MaherDuessel
Certified Public Accountants

West Mifflin Sanitary Sewer Municipal Authority

Financial Statements and Required Supplementary Information and Additional Information

Years Ended December 31, 2009 and 2008
with Independent Auditor's Report

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

YEARS ENDED DECEMBER 31, 2009 AND 2008

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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, 2009 and 2008, 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, 2009 and 2008, 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 Authority has had a deficit in net assets of ($1,030,108) and ($681,104) for the years ended December 31, 2009 and 2008. Management's plans in regard to these matters are described in Note 13.

The Management's Discussion and Analysis section and pension information on pages i through viii and 23 through 25, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 basic financial statements taken as a whole.

Maher Duessel

Pittsburgh, Pennsylvania
June 4, 2010

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 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 2009.

- Due to local conditions during peak consumption months and the economic downturn in the later half of the year that caused many customers to conserve their water usage, the billed flow decreased 112,006,000 gallons or a 16% decrease in billed flow from 2008. However, unlike in 2008, the high volume users also decreased their billed usage. Some of this can be attributed to the permanent closure of the GM manufacturing facility within the service area. The total flow treated when compared to 2008 also was down 15% in 2009. In addition the local drinking water supplier also increased its rates in the last third of the year also contributing to the decline in water usage.

- In 2009, the Authority treated 964,681,000 gallons for 7,354 customers at its two wastewater treatment plants which 567,412,000 was billed. The Authority also direct bills 805 customers who have their wastewater treated at ALCOSAN. These 805 customers were billed approximately 77,130,000 gallons. The Authority billed 58.8% of the water it treated. During 2008, the Authority treated 1,129,532,000 gallons for whom it billed 679,418,029, or 60.2% of what was treated was actually billed to customers. The difference between what is treated versus that which is billed is attributed to direct inflow of storm water from groundwater infiltration into the system from old and deteriorating sewer lines and private laterals throughout the service area.

- In addition, the Authority direct bills 39 customers who have their wastewater treated at the Clairton Sewage Treatment Plant through an arraignment with Jefferson Hills Borough. This resulted in 2,182,700 gallons billed for these customers.

- During 2009, the Authority paid $885,000 in principal on its outstanding Sewer Revenue Bonds. In addition a cash deposit was made in an escrow account on September 16, 2009 of $451,562.50 for the accrued interest and principal of the principal amount of $425,000 due on August 1, 2010. This action effectively paid off the outstanding bonds of the 1996 bond issue.

- The Authority refinanced its 1998 bond issue in September 2009. The savings from this refinancing are to be applied to reduced debt service in 2010 and 2011. There is an outstanding amount of $29,320,000 of principal outstanding on the new 2009 bond issue.

- The Authority had a decrease in the cost of operations (less depreciation) in 2009 by $112,496 or 2.6% when compared to 2008.

- The Authority raised sewer rates in August of 2009. A residential customer who uses an average of 6,000 gallons per month saw their rate increase $7 per month or about 18.67%.

- Revenues increased by $77,584 or 1.4% in 2009 when compared to 2008.

- The Authority essentially completed and placed into service over $100,000 in sewer system and treatment plant improvements in 2009.

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 mid 2009. The Authority Board increased sewer rates in July of 2009 that went into effect for the September 2009 billing. Due to local and national economic conditions, the historical water usage used in calculating the new sewer rates did not achieve the projected revenue. Water usage typically is reduced after a rate increase for the residential customer and stays fairly constant for the commercial and industrial customers. However in late 2009 the commercial and industrial customers experienced a sharp decline in water usage which had a negative impact on Authority revenues. During this same time period the local water supplier also raised water rates which had an additional negative impact on Authority revenues.

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

The Thompson Run Treatment Plant and Authority Offices are located at 1302 Lower Bull Run Road, West Mifflin, PA. The Authority also operates an additional treatment facility at 2439 New England Hollow Road. The Authority operates and maintains over 100 miles of interceptor and collector sewers, and 14 pumping or lift stations throughout the service area.

