

**West Mifflin Sanitary Sewer
Municipal Authority**
Financial Statements and
Required Supplementary Information and
Supplementary Information
Years Ended December 31, 2013 and 2012
with Independent Auditor's Report

MaherDuessel
Certified Public Accountants

Pittsburgh | Harrisburg | Butler

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WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

YEARS ENDED DECEMBER 31, 2013 AND 2012

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Independent Auditor's Report

Board of Directors
West Mifflin Sanitary Sewer Municipal Authority

We have audited the accompanying financial statements of the West Mifflin Sanitary Sewer Municipal Authority (Authority) as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013 and 2012, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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 25 through 27 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 inquiries 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.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary information on page 28 is presented for additional analysis and is not a required part of the basic financial statements.

The 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Maher Duessel

Pittsburgh, Pennsylvania
June 10, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUDIT ASSURANCE

The unmodified 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 Governmental Accounting Standards Board (GASB).

FINANCIAL HIGHLIGHTS

The following are key financial highlights during 2013:

- In 2013, the flow billed decreased by 34,429,014 gallons. This decrease can be attributed to a decrease in customer's usage from the residential and commercial users in our service area. This decrease in billed volume resulted in decreased operating revenues for the Authority in 2013.
- In 2013, the Authority treated 985,838,000 gallons for 9,002 customers at its two waste water treatment plants. Of the gallons treated, only 554,702,172 gallons were billed. In 2012, the Authority treated 970,383,000 gallons for 9,016 customers at its two waste water treatment plants. Of the gallons treated, only 589,131,186 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 2013, the Authority paid \$1,270,000 in principal on its outstanding Sewer Revenue Bonds; compared with principal payments made in 2012 of \$1,165,000.
- The Authority had a decrease in the cost of operations (less depreciation and bad debt expense) in 2013 by \$56,153 or 1.30% when compared to 2012.
- Operating revenues decreased by \$187,182 or 2.8% in 2013 when compared to 2012.
- The Authority essentially completed and placed into service approximately \$485,000 in sewer system and treatment plant improvements in 2013.

REQUIRED FINANCIAL STATEMENTS

The financial statements 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 Position includes all of the Authority's assets, deferred outflows of resources, and liabilities, with the difference reported as net position. Over time, increases and decreases to net position are one indicator of whether the financial position of the Authority is improving or deteriorating. 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 Position. 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 November 2013 that went into effect beginning with January 2014 usage.

The final required financial statement is the 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 \$17.00 per residential and \$25.00 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 2013, the number of customers in this service area is 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 and Assistant General, who are employed by the Board to carry out its policies.

RESTATEMENT

The Authority adopted GASB Statement No. 65 "*Items Previously Reported as Assets and Liabilities*," in the current year. This statement reclassifies certain items being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. As a result of this statement, bond issue costs previously capitalized had to be written off and going forward, all bond issue costs will be expensed when incurred. This resulted in a decrease of approximately \$611,000 to net position as of December 31, 2013.

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 Position (In Millions of Dollars)			
	2013	2012	\$ Change	% Change
Assets and Deferred Outflows of Resources				
Assets:				
Current assets	\$ 2,046,403	\$ 2,586,306	\$ (539,903)	-21%
Restricted assets	3,465,040	3,535,175	(70,135)	-2%
Capital assets, net	21,222,932	21,594,367	(371,435)	-2%
Other assets	331,725	351,678	(19,953)	-6%
Total Assets	27,066,100	28,067,526	(1,001,426)	
Deferred Outflows of Resources:				
Deferred charge on refunding	971,564	1,037,619	(66,055)	-6%
Total Assets and Deferred Outflows of Resources	\$ 28,037,664	\$ 29,105,145	\$ (1,067,481)	
Liabilities and Net Position				
Liabilities:				
Current liabilities	\$ 2,164,449	\$ 2,113,066	\$ 51,383	2%
Long-term liabilities	26,168,883	27,236,642	(1,067,759)	-4%
Total Liabilities	28,333,332	29,349,708	(1,016,376)	
Net Position:				
Net investment in capital assets	(4,741,841)	(4,272,623)	(469,218)	11%
Restricted net position	3,031,259	3,085,519	(54,260)	-2%
Unrestricted net position	1,414,914	942,541	472,373	50%
Total Net Position	(295,668)	(244,563)	(51,105)	
Total Liabilities and Net Position	\$ 28,037,664	\$ 29,105,145	\$ (1,067,481)	

