from line of credit	-	124,000
Proceeds from notes payable	-	372,288
Payment of line of credit	(163,289)	(171,278)
Payment of notes payable	(30,142)	(21,603)
Payment of bond principal	(840,000)	(795,000)
Net cash provided by (used in) capital and related financing activities	(3,109,217)	(3,226,103)
Cash Flows From Investing Activities:		
Sale of investments	590,597	876,892
Interest earned	40,508	56,696
Net cash provided by (used in) investing activities	631,105	933,588
Increase (Decrease) in Cash and Cash Equivalents	(942,017)	(314,385)
Cash and Cash Equivalents:		
Beginning of year	1,855,962	2,170,347
End of year	$ 913,945	$ 1,855,962
Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities:		
Operating income	$ 602,682	$ 794,296
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation and amortization	885,372	841,081
Change in operating assets:		
Accounts receivable	(148,842)	(93,289)
Prepaid expenses	(1,529)	1,800
Change in operating liabilities:		
Accounts payable	17,660	(72,251)
Accrued payroll and withholdings	(28,761)	3,908
Accrued compensated absences	20,405	38,125
Net cash provided by (used in) operating activities	$ 1,346,987	$ 1,513,670

See accompanying notes to financial statements.

1. Reporting Entity

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

2. Summary of Significant Accounting Policies

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

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

Basis of Accounting and Measurement Focus

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

Statements of Cash Flows

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

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 proportionate-to-stated-interest requirements 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 $287,228 and $266,823 for 2008 and 2007, 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 $3,883,736 and $4,722,589 at December 31, 2008 and 2007, 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."

Other Matters

The accounting policies for the interest rate swap and debt service forward delivery agreement are discussed in Note 6 and Note 7, respectively.

Pending Pronouncements

In April 2004, GASB issued Statement No. 43, *"Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,"* and in June 2004 issued GASB Statement No. 45, *"Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions."* These statements provide the accounting and reporting requirements for the benefit plans as well as require that public sector employers accrue the cost of any postretirement healthcare or similar benefits (OPEB) they may offer to employees. Currently, the Authority recognizes the cost of other postemployment benefits on a pay-as-you-go basis. For the purpose of the government-wide financial statements, GASB Statement No. 45 requires that governments account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in the same manner as they currently do for pensions. These standards may require an actuarial valuation to be performed.

These changes in accounting will be applicable in fiscal year 2009 for employer accounting. The Authority only provides postemployment health care if an employee retires earlier than age 65 that last only until they reach age 65, so the impact of these statements to the

Authority may be limited as they anticipate that the vast majority of employees will work to age 65. The Authority should consult its actuary to begin considering the effects that these statements will have on the Authority's financial statements and operations.

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 trusted assets, as otherwise permitted by the trust indenture as supplemented and amended in 1998. Throughout the years ended December 31, 2008 and 2007, the Authority invested its funds in such authorized investments.

GASB Statement No. 40, *"Deposit and Investment Risk Disclosures,"* requires disclosures related to the following deposit and investment risks: credit risk (including custodial credit risk and concentration of credit risk), interest rate risk, and foreign currency risk. The following is a description of the Authority's deposit and investment risks.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a formal deposit policy for custodial credit risk. As of December 31, 2008 and 2007, respectively, $42,387 and $1,249,702 of the Authority's bank balance of $616,588 and $1,549,702 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 $593,314 and $1,539,895 as of December 31, 2008 and 2007, respectively, 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 $120,631 and $116,067 for 2008 and 2007, respectively. 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 statements of net assets are short-term investments with the external investment pool

(INVEST) of $200,000 and $200,000 in 2008 and 2007, respectively. The fair value of the Authority's investments in INVEST is the same as the value of the pool shares.

