West Mifflin Sanitary Sewer Municipal Authority

Financial Statements and
Required Supplementary Information and
Supplementary Information

Years Ended December 31, 2011 and 2010
with Independent Auditor's Report

MaherDuessel
Certified Public Accountants

Pittsburgh | Harrisburg | Butler

Pursuing the profession while promoting the public good®
www.md-cpas.com

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

YEARS ENDED DECEMBER 31, 2011 AND 2010

TABLE OF CONTENTS

MaherDuessel
Certified Public Accountants

Pittsburgh
503 Martindale Street
Suite 600
Pittsburgh, PA 15212
Main 412.471.5500
Fax 412.471.5508

Harrisburg
3003 North Front Street
Suite 101
Harrisburg, PA 17110
Main 717.232.1230
Fax 717.232.8230

Butler
112 Hollywood Drive
Suite 204
Butler, PA 16001
Main 724.285.6800
Fax 724.285.6875

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, 2011 and 2010, 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, 2011 and 2010, and the changes in financial position and 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 ($305,028) and ($1,692,910) for the years ended December 31, 2011 and 2010. 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 and 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 7, 2012

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 following are key financial highlights during 2011:

- In 2011, the flow billed increased by 118,364,990 gallons. This increase can be attributed to an increase in customer's usage from the residential and commercial users in our service area. This increase in billed volume allowed the Authority to recover from last years' distress.

- In 2011, the Authority treated 1,169,286,000 gallons for 8,547 customers at its two waste water treatment plants. Of the gallons treated only 755,899,691 gallons were billed. 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. 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 2011, the Authority paid $530,000 in principal on its outstanding Sewer Revenue Bonds; compared with principal payments made in 2010 of $675,000.

- The Authority had a decrease in the cost of operations (less depreciation) in 2011 by $196,088 or 5% when compared to 2010.

- 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 $1,072,221 or 18% in 2011 when compared to 2010.

- The Authority essentially completed and placed into service almost $170,000 in sewer system and treatment plant improvements in 2011.

- During 2011, the Authority entered into a loan with PennVest up to an approved amount of $1,237,000 to fund the construction of improvements to the community sewer system. The loan bears interest at 1% for the 240 months of the loan term. As of December 31, 2011, the Authority has drawn down on approximately $820,000 of the loan.

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 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 $16.00 per residential and $24.00 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 2011, 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)				
	2011	2010	$ Change	% Change
Assets				
Current assets	$ 3,148,304	$ 1,656,313	$ 1,491,991	90%
Restricted assets	3,573,864	3,610,135	(36,271)	-1%
Capital assets	22,056,781	21,884,246	172,535	1%
Other assets	1,021,008	1,077,527	(56,519)	-5%
Total Assets	$ 29,799,957	$ 28,228,221	$ 1,571,736	
Liabilities and Net Assets				
Liabilities:				
Current liabilities	$ 2,240,444	$ 1,324,444	$ 916,000	69%
Long-term liabilities	27,864,541	28,695,345	(830,804)	-3%
Total Liabilities	30,104,985	30,019,789	85,196	
Net Assets:				
Invested in capital assets, net of related debt	(5,621,181)	(5,052,051)	(569,130)	11%
Restricted net assets	3,112,081	3,295,901	(183,820)	-6%
Unrestricted net assets	2,204,072	726,042	1,478,030	204%
Total Net Assets	(305,028)	(1,030,108)	725,080	
Total Liabilities and Net Assets	$ 29,799,957	$ 28,989,681	$ 810,276	

Condensed Statement of Revenues, Expenses, and Changes in Net Assets (In Millions of Dollars)				
	2011	2010	$ Change	% Change
Operating revenues	$ 7,096,676	$ 6,024,455	$ 1,072,221	18%
Non-operating revenues	611,987	224,008	387,979	173%
Total revenues	7,708,663	6,248,463	1,460,200	23%
Operating expenses	5,051,497	5,261,131	(209,634)	-4%
Non-operating expenses	1,277,060	1,732,883	(455,823)	-26%
Total expenses	6,328,557	6,994,014	(665,457)	-10%
Income before capital contribution revenues	1,380,106	(745,551)	2,125,657	-285%
Capital contribution revenues	7,776	82,749	(74,973)	-91%
Change in net assets	1,387,882	(662,802)	2,050,684	-309%
Net assets, beginning of year	(1,692,910)	(1,030,108)	(662,802)	
Net assets, end of year	$ (305,028)	$ (1,692,910)	$ 1,387,882	

