

**West Mifflin Sanitary Sewer
Municipal Authority**
Financial Statements and
Required Supplementary Information and
Supplementary Information
Years Ended December 31, 2010 and 2009
with Independent Auditor's Report

MaherDuessel
Certified Public Accountants

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

YEARS ENDED DECEMBER 31, 2010 AND 2009

TABLE OF CONTENTS

Independent Auditor's Report

Management's Discussion and Analysis	i
---	---

Financial Statements:

Statements of Net Assets	1
Statements of Revenues, Expenses, and Changes in Net Assets	2
Statements of Cash Flows	3
Notes to Financial Statements	4

Required Supplementary Information:

Schedule of Funding Progress	24
Schedule of Contributions From Employers and Other Contributing Entities	25
Note to the Supplementary Pension Schedules	26

Supplementary Information:

Analysis of Operating Revenues and Expenses	27
---	----

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, 2010 and 2009, 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 respective financial position of the Authority as of December 31, 2010 and 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Authority had a deficit in net assets of (\$1,692,910) and (\$1,030,108) for the years ended December 31, 2010 and 2009. Management's plans in regard to these matters are described in Note 13.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and pension information on pages i through vii and 24 through 26, respectively, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise the Authority's basic financial statements as a whole. The accompanying supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Maher Duessel

Pittsburgh, Pennsylvania
June 28, 2011

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

The West Mifflin Sanitary Sewer Municipal Authority faced a number of financial challenges during 2010, which were outside of its control. The following are key financial highlights during 2010.

- In 2010, the flow billed increased by 70,122,700 gallons or 12.36%. This increase can be attributed to an increase in customer's usage from the residential and commercial users in our service area. Unfortunately even with the usage increased, we did not produce as much revenue as anticipated.
- In 2010, the Authority treated 970,375,500 gallons for 7,363 customers at its two waste water treatment plants. Of the gallons treated, only 637,534, 700 gallons were billed. In 2009, the Authority treated 964,681,000 gallons for 7,354 customers at its two wastewater treatment plants of which 567,412,000 gallons were billed. 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.
- During 2010, the Authority paid \$675,000 in principal on its outstanding Sewer Revenue Bonds; compared with principal payments made in 2009 of \$885,000.
- During 2010, the Authority adopted GASB Statement No. 53, "*Accounting and Financial Reporting for Derivative Instruments*," which resulted in net assets as of December 31, 2008 being restated, the recording of a borrowing payable related to the swap of \$528,203, and an embedded derivative liability of \$436,075 at December 31, 2010.
- The Authority had an increase in the cost of operations (less depreciation) in 2010 by \$214,888 or 5% when compared to 2009.
- The Authority raised sewer rates in September of 2010. A residential customer who uses an average of 6,000 gallons per month saw their rate increase \$11.48 per month or about 25.80%.

- Operating revenues increased by \$205,541 or 4% in 2010 when compared to 2009.
- The Authority essentially completed and placed into service almost \$725,000 in sewer system and treatment plant improvements in 2010.

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 2010. The Authority Board increased sewer rates in September of 2010 that went into effect for the October 2010 billing. This rate increase was necessary to cover operating expenses for the Authority. The 2009 rate increase did not take in to account the loss of revenue from the General Motors plant closure, or the fact that operating expenses have increased all around due to the economic down turn.

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 \$15.00 per residential and \$23.00 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 13 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, 40 accounts were being billed by the WMSSMA in this service area. In 2010, the number of customers in this service area was reduced to 37. 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 provide key financial data and indicators for management, monitoring, and planning.

Condensed Statement of Net Assets
(In Millions of Dollars)

Assets	2010	2009	\$ Change	% Change
Current assets	\$ 1,656,313	\$ 1,659,046	\$ (2,733)	0%
Restricted assets	3,610,135	3,629,409	(19,274)	-1%
Capital assets	21,884,246	22,535,335	(651,089)	-3%
Other assets	1,077,527	1,135,891	(58,364)	-5%
Total Assets	\$ 28,228,221	\$ 28,959,681	\$ (731,460)	
Liabilities and Net Assets				
Liabilities:				
Current liabilities	\$ 1,270,791	\$ 1,324,444	\$ (53,653)	-4%
Long-term liabilities	28,650,340	28,695,345	(45,005)	0%
Total Liabilities	29,921,131	30,019,789	(98,658)	
Net Assets:				
Invested in capital assets, net of related debt	(5,760,142)	(5,052,051)	(708,091)	14%
Restricted net assets	3,142,823	3,295,901	(153,078)	-5%
Unrestricted net assets	924,409	726,042	198,367	27%
Total Net Assets	(1,692,910)	(1,030,108)	(662,802)	
Total Liabilities and Net Assets	\$ 28,228,221	\$ 28,989,681	\$ (761,460)	