At December 31, 2008, the Authority held the following investment balances:

	Fair Market Value	Maturity in Years Less than 1 Year
Money markets	$ 1,809,232	$ 1,809,232
Corporate bonds	116,893	116,893
U.S. Agencies	854,792	854,792
INVEST	609,114	609,114
Investment agreements	1,104,963	1,104,963
Total	$ 4,494,994	$ 4,494,994

At December 31, 2007, the Authority held the following investment balances:

	Fair Market Value	Maturity in Years Less than 1 Year
Money markets	$ 1,820,607	$ 1,820,607
U.S. Agencies	962,776	962,776
INVEST	1,197,245	1,197,245
Investment agreements	1,104,963	1,104,963
Total	$ 5,085,591	$ 5,085,591

The fair value of the Authority's investments is the same as their carrying amount. Investments of $4,494,994 at December 31, 2008 and $5,085,591 at December 31, 2007 are included as non-current restricted investments on the statements of net assets. The fair value of the Authority's investments in INVEST is the same as the value of the pool shares.

Interest Rate Risk – The Authority does not have a formal investment policy that limits investment maturities as a means of managing exposure to fair value losses arising from increasing rates. Interest rate risk is the risk that changes in the interest rates will adversely affect the fair market value of the Authority's investments. The Authority is not subject to interest rate risk, as all of its investments at December 31, 2008 and 2007 had maturities of less than one year.

Credit Risk – The Authority has no formal investment policy that would limit its investment choices based on credit ratings by nationally recognized statistical rating organizations. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. As of December 31, 2008 and 2007, the Authority's investments in INVEST were rated AAAm and AAA, respectively, by Standard & Poor's. At December 31, 2008 and 2007, the Authority also held $656,848 and $589,400, respectively, of FNMA and $197,944 and $373,376, respectively, of FHLMC investments, which were rated Aaa by Moody's. The Authority's First American Government Obligation Funds investments are unrated at December 31, 2008 and 2007. The Authority held $1,104,963 of TMG Financial Investment agreements, which were rated Aa3 by Moody's at December 31, 2008 and 2007. The Authority also held $116,892 of General Electric Capital Corporation bonds, which were rated Aa2 by Moody's at December 31, 2008.

Concentration of Credit Risk – Concentrations of credit risk is the risk of loss attributed to the magnitude of a government's investments in a single issuer. The Authority places no limit on the amount it may invest in any one issuer. More than five percent of the Authority's investments are in First American Government Obligation Funds, INVEST, FNMA, and TMG Financial. These investments are 40%, 14%, 15%, and 25%, respectively, of the Authority's total investments at December 31, 2008.

4. Capital Assets

A summary of changes in capital assets is as follows:

	Balance at December 31, 2007	Additions	Transfers/ Deletions	Balance at December 31, 2008
Capital assets, not being depreciated:				
Construction in progress	$ 1,869,509	$ 86,168	$ (1,359,814)	$ 595,863
Capital assets, being depreciated:				
Plant and system	26,353,538	1,398,066	-	27,751,604
Vehicles and equipment	634,604	-	(6,817)	627,787
Other capital improvements	1,021,287	518,980	-	1,540,267
Total capital assets, being depreciated	28,009,429	1,917,046	(6,817)	29,919,658
Less accumulated depreciation	(6,473,536)	(865,421)	6,817	(7,332,140)
Total capital assets, being depreciated, net	21,535,893	1,051,625	-	22,587,518
Total capital assets, net	$ 23,405,402	$ 1,137,793	$ (1,359,814)	$ 23,183,381

	Balance at December 31, 2006	Additions	Transfers/ Deletions	Balance at December 31, 2007
Capital assets, not being depreciated:				
Construction in progress	$ 1,436,356	$ 1,233,883	$ (800,730)	$ 1,869,509
Capital assets, being depreciated:				
Plant and system	25,547,298	806,240	-	26,353,538
Vehicles and equipment	583,454	88,390	(37,240)	634,604
Other capital improvements	993,672	27,615	-	1,021,287
Total capital assets, being depreciated	27,124,424	922,245	(37,240)	28,009,429
Less accumulated depreciation	(5,689,646)	(821,130)	37,240	(6,473,536)
Total capital assets, being depreciated, net	21,434,778	101,115	-	21,535,893
Total capital assets, net	$ 22,871,134	$ 1,334,998	$ (800,730)	$ 23,405,402