A small portion of the sewer system is connected to the Jefferson Hills sewage system that is treated at the Clairton Municipal Authority Treatment Plant. Beginning early in 2008 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	2009	2008	$ Change	% Change
Current assets	$ 1,659,046	$ 1,946,642	$ (287,596)	-15%
Restricted assets	3,629,409	4,494,994	(865,585)	-19%
Capital assets	22,565,335	23,183,381	(618,046)	-3%
Other assets	1,135,891	1,441,842	(305,951)	-21%
Total Assets	$ 28,989,681	$ 31,066,859	$ (2,077,178)	
Liabilities and Net Assets				
Liabilities:				
Current liabilities	$ 1,324,444	$ 1,759,886	$ (435,442)	-25%
Long-term liabilities	28,695,345	29,988,077	(1,292,732)	-4%
Total Liabilities	30,019,789	31,747,963	(1,728,174)	
Net Assets:				
Invested in capital assets, net of related debt	(5,052,051)	(5,381,005)	328,954	-6%
Restricted net assets	3,295,901	3,883,736	(587,835)	-15%
Unrestricted net assets	726,042	816,165	(90,123)	-11%
Total Net Assets	(1,030,108)	(681,104)	(349,004)	
Total Liabilities and Net Assets	$ 28,989,681	$ 31,066,859	$ (2,077,178)	

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

	2009	2008	$ Change	% Change
Operating revenues	$ 5,818,914	$ 5,741,330	$ 77,584	1%
Non-operating revenues	554,060	240,693	313,367	130%
Total revenues	6,372,974	5,982,023	390,951	7%
Operating expenses	5,031,191	5,138,648	(107,457)	-2%
Non-operating expenses	1,705,509	1,610,898	94,611	6%
Total expenses	6,736,700	6,749,546	(12,846)	0%
Income before capital contribution revenues	(363,726)	(767,523)	403,797	-53%
Capital contribution revenues	14,722	63,565	(48,843)	-77%
Change in net assets	(349,004)	(703,958)	354,954	-50%
Net assets, beginning of year	(681,104)	22,854	(703,958)	-3080%
Net assets, end of year	$ (1,030,108)	$ (681,104)	$ (349,004)	51%

OTHER SELECTED INFORMATION

	2009	2008	Difference	%Change
Selected Data:				
Authorized Employees	31	31	0	0.00%
Actual Employees at year-end	31	31	0	0.00%
Wastewater Treated (billons of gallons)	0.9647	1.1295	-0.1648	-14.59%
Wastewater Billed (billions of gallons)	0.567412	0.604938	-0.037526	-6.20%
Percentage of Billed/Treated Wastewater	58.82%	53.56%	5.26%	9.82%
Rates:				
Residential Fee	$13	$13	$0.00	0.00%
Commercial Fee	$21.00	$21.00	$0.00	0.00%
First 2,000 gallons/thousand	$5.25	$3.75	$1.50	40.00%
next 13,000 gallons/thousand	$5.25	$4.25	$1.00	23.53%
15,001-100,000 gallons/thousand	$10.00	$9.50	$0.50	5.26%
over 100,000 gallons/thousand	$12.25	$11.75	$0.50	4.26%
Average Residential Customer Bill:				
Per year	$534.00	$450.00	$84.00	18.67%
Per Month	$44.50	$37.50	$7.00	18.67%

* 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 finalizing and signed a consent order with the Allegheny County Health Department on February 26, 2004 which requires mapping, cleaning, repairing, and maintenance of the municipal sewer lines in the ALCOSAN service area over a five to eight year period.

Authority compliance costs related to the ALCOSAN area Consent Order have been estimated to be between $2 and $3 million. Over the past several years, the ALCOSAN and the Allegheny County Health Department through joint effort have created the 3 Rivers Wet Weather Demonstration Project (3 Rivers) in order to encourage innovative, less expensive methods of sewer repair and foster cooperative arrangements among municipalities that share the same watersheds drainage basins. The Authority is an active participant in the 3 Rivers program. The Authority General Manager serves on the Stakeholders, Southern Basin Managers and Southern Basin Group Committees of the 3 Rivers program. 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 was negatively impacted by the loss of the Pennsylvania Act 339 Operating Grant. The Authority raised sewer rates beginning in September 2009. This was the first increase since December of 2006.

In order to offset the loss of the state grant and reduction in revenues, the Authority utilized its reserves to balance its budget in 2009.

RESULTS OF OPERATIONS

Operating Revenue:

In 2009, 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 as well as hauled in sewage sludge from other communities.