OTHER SELECTED INFORMATION

	<u>2013</u>	<u>2012</u>	<u>Difference</u>	<u>%Change</u>
<u>Selected Data:</u>				
Authorized Employees	26	28	-2	-7.14%
Actual Employees at year-end	25	26	-1	-3.85%
Wastewater Treated (billions of gallons)	0.985838	0.970383	0.015455	1.59%
Wastewater Billed (billions of gallons)	0.554702	0.589131	-0.034429	-5.84%
Percentage of Billed/Treated Wastewater	56.27%	60.71%	-4.44%	-7.32%
<u>Rates:</u>				
Residential Fee	\$17	\$17	\$0.00	0.00%
Commercial Fee	\$25.00	\$25.00	\$0.00	0.00%
First 2,000 gallons/thousand	\$6.83	\$6.83	\$0.00	0.00%
next 13,000 gallons/thousand	\$6.83	\$6.83	\$0.00	0.00%
15,001-100,000 gallons/thousand	\$10.50	\$10.50	\$0.00	0.00%
over 100,000 gallons/thousand	\$12.50	\$12.50	\$0.00	0.00%
<u>Average Residential Customer Bill:</u>				
Per year	\$695.76	\$695.76	\$0.00	0.00%
Per Month	\$57.98	\$57.98	\$0.00	0.00%

* Based on 6,000 Gallons per month

GENERAL TRENDS AND SIGNIFICANT EVENTS

Over the last few years, the Authority has been in discussions with the representatives of the U.S. EPA, Pennsylvania Department of Environmental Protection, and the Allegheny County Health Department (the "Agencies") regarding wet weather overloads in the sanitary sewer system resulting in discharges into the service area waterways. The discharges, in the form of pump station by-passes and sanitary sewer overflows were originally designed into the Authority's system to prevent the treatment plant from being damaged by flooding during wet weather events. Today, these overflows are considered illegal under the Clean Stream and Water Act. The Authority finalized and signed a consent order with the Allegheny County Health Department on February 26, 2004, which requires mapping, cleaning, repairing, and maintenance of the municipal sewer lines in the ALCOSAN service area over a five- to eight-year period.

Authority compliance costs related to the ALCOSAN area Consent Order have been estimated to be \$1.75 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 2013 and 2012, 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 \$4,375,635 in 2013 vs. \$4,474,046 in 2012. In 2013, operating expenses increased in sewage treatment plants, utilities, sewer crew expenses, communications, advertisements, engineering fees, insurance, professional services, and miscellaneous expenses. There were reductions in pretreatment expenses, payroll, payroll taxes, benefits, office supplies, postage, fee collection costs, purchased sewer treatment, and bad debt expense.

Non-Operating Revenues and Non-Operating Expenses:

The Authority experienced significant fluctuations in Non-operating Revenue (Expense) between 2013 and 2012 primarily due to changes in the fair value of the Authority's swap. As of December 31, 2013, the interest rate swap had a negative change in fair value, which is recorded as a component of investment income on the Statements of Revenues, Expenses, and Changes in Net Position of \$287,733, resulting in a derivative liability to the Authority of \$27,623. As of December 31, 2012, the interest rate swap had a positive change in fair value, which is recorded as a component of investment income on the Statements of Revenues, Expenses, and Changes in Net Position of \$409,542, resulting in a derivative asset to the Authority of \$301,531.