5. LONG-TERM DEBT

Current interest bonds payable at December 31, 2008 are composed of the following individual issues:

Sewer Revenue Bonds	Balance at December 31, 2007	Retirements	Balance at December 31, 2008	Due Within One Year
1996	$ 1,200,000	$ (375,000)	$ 825,000	$ 400,000
1998	28,935,000	(465,000)	28,470,000	485,000
	$ 30,135,000	$ (840,000)	$ 29,295,000	$ 885,000

Guaranteed Sewer Revenue Bonds, Series of 1996, due in annual principal installments or mandatory sinking fund payments through August 1, 2010.	$ 825,000
Sewer Revenue Bonds, Series of 1998, due in annual principal installments or mandatory sinking fund payments through August 1, 2028.	28,470,000
	29,295,000
Less: deferred loss on advance refunding	(235,956)
Less: current portion	(885,000)
Total bonds payable - long-term	$ 28,174,044

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 following schedule summarizes the debt service requirements for bonds outstanding:

December 31,	Principal	Interest	Total
2009	$ 885,000	$ 1,467,018	$ 2,352,018
2010	930,000	1,419,950	2,349,950
2011	980,000	1,369,906	2,349,906
2012	1,030,000	1,322,376	2,352,376
2013	1,080,000	1,272,420	2,352,420
2014-2018	6,245,000	5,503,750	11,748,750
2019-2023	7,970,000	3,778,500	11,748,500
2024-2028	10,175,000	1,576,000	11,751,000
	$ 29,295,000	$ 17,709,920	$ 47,004,920

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 11 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 $219,906 and $232,507 at December 31, 2008 and 2007, respectively.

The following summarizes the required payments for the PWSA loan:

December 31,	Principal	Interest	Total
2009	$ 11,824	$ 6,151	$ 17,975
2010	12,081	6,016	18,097
2011	12,445	5,653	18,098
2012	12,820	5,278	18,098
2013	13,206	4,892	18,098
2014-2018	72,238	18,251	90,489
2019-2023	83,787	6,702	90,489
2024	1,505	3	1,508
	$ 219,906	$ 52,946	$ 272,852

In August 2006, PennVest approved a loan up to the amount of $404,041 to fund the construction, rehabilitation, and operation of a community sewer system, bearing interest at 1.56% for the first 74 months and 2.697% for the remainder of the loan term. Interest-only payments on the unpaid principal sum were payable monthly beginning with the first calendar month following a loan advance and ending on October 1, 2007. On November 1, 2007, the unpaid principal and interest became due and payable according to the amortization schedule in the loan agreement. The outstanding balance of the loan is $374,407 and $391,948 at December 31, 2008 and 2007, respectively.

The following summarizes the required payments for the PennVest loan:

December 31,	Principal	Interest	Total
2009	$ 17,669	$ 5,860	$ 23,529
2010	17,946	5,583	23,529
2011	18,228	5,301	23,529
2012	18,251	5,609	23,860
2013	17,325	8,193	25,518
2014-2018	93,983	33,604	127,587
2019-2023	107,535	20,052	127,587
2024-2027	83,470	4,986	88,456
	$ 374,407	$ 89,188	$ 463,595

At December 31, 2008, the PWSA loan and the PennVest loan are presented as notes payable on the statements of net assets in the amount of $564,820 (long-term) and $29,493 (short-term). At December 31, 2007, the PWSA loan and the PennVest loan are presented as notes payable on the statements of net assets in the amount of $594,458 (long-term) and $29,997 (short-term).

6. INTEREST RATE SWAP

During fiscal year 2005, the Authority entered into a pay-variable, receive-variable basis interest rate swap contract ("Basis Swap"). The interest rate swap was effective on the first day of each month, which began on May 1, 2005 and initially terminated on August 1, 2028. However, due to the swap amendment entered into by the Authority in September 2006, the initial swap expired on October 1, 2007. The intention of the swap was to effectively exchange a tax-exempt money market rate for a taxable money market rate.