Operating Expenses:

Total operating expense, before depreciation was $4,140,780 in 2009 vs. $4,253,276 in 2008. In 2009, operating expenses increased in insurance, purchased sewer treatment, and payroll/benefits. There were reductions in sewer plant operations, utilities, sewer crew expenses, communications, office supplies, pretreatment expenses, advertisements, and professional services.

Depreciation and Non-Operating Expenses:

The Authority had a depreciation expense of $890,411 on plants and equipment in 2009. In 2009 the Authority completed over $100,000 in various capital projects throughout the sewer system and treatment plants.

Litigation Contingency:

The Authority has no current Litigation Contingency.

DEBT

At year-end, the Authority had $29,320,000 in long-term bond 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 2009 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 providing sewer service to other adjacent communities as long as they are financially feasible.

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, 2009 AND 2008

Assets

	2009	2008
Current assets:		
Cash and cash equivalents	$ 430,330	$ 913,945
Accounts receivable - user fees	935,150	954,945
Accounts receivable - non-user fees	217,225	-
Grant receivable	-	1,123
Prepaid expenses	51,606	53,729
Interest receivable	24,735	22,900
Total current assets	1,659,046	1,946,642
Restricted assets:		
Construction fund	326,972	609,114
Debt service accounts	3,302,437	3,885,880
Total restricted assets	3,629,409	4,494,994
Capital assets (at cost)	30,247,718	29,919,658
Less: accumulated depreciation	(8,202,600)	(7,332,140)
Construction in progress	520,217	595,863
Total capital assets (at cost)	22,565,335	23,183,381
Other assets:		
Deferred charges (net of amortization of $0 and $55,764 for 2009 and 2008, respectively)	-	78,077
Bond issue costs (net of amortization of $427,265 and $915,149 for 2009 and 2008, respectively)	727,111	935,034
Cost of sewer capacity improvements (net of amortization of $110,991 and $91,040 for 2009 and 2008, respectively)	408,780	428,731
Total other assets	1,135,891	1,441,842
Total Assets	$ 28,989,681	$ 31,066,859

Liabilities and Net Assets

	2009	2008
Liabilities:		
Current liabilities:		
Accounts payable	$ 263,449	$ 230,881
Accrued payroll	22,459	3,254
Current portion of long-term debt	30,028	29,493
Total current liabilities	315,936	263,628
Current liabilities (payable from restricted assets):		
Current portion of bonds payable long-term	675,000	885,000
Bond interest payable	333,508	611,258
Total current liabilities (payable from restricted assets)	1,008,508	1,496,258
Long-term liabilities:		
Deferred fee	269,156	285,724
Deferred revenue	522,546	676,261
Accrued compensated absences	320,124	287,228
Notes payable	534,644	564,820
Bonds payable (net of deferred amounts of $1,596,125 and $235,956 for 2009 and 2008, respectively)	27,048,875	28,174,044
Total long-term liabilities	28,695,345	29,988,077
Total Liabilities	30,019,789	31,747,963
Net Assets:		
Invested in capital assets, net of related debt	(5,052,051)	(5,381,005)
Restricted net assets	3,295,901	3,883,736
Unrestricted net assets	726,042	816,165
Total Net Assets	(1,030,108)	(681,104)
Total Liabilities and Net Assets	$ 28,989,681	$ 31,066,859

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, 2009 AND 2008

	2009	2008
Operating Revenues:		
Sewer rentals	$ 5,818,914	$ 5,741,330
Operating Expenses:		
Sewer system operation	3,775,699	3,932,737
Purchased sewer treatment	365,081	320,539
Depreciation and amortization	890,411	885,372
Total operating expenses	5,031,191	5,138,648
Operating Income	787,723	602,682
Nonoperating Revenues (Expenses):		
Interest income	101,712	183,176
Other revenue	36,141	57,517
Interest on sewer revenue bonds and notes payable	(1,425,606)	(1,540,002)
Amortization of bond issue costs and deferred charges	(55,353)	(70,896)
Amortization of deferred revenue related to swap transactions	153,715	-
Proceeds from 2009 swap	224,550	-
Payment of 2009 swap fees	(224,550)	-
Income on swap transactions	37,942	-
Total nonoperating revenues (expenses)	(1,151,449)	(1,370,205)
Income (Loss) Before Capital Contribution Revenues	(363,726)	(767,523)
Capital Contribution Revenues:		
Tapping/connection fees	14,722	63,565
Total capital contribution revenues	14,722	63,565
Change in Net Assets	(349,004)	(703,958)
Net Assets:		
Beginning of year	(681,104)	22,854
End of year	$ (1,030,108)	$ (681,104)

See accompanying notes to financial statements.