Depreciation:

The Authority had a depreciation expense of \$888,000 and \$888,113 on plants and equipment in 2013 and 2012, respectively. In 2013 and 2012, respectively, the Authority completed almost \$485,000 and \$1,252,000 in various capital projects throughout the sewer system and treatment plants.

DEBT

At year-end, the Authority had \$25,680,000 in bond debt.

In 2013, the Authority was not in compliance with the rate covenant, as its operating surplus was less than 110% of the debt service requirements (the necessary surplus was short approximately \$420,000). The Authority raised sewer rates effective January 1, 2014, engaged in a consulting project which reviewed the Authority's funding needs and rate structure through 2018, and will continue cost containment measures in order for the rate covenant to be met at December 31, 2014.

FINAL COMMENTS

While fiscal year 2013 presented financial challenges, the Board of Directors and the Authority staff worked hard to position the Authority for the future. Although the Authority experienced decreased operating revenues and a negative change in net position of approximately \$51,000 for 2013, the Authority responded by decreasing operating expenses in 2013 and raising sewer rates for 2014. At December 31, 2013, the Authority had a negative net position of \$295,668.

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 Thompson Run Plant.

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 POSITION

DECEMBER 31, 2013 AND 2012

Assets and Deferred Outflows of Resources	2013	2012	Liabilities and Net Position	2013	2012
Assets:			Liabilities:		
Current assets:			Current liabilities:		
Cash and cash equivalents	\$ 1,050,123	\$ 1,600,188	Accounts payable	\$ 330,242	\$ 290,662
Accounts receivable - user fees	923,533	925,473	Accrued payroll	14,081	14,059
Accounts receivable - nonuser fees	7,905	4,071	Current portion of accrued compensated absences	3,630	13,559
Prepaid expenses	56,242	55,411	Current portion of notes payable	77,715	75,130
Interest receivable	8,600	1,163			
Total current assets	2,046,403	2,586,306	Total current liabilities	425,668	393,410
Restricted assets:			Current liabilities (payable from restricted assets):		
Construction fund	768	12,543	Current portion of bonds payable long-term	1,305,000	1,270,000
Debt service accounts	3,464,272	3,522,632	Bond interest payable	433,781	449,656
Total restricted assets	3,465,040	3,535,175			
Capital assets (at cost)	32,878,755	32,393,920	Total current liabilities (payable from restricted assets)	1,738,781	1,719,656
Less: accumulated depreciation	(11,696,287)	(10,828,240)	Long-term liabilities:		
Construction in progress	40,464	28,687	Unearned fee	209,344	224,297
Total capital assets, net (at cost)	21,222,932	21,594,367	Borrowing payable - swap	400,857	442,278
Other assets:			Embedded derivative instrument - liability (asset)	27,623	(301,531)
Cost of sewer capacity improvements (net of amortization of \$190,797 and \$170,844 for 2013 and 2012, respectively)	331,725	351,678	Accrued compensated absences	282,768	258,573
Total other assets	331,725	351,678	Notes payable	1,156,588	1,235,583
Total Assets	27,066,100	28,067,526	Bonds payable (net of bond discount of \$283,297 and \$302,558 for 2013 and 2012, respectively)	24,091,703	25,377,442
Deferred Outflows of Resources:			Total long-term liabilities	26,168,883	27,236,642
Deferred charge on refunding	971,564	1,037,619	Total Liabilities	28,333,332	29,349,708
Total Assets and Deferred Outflows of Resources	\$ 28,037,664	\$ 29,105,145	Net Position:		
			Net investment in capital assets	(4,741,841)	(5,326,992)
			Restricted net position	3,031,259	3,085,519
			Unrestricted net position	1,414,914	1,996,910
			Total Net Position	(295,668)	(244,563)
			Total Liabilities and Net Position	\$ 28,037,664	\$ 29,105,145

See accompanying notes to financial statements.