OTHER SELECTED INFORMATION

	2011	2010	Difference	%Change
Selected Data:				
Authorized Employees	28	28	0	0.00%
Actual Employees at year-end	28	28	0	0.00%
Wastewater Treated (billons of gallons)	1.169286	0.970375	0.198911	20.50%
Wastewater Billed (billions of gallons)	0.755899	0.637534	0.118365	18.57%
Percentage of Billed/Treated Wastewater	64.65%	65.70%	-1.05%	-1.60%
Rates:				
Residential Fee	$16	$15	$0.00	0.00%
Commercial Fee	$24.00	$23.00	$0.00	0.00%
First 2,000 gallons/thousand	$6.83	$6.83	$1.50	40.00%
next 13,000 gallons/thousand	$6.83	6,83	$1.00	23.53%
15,001-100,000 gallons/thousand	$10.50	$10.50	$0.50	5.26%
over 100,000 gallons/thousand	$12.50	$12.50	$0.50	4.26%
Average Residential Customer Bill:				
Per year	$683.76	$534.00	$149.76	28.04%
Per Month	$56.98	$44.50	$12.48	28.04%

* 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 $1.7 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.

RESULTS OF OPERATIONS

Operating Revenue:

In 2011, 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 $4,159,580 in 2011 vs. $4,355,668 in 2010. In 2011, operating expenses increased in purchased sewer treatment, fee collection costs, printing, communications, payroll taxes, pretreatment expenses, and sewer crew expenses. There were reductions in utilities, payroll, benefits, office supplies, postage, advertisement, engineering fees, insurance, seminars, and professional fees.

Non-Operating Revenues and Non-Operating Expenses:

The Authority experienced significant fluctuations in Non-operating Revenue (Expense) between 2011 and 2010 primarily due to changes in the market value of the Authority's swap. As of December 31, 2011, the interest rate swap had a positive 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 $371,262 resulting in a derivative liability to the Authority of $64,813. 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.

Depreciation:

The Authority had a depreciation expense of $891,917 on plants and equipment in 2011. In 2011, the Authority completed almost $170,000 in various capital projects throughout the sewer system and treatment plants.

DEBT

At year-end, the Authority had $28,115,000 in bond debt.

In 2011, the Authority was in compliance with its rate covenant per its Trust Indenture, as its operating surplus was greater than 110% of the debt service requirements. The Authority will work with the Trustee and bond counsel to assess the appropriateness of its rate structure in ensuring future covenants are met, as debt services increases by approximately $700,000 for 2012 and remains at that level for a number of years.

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

FINAL COMMENTS

While fiscal year 2011 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. In addition to decreased costs, an increase in rates resulted in the Authority having a positive change in net assets of approximately $1,400,000 during 2011.

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, 2011 AND 2010

Assets

	2011	2010
Current assets:		
Cash and cash equivalents	$ 1,714,707	$ 481,695
Accounts receivable - user fees	1,354,339	1,093,546
Prepaid expenses	54,026	56,583
Interest receivable	25,232	24,489
Total current assets	3,148,304	1,656,313
Restricted assets:		
Construction fund	89,272	148,845
Debt service accounts	3,484,592	3,461,290
Total restricted assets	3,573,864	3,610,135
Capital assets (at cost)	31,141,633	30,972,358
Less: accumulated depreciation	(9,960,078)	(9,088,112)
Construction in progress	875,226	-
Total capital assets, net (at cost)	22,056,781	21,884,246
Other assets:		
Bond issue costs (net of amortization of $89,068 and $50,202 for 2011 and 2010, respectively)	649,379	688,245
Cost of sewer capacity improvements (net of amortization of $150,893 and $130,942 for 2011 and 2010, respectively)	371,629	389,282
Total other assets	1,021,008	1,077,527
Total Assets	$ 29,799,957	$ 28,228,221