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
Cash Flows From Operating Activities:		
Cash received from customers	$ 5,838,709	$ 5,592,488
Cash payments for operating expenses	(4,271,213)	(4,245,501)
Net cash provided by (used in) operating activities	1,567,496	1,346,987
Cash Flows From Noncapital Financing Activities:		
Grant revenue received	1,123	32,326
Proceeds from 2009 swap	224,550	-
Payment of 2009 swap fees	(224,550)	-
Other	88,805	156,782
Net cash provided by (used in) noncapital financing activities	89,928	189,108
Cash Flows From Capital and Related Financing Activities:		
Interest paid on debt	(1,489,277)	(1,575,054)
Interest received on restricted bond funds	73,003	142,668
Capital assets and related purchases	(252,414)	(643,400)
Proceeds from issuance of refunding bonds	29,320,000	-
Payment to refunded bond escrow agent/fund	(28,634,490)	-
Payment for bond issue costs	(1,135,679)	-
Payment of line of credit	-	(163,289)
Payment of notes payable	(29,641)	(30,142)
Payment of bond principal	(885,000)	(840,000)
Net cash provided by (used in) capital and related financing activities	(3,033,498)	(3,109,217)
Cash Flows From Investing Activities:		
Sale of investments	865,585	590,597
Interest earned	26,874	40,508
Net cash provided by (used in) investing activities	892,459	631,105
Increase (Decrease) in Cash and Cash Equivalents	(483,615)	(942,017)
Cash and Cash Equivalents:		
Beginning of year	913,945	1,855,962
End of year	$ 430,330	$ 913,945
Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities:		
Operating income	$ 787,723	$ 602,682
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation and amortization	890,411	885,372
Change in operating assets:		
Accounts receivable	(197,430)	(148,842)
Prepaid expenses	2,123	(1,529)
Change in operating liabilities:		
Accounts payable	32,568	17,660
Accrued payroll and withholdings	19,205	(28,761)
Accrued compensated absences	32,896	20,405
Net cash provided by (used in) operating activities	$ 1,567,496	$ 1,346,987
Non-Cash Investing, Capital, and Financing Activities:		
Amortization of deferred revenue related to swap transactions	$ 153,715	$ -

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 straight-line 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 $320,124 and $287,228 for 2009 and 2008, respectively, for compensated absences that are eligible for payment upon termination.

GAAP Hierarchy

In applying the provisions of Governmental Accounting Standards Board (GASB) Statement No. 20, *"Accounting and Financial Reporting for Proprietary Funds,"* the Authority applies all GASB pronouncements and all Financial Accounting Standards Board pronouncements, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

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 $3,295,901 and $3,883,736 at December 31, 2009 and 2008, 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 June 2008, GASB issued Statement No. 53, "*Accounting and Financial Reporting for Derivative Instruments.*" This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. This Statement is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the accrual basis of accounting. The guidance in this Statement also addresses hedge accounting requirements and will be effective for the Authority's financial statements for the year ended December 31, 2010.

Subsequent Events

Subsequent events have been evaluated through the Independent Auditor's Report date, which is the date the financial statements were available to be issued.

3. CASH AND INVESTMENTS

The Authority is authorized to invest in: obligations of the U.S. Government and government-sponsored agencies and instrumentalities; fully insured or collateralized certificates of deposits; commercial paper of the highest rating; repurchase agreements collateralized by government obligations or securities; highly rated bank promissory notes or investment funds or trusts; and, as to trusteed assets, as otherwise permitted by the trust indenture of 2009. Throughout the years ended December 31, 2009 and 2008, 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, 2009 and 2008, respectively, $0 and $42,387 of the Authority's bank balance of $224,654 and $616,588 was exposed to custodial credit risk. Any exposed amount is collateralized in accordance with Act 72 of the Pennsylvania state legislature, which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution's name. This deposit has a carrying amount of $259,731 and $593,314 as of December 31, 2009 and 2008, 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 $101,235 and $120,631 for 2009 and 2008, 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 $69,364 and $200,000 in 2009 and 2008, respectively. The fair value of the Authority's investments in INVEST is the same as the value of the pool shares.