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

	2010	2009	\$ Change	% Change
Operating revenues	\$ 6,024,455	\$ 5,818,914	\$ 205,541	4%
Non-operating revenues	224,008	1,954,072	(1,730,064)	-89%
Total revenues	6,248,463	7,772,986	(1,524,523)	-20%
Operating expenses	5,261,131	5,031,191	229,940	5%
Non-operating expenses	1,732,883	1,507,652	225,231	15%
Total expenses	6,994,014	6,538,843	455,171	7%
Income before capital contribution revenues	(745,551)	1,234,143	(1,979,694)	-160%
Capital contribution revenues	82,749	14,722	68,027	462%
Change in net assets	(662,802)	1,248,865	(1,911,667)	-153%
Net assets, beginning of year, (restated 1/1/09)	(1,030,108)	(2,278,973)	1,248,865	-55%
Net assets, end of year	\$ (1,692,910)	\$ (1,030,108)	\$ (662,802)	64%

OTHER SELECTED INFORMATION

	<u>Sept. 2010</u>	<u>2009</u>	<u>Difference</u>	<u>%Change</u>
<u>Selected Data:</u>				
Authorized Employees	28	31	-3	-9.68%
Actual Employees at year-end	28	31	-3	-9.68%
Wastewater Treated (billions of gallons)	0.970375	0.9647	0.005675	0.59%
Wastewater Billed (billions of gallons)	0.637534	0.567412	0.070122	12.36%
Percentage of Billed/Treated Wastewater	65.70%	58.82%	6.88%	11.70%
<u>Rates:</u>				
Residential Fee	\$15	\$13	\$0.00	0.00%
Commercial Fee	\$23.00	\$21.00	\$0.00	0.00%
First 2,000 gallons/thousand	\$6.83	\$5.25	\$1.50	40.00%
next 13,000 gallons/thousand	\$6.83	\$5.25	\$1.00	23.53%
15,001-100,000 gallons/thousand	\$10.50	\$10.00	\$0.50	5.26%
over 100,000 gallons/thousand	\$12.50	\$12.25	\$0.50	4.26%
<u>Average Residential Customer Bill:</u>				
Per year	\$671.76	\$534.00	\$137.76	25.80%
Per Month	\$55.98	\$44.50	\$11.48	25.80%

* 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, 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. 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. 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. Using these reserves in 2009 has negatively impacted the Authority for 2010 and therefore another rate increase was issued for the October 2010 billing period.

RESULTS OF OPERATIONS

Operating Revenue:

In 2010, 100% of operating revenue was derived from customer billing for sewage treatment service. This includes residential commercial and industrial customers.

Operating Expenses:

Total operating expense, before depreciation was \$4,355,668 in 2010 vs. \$4,140,780 in 2009. In 2010, operating expenses increased in utilities, office supplies, postage, advertisement, and insurance, engineering fees, professional fees, and purchased sewer treatment. There were reductions in sewer crew expenses, payroll, benefits, communications, printing, fee collection costs, and seminars.

Non-Operating Revenues and Non-Operating Expenses:

The Authority experienced significant fluctuations in Non-operating Revenue (Expense) between 2010 and 2009 primarily due to changes in the market value of the Authority's swap. As of December 31, 2009 the interest rate swap had a market value which was recorded as an asset of \$43,346 and as of December 31, 2010 the interest rate swap had a negative change in market value which is recorded as a component of investment income on the Statements of Revenues, Expenses, and Changes in Net Assets of \$441,732 resulting in a derivative liability to the Authority of \$436,075. The Authority recorded in 2009, a positive investment gain on the interest rate swap due to changes in market value between 2008 and 2009 of \$1,751,584.

Depreciation:

The Authority had a depreciation expense of \$905,463 on plants and equipment in 2010. In 2010, the Authority completed almost \$724,000 in various capital projects throughout the sewer system and treatment plants.

DEBT

At year-end, the Authority had \$28,645,000 in bond debt.

In 2010, the Authority was not in compliance with its rate covenant per its Trust Indenture, as its operating surplus was less than 110% of the debt service requirements (the necessary surplus was short approximately \$50,000). The Authority will work with the Trustee and bond counsel to assess the appropriateness of its rate structure in order for the rate covenant to be met at December 31, 2011.

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

FINAL COMMENTS

While fiscal year 2010 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, 2010 AND 2009