Liabilities and Net Assets

	2011	2010
Liabilities:		
Current liabilities:		
Accounts payable	$ 495,287	$ 236,012
Accrued payroll	51,426	8,158
Current portion of long-term debt	66,948	29,309
Total current liabilities	613,661	273,479
Current liabilities (payable from restricted assets):		
Current portion of bonds payable long-term	1,165,000	530,000
Bond interest payable	461,783	467,312
Total current liabilities (payable from restricted assets)	1,626,783	997,312
Long-term liabilities:		
Deferred fee	239,250	254,203
Borrowing payable - swap	485,476	528,203
Embedded derivative instrument - liability (asset)	64,813	436,075
Accrued compensated absences	308,247	338,889
Notes payable	1,242,248	488,779
Bonds payable (net of deferred amounts of $1,425,493 and $1,510,809 for 2011 and 2010, respectively)	25,524,507	26,604,191
Total long-term liabilities	27,864,541	28,650,340
Total Liabilities	30,104,985	29,921,131
Net Assets:		
Invested in capital assets, net of related debt	(5,621,181)	(5,760,142)
Restricted net assets	3,112,081	3,142,823
Unrestricted net assets	2,204,072	924,409
Total Net Assets	(305,028)	(1,692,910)
Total Liabilities and Net Assets	$ 29,799,957	$ 28,228,221

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, 2011 AND 2010

	2011	2010
Operating Revenues:		
Sewer rentals	$ 7,096,676	$ 6,024,455
Operating Expenses:		
Sewer system operation	3,765,382	3,980,172
Purchased sewer treatment	394,198	375,496
Depreciation and amortization	891,917	905,463
Total operating expenses	5,051,497	5,261,131
Operating Income	2,045,179	763,324
Nonoperating Revenues (Expenses):		
Interest income	55,140	67,287
Other revenue	32,854	56,147
Interest on sewer revenue bonds and notes payable	(1,213,024)	(1,227,227)
Amortization of bond issue costs	(38,866)	(38,866)
Investment income (loss) on embedded derivative instrument	371,262	(441,732)
Interest expense on borrowing payable - swap	(23,234)	(25,058)
Income on swap transactions	152,731	100,574
Unrealized loss on investments	(1,936)	-
Total nonoperating revenues (expenses)	(665,073)	(1,508,875)
Income (Loss) Before Capital Contribution Revenues	1,380,106	(745,551)
Capital Contribution Revenues:		
Tapping/connection fees	7,776	82,749
Total capital contribution revenues	7,776	82,749
Change in Net Assets	1,387,882	(662,802)
Net Assets:		
Beginning of year	(1,692,910)	(1,030,108)
End of year	$ (305,028)	$ (1,692,910)

See accompanying notes to financial statements.

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
Cash Flows From Operating Activities:		
Cash received from customers	$ 6,835,883	$ 5,866,059
Cash payments for operating expenses	(3,885,122)	(4,166,393)
Net cash provided by (used in) operating activities	2,950,761	1,699,666
Cash Flows From Noncapital Financing Activities:		
Payment received on swap transactions	152,731	100,574
Interest paid on borrowing payable - swap	(23,234)	(25,058)
Other	83,219	207,446
Net cash provided by (used in) noncapital financing activities	212,716	282,962
Cash Flows From Capital and Related Financing Activities:		
Interest paid on debt	(1,233,506)	(1,108,376)
Interest received on restricted bond funds	39,311	42,794
Capital assets and related purchases	(1,046,799)	(204,876)
Proceeds from issuance of note payable	820,417	-
Payment of notes payable	(29,309)	(29,818)
Payment of bond principal	(530,000)	(675,000)
Net cash provided by (used in) capital and related financing activities	(1,979,886)	(1,975,276)
Cash Flows From Investing Activities:		
Sale of investments	34,335	19,274
Interest earned	15,086	24,739
Net cash provided by (used in) investing activities	49,421	44,013
Increase (Decrease) in Cash and Cash Equivalents	1,233,012	51,365
Cash and Cash Equivalents:		
Beginning of year	481,695	430,330
End of year	$ 1,714,707	$ 481,695
Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities:		
Operating income	$ 2,045,179	$ 763,324
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation and amortization	891,917	905,463
Change in operating assets:		
Accounts receivable	(260,793)	58,829
Prepaid expenses	2,557	(4,977)
Change in operating liabilities:		
Accounts payable	259,275	(27,437)
Accrued payroll and withholdings	43,268	(14,301)
Accrued compensated absences	(30,642)	18,765
Net cash provided by (used in) operating activities	$ 2,950,761	$ 1,699,666
Non-Cash Investing, Capital, and Financing Activities:		
Investment income (loss) on embedded derivative instrument	$ 371,262	$ (441,732)