At December 31, 2009, the Authority held the following investment balances:

	Fair Market Value	Maturity in Years Less than 1 Year
Money markets	$ 2,108,313	$ 2,108,313
Corporate bonds	657,366	657,366
U.S. agencies	157,814	157,814
Foreign commercial paper	705,916	705,916
Total	$ 3,629,409	$ 3,629,409

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

The fair value of the Authority's investments is the same as their carrying amount. Investments of $3,629,409 at December 31, 2009 and $4,494,994 at December 31, 2008 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, 2009 and 2008 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. At December 31, 2009 and 2008, the Authority held $155,814 and $656,848, respectively, of FNMA and $2,000 and $197,944, respectively, of FHLMC investments, which were rated Aaa by Moody's. The Authority's Wells Fargo money market funds of $2,108,313 and J.P. Morgan corporate bonds of $657,366 are unrated at December 31, 2009. The Authority held $505,948 and $199,968 of Irish Permanent Treasury Commercial Paper and Irish Life and Permanent Commercial Paper, respectively, which were rated P-1 by Moody's at December 31, 2009.

As of December 31, 2008, the Authority's investments in INVEST were rated AAAm, by Standard & Poor's. The Authority's First American Government Obligation Funds investments are unrated at December 31, 2008. The Authority held $1,104,963 of TMG Financial Investment agreements, which were rated Aa3 by Moody's at December 31, 2008. 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 Wells Fargo money market funds, Irish Permanent Treasury Commercial Paper, Irish Life and Permanent Commercial Paper, and J.P. Morgan corporate bonds. These investments are 63%, 12%, 5%, and 16%, respectively, of the Authority's total investments at December 31, 2009.

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. At December 31, 2009, $705,916 in commercial paper investments was denominated in Euros.

4. CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	Balance at December 31, 2008	Additions	Transfers/ Deletions	Balance at December 31, 2009
Capital assets, not being depreciated:				
Construction in progress	$ 595,863	$ 25,152	$ (100,798)	$ 520,217
Capital assets, being depreciated:				
Plant and system	27,751,604	179,868	-	27,931,472
Vehicles and equipment	627,787	-	-	627,787
Other capital improvements	1,540,267	148,192	-	1,688,459
Total capital assets, being depreciated	29,919,658	328,060	-	30,247,718
Less accumulated depreciation	(7,332,140)	(870,460)	-	(8,202,600)
Total capital assets, being depreciated, net	22,587,518	(542,400)	-	22,045,118
Total capital assets, net	$ 23,183,381	$ (517,248)	$ (100,798)	$ 22,565,335

	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

5. LONG-TERM DEBT

Current interest bonds payable at December 31, 2009 are composed of the following individual issues:

Sewer Revenue Bonds	Balance at December 31, 2008	Retirements	Balance at December 31, 2009	Due Within One Year
1996	$ 825,000	$ (825,000)	$ -	$ -
1998	28,470,000	(28,470,000)	-	-
2009	-	-	29,320,000	675,000
	$ 29,295,000	$ (29,295,000)	$ 29,320,000	$ 675,000

Sewer Revenue Bonds, Refunding Series of 2009, due in annual principal installments or mandatory sinking fund payments through August 1, 2028.	$ 29,320,000
Less: deferred loss on advance refunding	(1,235,784)
Less: discount on bonds	(360,341)
Less: current portion	(675,000)
Total bonds payable - long-term	$ 27,048,875

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. During 2009, these bonds were legally defeased, pursuant to the Indenture, by the Authority by depositing the remaining principal and interest with the Trustee in an escrow trust. As of December 31, 2009, $425,000 remains outstanding as defeased debt.

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%. During 2009, these bonds were currently refunded.

On September 15, 2009, the Authority issued $29,320,000 of Sewer Revenue Bonds, Refunding Series of 2009, bearing interest rates ranging from 2% to 4.625%. The proceeds of the bonds were used to (1) currently refund all of the outstanding 1998 bonds in the amount of $27,985,000 and (2) to pay all costs incurred in connection with the issuance of the 2009 Bonds. A supplemental indenture (2009 Bond Indenture) was made and entered into as of September 15, 2009, between the Authority and the Trustee, Wells Fargo Bank, N.A.