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
Operating Revenues:		
Sewer rentals	\$ 6,461,045	\$ 6,648,227
Operating Expenses:		
Sewer system operation	3,959,862	3,901,775
Purchased sewer treatment	415,773	417,707
Depreciation and amortization	888,000	888,113
Bad debt expense	-	154,564
Total operating expenses	5,263,635	5,362,159
Operating Income	1,197,410	1,286,068
Nonoperating Revenues (Expenses):		
Interest income	65,904	59,276
Other revenue	140,578	29,915
Interest on sewer revenue bonds and notes payable	(1,083,440)	(1,114,536)
Amortization of bond discount and deferred charge on refunding	(85,316)	(85,316)
Investment income (loss) on embedded derivative instrument	(287,733)	409,542
Interest expense on borrowing payable - swap	(19,336)	(21,239)
Income on swap transactions	119,560	142,275
Realized loss on investments	(5,485)	(4,449)
Unrealized gain (loss) on investments	(98,983)	4,672
Total nonoperating revenues (expenses)	(1,254,251)	(579,860)
Income (Loss) Before Capital Contribution Revenues	(56,841)	706,208
Capital Contribution Revenues:		
Tapping/connection fees	5,736	3,636
Change in Net Position	(51,105)	709,844
Net Position:		
Beginning of year, as restated	(244,563)	(954,407)
End of year	\$ (295,668)	\$ (244,563)

See accompanying notes to financial statements.

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
Cash Flows From Operating Activities:		
Cash received from customers	\$ 6,462,985	\$ 6,922,529
Cash payments for operating expenses	(4,326,432)	(4,603,045)
Net cash provided by (used in) operating activities	2,136,553	2,319,484
Cash Flows From Noncapital Financing Activities:		
Payment received on swap transactions	119,560	142,275
Interest paid on borrowing payable - swap	(19,336)	(21,239)
Other	146,314	118,867
Net cash provided by (used in) noncapital financing activities	246,538	239,903
Cash Flows From Capital and Related Financing Activities:		
Interest paid on debt	(1,114,268)	(1,226,932)
Interest received on restricted bond funds	51,518	44,252
Capital assets and related purchases	(496,612)	(405,748)
Proceeds from issuance of note payable	-	58,546
Payment of notes payable	(76,410)	(57,029)
Payment of bond principal	(1,270,000)	(1,165,000)
Net cash provided by (used in) capital and related financing activities	(2,905,772)	(2,751,911)
Cash Flows From Investing Activities:		
Sale of investments	(34,333)	38,912
Interest earned	6,949	39,093
Net cash provided by (used in) investing activities	(27,384)	78,005
Increase (Decrease) in Cash and Cash Equivalents	(550,065)	(114,519)
Cash and Cash Equivalents:		
Beginning of year	1,600,188	1,714,707
End of year	\$ 1,050,123	\$ 1,600,188
Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities:		
Operating income	\$ 1,197,410	\$ 1,286,068
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation and amortization	888,000	888,113
Bad debt expense	-	154,564
Change in operating assets:		
Accounts receivable	(1,894)	270,231
Prepaid expenses	(831)	(1,385)
Change in operating liabilities:		
Accounts payable	39,580	(204,625)
Accrued payroll and withholdings	22	(37,367)
Accrued compensated absences	14,266	(36,115)
Net cash provided by (used in) operating activities	\$ 2,136,553	\$ 2,319,484
Non-Cash Investing, Capital, and Financing Activities:		
Investment income (loss) on embedded derivative instrument	\$ (287,733)	\$ 409,542

See accompanying notes to financial statements.

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2013 AND 2012

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, 2013 AND 2012

Receivables

In general, no provision is made for uncollectible accounts receivables as these charges are lienable charges to the property served. Charges that become uncollectible are charged to expense in the year. The Authority charged \$0 and \$154,564 to bad debt expense for 2013 and 2012, respectively.

Refunding Loss

The deferred charge on refunding loss of the 2009 revenue bonds is being amortized on a straight-line basis over the term of the issue.

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.

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 \$286,398 and \$272,132 for 2013 and 2012, 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.