	Assets		Liabilities and Net Assets	
	2010	2009	2010	2009
Current assets:				
Cash and cash equivalents	\$ 481,695	\$ 430,330		
Accounts receivable - user fees	1,093,546	935,150	\$ 236,012	\$ 263,449
Accounts receivable - non-user fees	-	217,225	8,158	22,459
Prepaid expenses	56,583	51,606	29,309	30,028
Interest receivable	24,489	24,735		
Total current assets	<u>1,656,313</u>	<u>1,659,046</u>	<u>273,479</u>	<u>315,936</u>
Restricted assets:				
Construction fund	148,845	326,972		
Debt service accounts	3,461,290	3,302,437	530,000	675,000
Total restricted assets	<u>3,610,135</u>	<u>3,629,409</u>	<u>467,312</u>	<u>333,508</u>
Capital assets (at cost)				
Less: accumulated depreciation	30,972,358	30,247,718	254,203	269,156
Construction in progress	(9,088,112)	(8,202,600)	528,203	565,892
	-	520,217	436,075	(43,346)
Total capital assets, net (at cost)	<u>21,884,246</u>	<u>22,565,335</u>	<u>338,889</u>	<u>320,124</u>
			488,779	534,644
			26,604,191	27,048,875
			28,650,340	28,695,345
			29,921,131	30,019,789
Other assets:				
Bond issue costs (net of amortization of \$50,202 and \$427,265 for 2010 and 2009, respectively)	688,245	727,111	(5,760,142)	(5,052,051)
Cost of sewer capacity improvements (net of amortization of \$130,942 and \$110,991 for 2010 and 2009, respectively)	389,282	408,780	3,142,823	3,295,901
Total other assets	<u>1,077,527</u>	<u>1,135,891</u>	<u>924,409</u>	<u>726,042</u>
Total Assets	<u>\$ 28,228,221</u>	<u>\$ 28,989,681</u>	<u>\$ 28,228,221</u>	<u>\$ 28,989,681</u>
			(1,692,910)	(1,030,108)
			\$ 28,228,221	\$ 28,989,681

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, 2010 AND 2009

	2010	2009
Operating Revenues:		
Sewer rentals	\$ 6,024,455	\$ 5,818,914
Operating Expenses:		
Sewer system operation	3,980,172	3,775,699
Purchased sewer treatment	375,496	365,081
Depreciation and amortization	905,463	890,411
Total operating expenses	5,261,131	5,031,191
Operating Income	763,324	787,723
Nonoperating Revenues (Expenses):		
Interest income	67,287	101,712
Other revenue	56,147	36,141
Interest on sewer revenue bonds and notes payable	(1,227,227)	(1,425,606)
Amortization of bond issue costs	(38,866)	(55,353)
Investment income (loss) on embedded derivative instrument	(441,732)	1,751,584
Interest expense on borrowing payable - swap	(25,058)	(26,693)
Income on swap transactions	100,574	64,635
Total nonoperating revenues (expenses)	(1,508,875)	446,420
Income (Loss) Before Capital Contribution Revenues	(745,551)	1,234,143
Capital Contribution Revenues:		
Tapping/connection fees	82,749	14,722
Total capital contribution revenues	82,749	14,722
Change in Net Assets	(662,802)	1,248,865
Net Assets:		
Beginning of year, as restated at January 1, 2009	(1,030,108)	(2,278,973)
End of year	\$ (1,692,910)	\$ (1,030,108)

See accompanying notes to financial statements.

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
Cash Flows From Operating Activities:		
Cash received from customers	\$ 5,866,059	\$ 5,838,709
Cash payments for operating expenses	(4,166,393)	(4,271,213)
Net cash provided by (used in) operating activities	1,699,666	1,567,496
Cash Flows From Noncapital Financing Activities:		
Grant revenue received	-	1,123
Payment received on swap transactions	100,574	64,635
Interest paid on borrowing payable - swap	(25,058)	(26,693)
Other	207,446	50,863
Net cash provided by (used in) noncapital financing activities	282,962	89,928
Cash Flows From Capital and Related Financing Activities:		
Interest paid on debt	(1,108,376)	(1,489,277)
Interest received on restricted bond funds	42,794	73,003
Capital assets and related purchases	(204,876)	(252,414)
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 notes payable	(29,818)	(29,641)
Payment of bond principal	(675,000)	(885,000)
Net cash provided by (used in) capital and related financing activities	(1,975,276)	(3,033,498)
Cash Flows From Investing Activities:		
Sale of investments	19,274	865,585
Interest earned	24,739	26,874
Net cash provided by (used in) investing activities	44,013	892,459
Increase (Decrease) in Cash and Cash Equivalents	51,365	(483,615)
Cash and Cash Equivalents:		
Beginning of year	430,330	913,945
End of year	\$ 481,695	\$ 430,330
Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities:		
Operating income	\$ 763,324	\$ 787,723
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation and amortization	905,463	890,411
Change in operating assets:		
Accounts receivable	58,829	(197,430)
Prepaid expenses	(4,977)	2,123
Change in operating liabilities:		
Accounts payable	(27,437)	32,568
Accrued payroll and withholdings	(14,301)	19,205
Accrued compensated absences	18,765	32,896
Net cash provided by (used in) operating activities	\$ 1,699,666	\$ 1,567,496
Non-Cash Investing, Capital, and Financing Activities:		
Investment income (loss) on embedded derivative instrument	\$ (441,732)	\$ 1,751,584

See accompanying notes to financial statements.

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

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.

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

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 \$338,889 and \$320,124 for 2010 and 2009, 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 (FASB) 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