The 2009 Bond Indenture includes rate covenants that the Authority must meet on an annual basis. The Authority must generate operating surplus annually equal to 110% of the debt service requirements with respect to all outstanding bonds during the current fiscal year of the Authority. This calculation can only include operating revenues of the Authority and is no longer permitted to include the surplus of the revenue fund. Due to the issuance of the 2009 refunding bonds, there were no debt service requirements for the 2009 Bonds, as defined in the 2009 Bond Indenture, in 2009. It is the assertion of the Authority and the Authority's bond counsel that it is not necessary to perform the debt covenant calculation in 2009 to determine compliance with the 2009 Bond Indenture.

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

December 31,	Principal	Interest	Total
2010	$ 675,000	$ 996,321	$ 1,671,321
2011	530,000	1,121,549	1,651,549
2012	1,165,000	1,108,299	2,273,299
2013	1,270,000	1,079,174	2,349,174
2014	1,305,000	1,041,074	2,346,074
2015-2019	7,245,000	4,503,781	11,748,781
2020-2024	8,715,000	3,028,046	11,743,046
2025-2028	8,415,000	982,965	9,397,965
	$ 29,320,000	$ 13,861,209	$ 43,181,209

In July 2001, PennVest approved a loan for the Pittsburgh Water and Sewer Authority (PWSA) to fund a rehabilitation project in the Streets Run Interceptor Sewer, bearing interest at 1%. As described in Note 10 below, the Authority has agreed to share in the costs related to this project. Accordingly, the Authority is also responsible for a share of the PennVest loan. Payments are required to be paid to PWSA through fiscal year 2024. The outstanding balance of the loan is $208,082 and $219,906 at December 31, 2009 and 2008, respectively.

The following summarizes the required payments for the PWSA loan:

December 31,	Principal	Interest	Total
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	13,604	4,494	18,098
2015-2019	74,413	16,076	90,489
2020-2024	69,513	4,386	73,899
	$ 208,082	$ 46,795	$ 254,877

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 $356,590 and $374,407 at December 31, 2009 and 2008, respectively.

The following summarizes the required payments for the PennVest loan:

December 31,	Principal	Interest	Total
2010	$ 17,947	$ 5,583	$ 23,530
2011	18,229	5,301	23,530
2012	18,252	5,609	23,861
2013	17,325	8,193	25,518
2014	17,798	7,720	25,518
2015-2019	96,550	31,038	127,588
2020-2024	110,471	17,116	127,587
2025-2027	60,018	2,769	62,787
	$ 356,590	$ 83,329	$ 439,919

At December 31, 2009, the PWSA loan and the PennVest loan are presented as notes payable on the statements of net assets in the amount of $534,644 (long-term) and $30,028 (short-term). 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).

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. 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, net of accumulated amortization.

In September 2006, the Authority amended the initial swap agreement to change the structure of the swap agreement to a constant maturity swap (CMS). The swap agreement was also amended in 2007 and 2008 to extend the effective date. The 2008 amendment extended the effective date until October 1, 2009.

In November 2009, with the issuance of the Refunding Bonds discussed in Note 5, the CMS swap was terminated and a new Basis Swap was started. On August 1, 2022, the Basis Swap will convert to a CMS with a final maturity on August 1, 2028. The interest payments on the

Basis Swap were calculated based on a notional amount of $29,320,000, which will begin reducing on July 1, 2010 through conversion on August 1, 2022. The notional amount on the CMS will continue to reduce through final maturity on August 1, 2028.

The Authority received an upfront payment of $224,550 from the counterparty in order to pay fees associated with the 2009 swap transactions. The Authority paid these fees to all required parties in 2009. The early termination fee payable by the Authority related to the 2006 extended CMS has been included in the new swap agreement effectively by moving the date on which the Basis Swap ends, and the CMS swap begins, closer to the trade date.

Starting on December 1, 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. 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. Under the Basis Swap, 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-LIBOR-BBA three month swap rate through August 1, 2022. The actual amount will be determined based upon a mathematical formula equal to 65% of USD-LIBOR-BBA plus 0.30% three month swap rate. Under the CMS starting on September 1, 2022, 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 through the termination date of August 1, 2028. 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, 2009, the Basis Swap transaction had a fair value of $(522,546). 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, 2009, the current notional amount was $29,320,000. During 2009, the Authority was not required to make any payments related to the swap agreements. During 2009, the Authority received $37,942 in swap payments from the counterparty.