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 begin to 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 $308,247 and $338,889 for 2011 and 2010, respectively, for compensated absences that are eligible for payment upon termination.

Basis of Accounting and Measurement Focus

The Authority's accounts are reported as an Enterprise Fund using the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recognized when incurred.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise fund, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures or expenses during the reporting period. Actual results could differ from those estimates.

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 $3,112,081 and $3,142,823 at December 31, 2011 and 2010, 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

GASB Statement No. 62, *"Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements."* The objective of this Statement is to codify into the GASB standards guidance located in FASB and American Institute of Certified Public Accountants (AICPA) pronouncements. This Statement will become effective for the December 31, 2012 year-end. Management has not yet determined the impact of these statements on the Authority's financial statements.

GASB Statement No. 63, *"Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position."* The objective of this Statement is to establish guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. This Statement will become effective for the December 31, 2012 year-end. Management has not yet determined the impact of this Statement on the Authority's financial statements.

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, 2011 and 2010, 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, 2011 and 2010, respectively, $1,306,201 and $125,220 of the Authority's bank balance of $1,556,201 and $375,220 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. These deposits have a carrying amount of $1,543,850 and $310,910 as of December 31, 2011 and 2010, 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 (PLGIT) of $101,333 and $101,301 for 2011 and 2010, respectively. The fair value of the Authority's investments with PLGIT (an external investment pool) is the same as the value of pool shares. All investments in the investment pool that are not SEC-registered are subject to oversight by the Commonwealth of Pennsylvania.

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 $69,524 and $69,484 in 2011 and 2010, respectively. The fair value of the Authority's investments in INVEST is the same as the value of the pool shares. All investments in the investment pool that are not SEC-registered are subject to oversight by the Commonwealth of Pennsylvania.

At December 31, 2011, the Authority held the following investment balances:

		Maturity in Years
	Fair Market Value	Less than 1 Year
Money markets	$ 1,945,178	$ 1,945,178
Corporate bonds	741,546	741,546
U.S. agencies	887,140	887,140
Total	$ 3,573,864	$ 3,573,864

At December 31, 2010, the Authority held the following investment balances:

	Fair Market Value	Maturity in Years Less than 1 Year
Money markets	$ 1,979,894	$ 1,979,894
Corporate bonds	657,366	657,366
U.S. agencies	972,875	972,875
Total	$ 3,610,135	$ 3,610,135

The fair value of the Authority's investments is the same as their carrying amount. Investments of $3,573,864 at December 31, 2011 and $3,610,135 at December 31, 2010 are included as restricted investments on the Statements of Net Assets.

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, 2011 and 2010 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, 2011 and 2010, the Authority held $803,526 and $777,940, respectively, of FNMA and $0 and $194,935, respectively, of FHLMC investments, which were rated Aaa by Moody's. The Authority's Goldman Sachs note of $84,180 was rated A1 at December 31, 2011. The Authority's Wells Fargo money market funds of $1,945,178, J.P. Morgan corporate bonds of $657,366, and HUD note of $83,614 were rated Aa3 and A2, respectively, at December 31, 2011.

As of December 31, 2010, the Authority's Wells Fargo money market funds of $1,979,894 and J.P. Morgan corporate bonds of $657,366 were rated Aa3 and A2, respectively.