During 2005, the Authority received an up-front payment from the counterparty at closing of approximately $707,000. This up-front payment is included in deferred revenue on the statements of net assets at December 31, 2008, net of the amortized portion of $30,739.

The interest payments on the Basis Swap were calculated based on a notional amount of $30,210,000, which began reducing on August 1, 2005.

In September 2006, the Authority amended the initial swap agreement to break the initial agreement into two components. The initial agreement terminated on October 1, 2007 and the second component was set to be effective beginning on October 1, 2008; however, in 2008 the swap effective date was extended until October 1, 2009 and will still terminate on August 1, 2028. The second swap is a constant maturity swap (CMS). Due to the amendment and change in swap structure, there will be no payments between the counterparty and the Authority during the period October 1, 2008 to October 1, 2009. The payments terminated along with the initial swap effective October 1, 2007.

As a result of the swap amendment, the Authority will effectively convert the one-month LIBOR it was receiving on the Swap to a USD-ISDA five-year swap rate.

Starting on November 2, 2009, the Authority will make a payment every month equal to the average of the USD-Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index for that month. SIFMA was formerly the Bond Market Association Swap Index. The SIFMA Municipal Swap Index is an average of a large number of currently outstanding tax-exempt Variable Rate Demand Bonds (VRDBs). Like the floating interest rate on VRDBs, the SIFMA Municipal Swap Index is re-set every week. In exchange for the Authority's monthly payment, the counterparty will make a payment to the Authority based upon a taxable money market rate known as USD-ISDA five-year swap rate. The actual amount will be determined based upon a mathematical formula equal to 59.91% of USD-ISDA five-year Swap Rate.

At December 31, 2008, the CMS swap transaction had a fair value of $(2,274,130). 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. At December 31, 2008, the current notional amount was $28,470,000. Based on the negative market value at December 31, 2008, the Authority determined it was not appropriate to amortize the upfront swap payment into income. This decision will be revisited annually depending upon the value of the swap agreement and other relevant factors.

The Authority is not at risk for a collateral call as the Master Agreement specifically excludes such a provision for a collateral call on the part of the Authority.

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

- Credit risk is the risk that a counterparty will not fulfill its obligations. On December 31, 2008, 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.

- 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 without the consent of the Authority; 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 59.91% of the average of USD-ISDA five-year swap rate for the previous month, 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 SIFMA Municipal Swap Index for the preceding month times the notional amount outstanding under the swap.

- Tax risk refers to political forces at work which affect the ratio at which the SIFMA Municipal Index trades relative to USD-ISDA five-year swap rates. The level of the Authority's ongoing payments to the counterparty relative to what it is receiving could fluctuate based on increases or decreases in the marginal income tax rates for individuals and corporations. If marginal tax rates drop, there is a level at which the cash flow to the Authority under the swap could become negative, decreasing the Authority's overall benefit.

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 $285,724 and $302,292 are included as deferred fees on the statements of net assets at December 31, 2008 and 2007, 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.

8. LINE OF CREDIT

The Authority maintained a line of credit with a bank in the amount of $750,000. This line can be drawn upon as needed to pay for expenses not yet reimbursed by PennVest for the project referenced in Note 5. The line of credit carries a tax exempt interest rate of 60% of the bank's prime rate. The outstanding balance of the line of credit is $0 and $163,289 at December 31, 2008 and 2007, respectively. The line of credit was closed in 2008 after completion of the PennVest project.

9. 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 of 15 years of credited service or attainment of age 62 and completion of 25 years of credited service. The accrued benefit is equal to $40 times years of credited service at determination. The normal form of payment is a monthly pension benefit payable for life with 120 payments guaranteed.

At January 1, 2007, participants in the plan were as follows:

Active	30
In payment status:	
Retirement benefits	3
Disability benefits	1
Deferred	1
Total	35

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

Funding Status and Progress

The Authority's funding policy is to comply with Pennsylvania Act 205 of 1984 (Act 205). Under Act 205, the Authority is to contribute the sum of each plan's normal cost, administrative expenses, and amortization of the unfunded actuarial accrued liability (if any), less the amount contributed by employees and the Commonwealth of Pennsylvania. The normal cost and amortization of unfunded actuarial accrued liability are determined by an actuary, using guidelines established in Act 205. The actuarial cost method used is the Entry Age Normal Cost Method. As a condition of participation, employees are to contribute 7% of their salary as stipulated in the Act.