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, 2009, 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 65% of the average of USD- LIBOR-BBA plus 0.30% three month 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 through August 1, 2022. After the scheduled conversion to the CMS, the Authority would continue to be 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 from September 1, 2022 through August 1, 2028.

- Tax risk refers to political forces at work that 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 $269,156 and $285,724 are included as deferred fees on the statements of net assets at December 31, 2009 and 2008, 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 an amount that approximates the fair value of the contract at termination.

As part of the issuance of the 2009 Bonds in Note 5, the 1996 debt service forward delivery agreement was terminated. In addition, the original 1998 debt service forward delivery agreement was amended to remove the prior trustee and add the current trustee and to change the 1998 bonds to the 2009 bonds. The original delivery date has remained unchanged from the original agreement.

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 Bank of NY Mellon. The plan issues a separate stand-alone financial report that includes financial statements and required supplementary information that is available for public inspection at the Authority's offices.

The plan is available to any person employed on a full-time, permanent basis by the Authority. 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, 2009, 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 $40 per month of their salary as stipulated in the Act.

For the year ended December 31, 2009, the following plan information is presented:

Annual pension cost	$ 96,944
Contributions made	$ 91,954
Actuarial valuation date	1/1/2009
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar Closed
Amortization period	8 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	Net Pension Asset
12/31/2007	$ 110,610	100%	$ 68,148
12/31/2008	109,109	100%	67,773
12/31/2009	96,944	95%	62,783

As the net pension asset, the amount the plan has been funded in excess of required contributions, is not material to the financial statements, they have not been recorded on the statements of net assets.

Funded Status

The Authority's funded status and related information as of the latest actuarial valuation date, January 1, 2009, 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
$1,596,829	$ 2,122,955	$ (526,126)	75.22%	$1,618,471	(32.51)%

The required schedule of funding progress, included as required supplementary information immediately following the notes to 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.

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, 2009, 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, 2009 amounted to approximately $29,596.

Consent Order

The Authority finalized and signed a consent order with the Allegheny County Health Department on February 26, 2004 that requires mapping, cleaning, repairing, and maintenance of the municipal sewer lines in the ALCOSAN service area over a five- to eight-year period. Authority compliance costs related to the ALCOSAN area consent order have been estimated to be 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.

13. Financial Position

For the years ended December 31, 2009 and 2008, the Authority had negative net assets of ($1,030,108) and ($681,104), respectively. These conditions indicate that the Authority has significant matters to address to develop sufficient funds to meet future obligations. In order to obtain favorable financial results in 2010 and to meets its debt covenants, the Authority plans to reassess the appropriateness of its rate structure and cost containment measures.

14. Subsequent Events

In February 2010, the Authority transferred $230,000 from the Debt Service Fund to its operating account in order to cover operating expenses of the Authority. The Authority obtained a legal opinion prior to the transfer of funds, which supports that deposits made into the Debt Service Fund in excess of amounts required for the debt service on the 2009 Bonds can be requested by the Authority.

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
1/1/2005	$ 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)%
1/1/2009	1,596,829	2,122,955	(526,126)	75.22%	1,618,471	(32.51)%

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, 2009

Year Ended December 31,	Annual Required Contribution	Percentage Contributed
2004	$ 80,225	100%
2005	96,319	100%
2006	109,085	100%
2007	110,610	100%
2008	109,109	100%
2009	96,944	95%

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, 2009

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	1/1/2009
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar Closed
Amortization period	8 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, 2009 AND 2008

	2009	2008
Operating Revenues:		
Sewage rentals	$ 5,818,914	$ 5,741,330
Operating Expenses:		
Sewer system operation:		
Sewage treatment plants	$ 258,834	$ 375,337
Utilities	417,623	508,188
Sewer crew expenses	12,268	14,736
Pretreatment expenses	147	292
Payroll	1,743,022	1,725,141
Payroll taxes	136,883	138,299
Benefits	670,062	611,883
Office supplies	18,438	20,020
Communications	22,889	26,911
Postage	2,918	4,811
Advertisements	1,156	2,151
Printing	346	490
Fee collection costs	269,400	261,142
Engineering fees	35,922	41,988
Insurance	152,197	146,807
Seminars	843	2,441
Professional services	31,810	40,264
Miscellaneous expenses	941	11,836
Purchased sewer treatment	365,081	320,539
Depreciation and amortization	890,411	885,372
Total operating expenses	$ 5,031,191	$ 5,138,648