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, FNMA, and J.P.

Morgan corporate bonds. These investments are 54%, 22%, and 18%, respectively, of the Authority's total investments at December 31, 2011.

4. Capital Assets

A summary of changes in capital assets is as follows:

	Balance at December 31, 2010	Additions	Transfers/ Deletions	Balance at December 31, 2011
Capital assets, not being depreciated:				
Construction in progress	$ -	$ 933,389	$ (58,163)	$ 875,226
Capital assets, being depreciated:				
Plant and system	28,603,613	95,900	-	28,699,513
Vehicles and equipment	627,787	59,718	-	687,505
Other capital improvements	1,740,958	13,657	-	1,754,615
Total capital assets, being depreciated	30,972,358	169,275	-	31,141,633
Less accumulated depreciation	(9,088,112)	(871,966)	-	(9,960,078)
Total capital assets, being depreciated, net	21,884,246	(702,691)	-	21,181,555
Total capital assets, net	$ 21,884,246	$ 230,698	$ (58,163)	$ 22,056,781

	Balance at December 31, 2009	Additions	Transfers/ Deletions	Balance at December 31, 2010
Capital assets, not being depreciated:				
Construction in progress	$ 520,217	$ -	$ (520,217)	$ -
Capital assets, being depreciated:				
Plant and system	27,931,472	672,141	-	28,603,613
Vehicles and equipment	627,787	-	-	627,787
Other capital improvements	1,688,459	52,499	-	1,740,958
Total capital assets, being depreciated	30,247,718	724,640	-	30,972,358
Less accumulated depreciation	(8,202,600)	(885,512)	-	(9,088,112)
Total capital assets, being depreciated, net	22,045,118	(160,872)	-	21,884,246
Total capital assets, net	$ 22,565,335	$ (160,872)	$ (520,217)	$ 21,884,246

5. LONG-TERM DEBT

Current interest bonds payable at December 31, 2011 are composed of the following individual issues:

Sewer Revenue Bonds	Balance at December 31, 2010	Retirements	Balance at December 31, 2011	Due Within One Year
2009	$ 28,645,000	$ 530,000	$ 28,115,000	$ 1,165,000

Sewer Revenue Bonds, Refunding Series of 2009, due in annual principal installments or mandatory sinking fund payments through August 1, 2028.	$ 28,115,000
Less: deferred loss on advance refunding	(1,103,674)
Less: discount on bonds	(321,819)
Less: current portion	(1,165,000)
Total bonds payable - long-term	$ 25,524,507

On July 15, 1996, the Authority issued $14,915,000 of Guaranteed Sewer Revenue Bonds, Series of 1996 (current interest bonds). 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. During 2010, the final payment of $425,000 was made by the Trustee and no defeased debt remains outstanding.

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) and the undertaking of various capital improvements to the Authority's sewer system. The interest rates on these bonds ranged from 4.3% to 5%.

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 currently refund all of the outstanding 1998 bonds in the amount of $27,985,000. 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. In 2011, the Authority was in compliance with the rate covenant, as its operating surplus was greater than 110% of the debt service requirements.

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

December 31,	Principal	Interest	Total
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	1,350,000	998,662	2,348,662
2016	1,395,000	951,411	2,346,411
2017-2021	7,780,000	3,970,242	11,750,242
2022-2026	9,460,000	2,288,146	11,748,146
2027-2028	4,390,000	3,063,333	7,453,333
	$ 28,115,000	$ 14,500,341	$ 42,615,341

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 $183,556 and $196,001 at December 31, 2011 and 2010, respectively.

The following summarizes the required payments for the PWSA loan:

December 31	Principal	Interest	Total
2012	$ 12,820	$ 5,278	$ 18,098
2013	13,206	4,892	18,098
2014	13,604	4,494	18,098
2015	14,013	4,085	18,098
2016	14,435	3,663	18,098
2017-2021	78,961	11,528	90,489
2022-2024	36,517	1,187	37,704
	$ 183,556	$ 35,127	$ 218,683

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. During 2010, the Authority received a final amortization schedule from PennVest in which $16,766 was reclassified from a PennVest loan to a grant. The outstanding balance of the loan is $305,224 and $322,088 at December 31, 2011 and 2010, respectively.