For the year ended December 31, 2008, the following plan information is presented:

Annual pension cost	$ 109,109
Contributions made	$ 109,109
Actuarial valuation date	1/1/2007
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar Closed
Amortization period	10 years
Asset valuation method	3-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
12/31/2006	$ 109,085	100%
12/31/2007	110,610	100%
12/31/2008	109,109	100%

Net pension assets, the amount the plan has been funded in excess of required contributions, of $68,148 exists for the plan at December 31, 2005. The amount of net pension assets as of December 31, 2008 and 2007 is not available at this time but would not be significantly greater than the $68,148 calculated for December 1, 2005. As these amounts are not material to the financial statements, they have not been recorded on the statements of net assets.

The Minimum Municipal Obligation (MMO) in the amount of $109,109 was underfunded by $375 at December 31, 2008. The Authority contributed the required funding to meet the MMO in 2009.

Funded Status

The Authority's funded status and related information as of the latest actuarial valuation date, January 1, 2007, is as follows:

Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Excess of Assets Over (Under) AAL	Funded Ratio	Covered Payroll	Excess (Deficiency) as a Percentage of Covered Payroll
$1,539,604	$ 1,878,895	$ (339,291)	81.94%	$1,483,343	(22.87)%

The required schedule of funding progress, included as required supplementary information immediately following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time, relative to the actuarial accrued liability for benefits.

As noted above, certain pension information and calculations are based upon an actuarial valuation performed as of January 1, 2007. The next actuarial valuation will be performed as of January 1, 2009 and will take into account subsequent declines in the market value of investments being held in the plan. While the exact impact is not known, it is expected that the market declines will negatively impact the funding status of the plan and increase the future funding requirements of the plan.

10. 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, 2008, 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.

11. 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.

12. 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, 2008 amounted to approximately $101,288.

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.

13. 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.

14. Financial Position

For the year ended December 31, 2008, the Authority had a deficit change in net assets of ($703,958) and negative net assets as of December 31, 2008 of ($681,104). The Authority plans to assess the appropriateness of its rate structure and cost containment measures to obtain positive financial results for 2009.

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
1/1/2003	$ 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)%
1/1/2007	1,539,604	1,878,895	(339,291)	81.94%	1,483,343	(22.87)%

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, 2008

Year Ended December 31,	Annual Required Contribution	Percentage Contributed
2003	$ 83,827	100%
2004	80,225	100%
2005	96,319	100%
2006	109,085	100%
2007	110,610	100%
2008	109,109	100%

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

See accompanying note to the supplementary pension schedules.

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

NOTE TO THE SUPPLEMENTARY PENSION SCHEDULES

YEAR ENDED DECEMBER 31, 2008

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	1/1/2007
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar Closed
Amortization period	10 years
Asset valuation method	3-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, 2008 AND 2007

	2008	2007
Operating Revenues:		
Sewage rentals	$ 5,741,330	$ 5,659,439
Operating Expenses:		
Sewer system operation:		
Sewage treatment plants	$ 375,337	$ 353,268
Utilities	508,188	503,105
Sewer crew expenses	14,736	23,308
Pretreatment expenses	292	1,345
Payroll	1,725,141	1,659,012
Payroll taxes	138,299	131,462
Benefits	611,883	523,625
Office supplies	20,020	47,126
Communications	26,911	23,689
Postage	4,811	2,796
Advertisements	2,151	4,345
Printing	490	425
Fee collection costs	261,142	234,358
Engineering fees	41,988	23,169
Insurance	146,807	139,384
Seminars	2,441	2,201
Professional services	40,264	40,363
Miscellaneous expenses	11,836	1,314
Purchased sewer treatment	320,539	309,767
Depreciation and amortization	885,372	841,081
Total operating expenses	$ 5,138,648	$ 4,865,143