In June 2011, PennVest approved a loan up to the amount of $1,237,000 to fund the construction of improvements to the community sewer system, bearing interest at 1% for the 240 months of the loan term. Interest-only payments on the unpaid principal are payable monthly beginning with the first calendar month following a loan advance. Upon final draw down of the loan by the Authority, the unpaid principal and interest become due and payable according to the amortization schedule in the loan agreement. The outstanding balance of the loan is $820,417 at December 31, 2011.

As of December 31, 2011, all expenses related to this loan have been incurred by the Authority, and all construction and improvements have been completed. Although final draw down of $54,474 on the loan did not occur until 2012, the Authority has properly included such amounts in construction in process and accounts payable at year-end.

The following summarizes the required payments for the PennVest loans:

December 31,	Principal	Interest	Total
2012	$ 54,128	$ 13,224	$ 67,352
2013	53,644	15,239	68,883
2014	54,460	14,424	68,884
2015	55,292	13,592	68,884
2016	56,138	12,745	68,883
2017-2021	293,994	50,422	344,416
2022-2026	317,822	26,594	344,416
2027-2031	240,163	5,837	246,000
	$ 1,125,641	$ 152,077	$ 1,277,718

At December 31, 2011, the PWSA loan and the PennVest loan are presented as notes payable on the statements of net assets in the amount of $1,242,248 (long-term) and $66,948 (short-term). At December 31, 2010, the PWSA loan and the PennVest loan are presented as notes payable on the statements of net assets in the amount of $488,779 (long-term) and $29,309 (short-term).

In conjunction with their swap transaction described in Note 6, the Authority received an upfront cash payment. A portion of the upfront cash payment received by the Authority was considered to be a borrowing at a rate of 4.565%. As of December 31, 2011 and 2010, the borrowing had an outstanding balance of $485,476 and $528,203, respectively. Principal and interest payments are made monthly and will continue until the borrowing's final maturity in 2028, as summarized in the table below. Principal and interest payments are aggregated into the monthly payments the Authority has received from the counterparty in 2011.

Year Ending June 30,	Principal	Interest	Total
2012	$ 43,198	$ 21,239	$ 64,437
2013	41,421	19,336	60,757
2014	39,826	17,444	57,270
2015	38,679	15,673	54,352
2016	38,549	13,897	52,446
2017-2021	167,982	44,953	212,935
2022-2026	102,770	13,317	116,087
2027-2028	13,051	444	13,495
Total	$ 485,476	$ 146,303	$ 631,779

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. The upfront cash payment received by the Authority at the time the swap was entered into is considered to be a borrowing at a rate of 4.565%. As of December 31, 2011 and 2010, the borrowing had an outstanding balance of $485,476 and $528,203, respectively, and is disclosed in more detail in Note 5.

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 31, 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 began 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 a 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 began making payments 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.

As of December 31, 2011 and 2010, the swap had a fair value of ($64,813) and ($436,075), respectively. As the swap is considered to be an investment type derivative instrument per accounting standards, it is reported as a derivative liability on the statements of net assets. The changes in fair market value of $371,262 and ($441,732) during fiscal years 2011 and 2010, respectively, are recorded as a component of investment income on the statements of revenues, expenses, and changes in net assets. The mark to market value is calculated using a combination of the zero-coupon method and an option pricing model.

The Authority is not at risk for a collateral call, as the Master Agreement specifically excludes such a provision for a collateral call or contingencies 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 interest rate risk.

- Credit risk is the risk that a counterparty will not fulfill its obligations. On December 31, 2011, the interest rate swap counterparty was rated Aa3 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. However, as of December 31, 2011, the swap had a negative fair market value to the Authority and, as such, the Authority had no credit risk exposure related to this transaction. Performance of the counterparty as it relates to this transaction is unsecured. In the event that the counterparty's rating is downgraded to a certain level (and based on the fair value of the swap at the time of the downgrade), the counterparty would be required to post collateral to support its obligations under the swap. As of December 31, 2011, there is no collateral posted by the counterparty related to this transaction, nor has there been any collateral posted since inception of the swap.

- 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 unless the bonds that the swap relates to ceases to exist, except in the case of a refunding; however, the Authority is exposed to termination risk in the event that the counterparty defaults.

- Interest rate risk is the risk that changes in interest rates will adversely affect the fair values of the Authority's financial instruments or the Authority's cash flows. The basis swap is highly sensitive to changes in interest rates; changes in the variable rates will have a material effect on the basis swap's fair market value.

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 $239,250 and $254,203 are included as deferred fees on the statements of net assets at December 31, 2011 and 2010, 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, 2011, participants in the plan were as follows:

Active	30
In payment status:	
Retirement benefits	7
Disability benefits	1
Deferred	1
Total	39

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, union employees are to contribute $40 per month and management employees are to contribute $21 per month of their salary as stipulated in the Act.

For the year ended December 31, 2011, the following plan information is presented:

Annual pension cost	$ 108,787
Contributions made	$ 108,787
Actuarial valuation date	1/1/2011
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar Closed
Amortization period	6 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
12/31/2009	$ 109,109	109%	$ 75,319
12/31/2010	91,954	106%	81,227
12/31/2011	108,787	100%	81,227

As the net pension asset, the amount the plan has been funded in excess of required contributions, is not material to the financial statements, it has 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, 2011, 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
$1,582,271	$ 2,547,518	$ (965,247)	62.11%	$1,413,350	(68.29)%

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, 2011, 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 had no construction commitments related to construction of the sewer system at December 31, 2011.

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 $1.7 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

Operating revenue for the year ended December 31, 2011 was $7,096,676, an increase of over $1,000,000 from December 31, 2010 largely as a result of the Authority raising rates in September 2010 and increasing the monthly user fee $1 beginning with January 1, 2011 usage. This increase in revenue, in addition to lower operating expenses in 2011 as compared to 2010 enabled the Authority to recognize net income before capital contribution revenues of $1,380,106.

However, for the years ended December 31, 2011 and 2010, the Authority still had negative net assets of ($305,028) and ($1,692,910), 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 2012, the Authority plans to reassess the appropriateness of its rate structure and continue cost containment measures.

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
1/1/2007	$ 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)%
1/1/2011	1,582,271	2,547,518	(965,247)	62.11%	1,413,350	(68.29)%

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, 2011

Year Ended December 31,	Annual Required Contribution	Percentage Contributed
2005	$ 96,319	100%
2006	109,085	100%
2007	110,610	100%
2008	109,109	100%
2009	91,954	109%
2010	97,471	106%
2011	108,787	100%

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

See accompanying note to the supplementary pension schedules.

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

NOTE TO THE SUPPLEMENTARY PENSION SCHEDULES

YEAR ENDED DECEMBER 31, 2011

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	1/1/2011
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar Closed
Amortization period	6 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%

Supplementary Information

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

ANALYSIS OF OPERATING REVENUES AND EXPENSES

YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
Operating Revenues:		
Sewage rentals	$ 7,096,676	$ 6,024,455
Operating Expenses:		
Sewer system operation:		
Sewage treatment plants	$ 277,374	$ 287,545
Utilities	465,125	550,748
Sewer crew expenses	25,433	8,890
Pretreatment expenses	222	-
Payroll	1,684,662	1,741,904
Payroll taxes	147,566	141,365
Benefits	606,287	653,841
Office supplies	10,126	28,604
Communications	30,206	22,400
Postage	3,300	3,416
Advertisements	1,149	2,597
Printing	286	208
Fee collection costs	274,638	256,630
Engineering fees	25,700	71,446
Insurance	150,514	158,877
Seminars	-	586
Professional services	34,830	45,036
Miscellaneous expenses	27,964	6,079
Purchased sewer treatment	394,198	375,496
Depreciation and amortization	891,917	905,463
Total operating expenses	$ 5,051,497	$ 5,261,131