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2013 AND 2012

Net Position

Accounting standards require the classification of net position into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows or resources attributable to the unspent amount is not included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflow of resources is included in the same net position component (restricted or unrestricted) as the unspent amount.
- Restricted – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets. The Authority had restricted net position of \$3,031,259 and \$3,085,519 at December 31, 2013 and 2012, respectively. These amounts are restricted for the debt covenants.
- Unrestricted – This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

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.

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2013 AND 2012

Adopted Pronouncements

The Authority has adopted GASB Statement No. 61, *“The Financial Reporting Entity.”* The objective of this statement is to have financial reporting entity financial statements be more relevant by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity. There was no significant impact on its financial statements as a result of this implementation.

The Authority has adopted GASB Statement No. 65, *“Items Previously Reported as Assets and Liabilities.”* This statement reclassifies certain items that were reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. As a result of this statement, bond issuance costs previously capitalized had to be written off and going forward, all bond issuance costs will be expensed when incurred. Specific details of the restatement are as follows:

Net position at December 31, 2011, as previously presented	\$ (305,028)
Write-off of bond issuance costs	<u>(649,379)</u>
Net position at December 31, 2011, as restated	<u>\$ (954,407)</u>
Net position at December 31, 2012, as previously presented	\$ 365,950
Write-off of bond issuance costs	<u>(610,513)</u>
Net position at December 31, 2012, as restated	<u>\$ (244,563)</u>

Pending Pronouncements

GASB has issued Statement No. 67, *“Financial Reporting for Pension Plans,”* effective for financial statements for periods beginning after June 15, 2013, and has also issued Statement No. 68, *“Accounting and Financial Reporting for Pensions,”* and Statement No. 71, *“Pension Transition for Contributions Made Subsequent to the Measurement Date,”* effective for fiscal years beginning after June 15, 2014. These statements revise existing guidance for the financial reports of most pension plans, and establish new financial reporting requirements for most governments that provide their employees with pension benefits. The effect of implementation of these statements has not yet been determined.

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GASB has issued Statement No. 69, “*Government Combinations and Disposals of Government Operations*,” effective for fiscal years beginning after December 15, 2013 (the Authority's financial statements for the year ended December 31, 2014). GASB Statement No. 69 provides new accounting and financial reporting standards for government mergers and acquisitions and for government operations that have been transferred or sold. The effect of implementation of this statement has not yet been determined.

GASB has issued Statement No. 70, “*Accounting and Financial Reporting for Non-exchange Financial Guarantees*,” effective for financial statements for periods beginning after June 15, 2013 (the Authority's financial statements for the year ending December 31, 2014). This statement specifies the information required to be disclosed by governments that extend non-exchange financial guarantees, and requires a government that extends a non-exchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The effect of implementation of this statement has not yet been determined.

Reclassification

Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation.

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 trustee assets, as otherwise permitted by the trust indenture of 2009. Throughout the years ended December 31, 2013 and 2012, the Authority invested its funds in such authorized investments.

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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, 2013 and 2012, respectively, \$643,041 and \$930,399 of the Authority's bank balance of \$899,631 and \$1,430,399 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 \$879,137 and \$1,429,262 as of December 31, 2013 and 2012, respectively, all of which is reported as current assets in the statements of net position.

In addition to the deposit noted above, included in cash and cash equivalents on the statements of net position are investments with the Pennsylvania Local Government Investment Trust (PLGIT) of \$101,385 and \$101,361 for 2013 and 2012, 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 position are short-term investments with the external investment pool (INVEST) of \$69,601 and \$69,565 in 2013 and 2012, 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, 2013, the Authority held the following investment balances:

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	Fair Market Value	<u>Maturity in Years</u> Less than 1 Year
Money markets	\$ 1,943,127	\$ 1,943,127
Corporate bonds	657,366	657,366
U.S. agencies	864,547	864,547
Total	\$ 3,465,040	\$ 3,465,040

At December 31, 2012, the Authority held the following investment balances:

	Fair Market Value	<u>Maturity in Years</u> Less than 1 Year
Money markets	\$ 1,902,201	\$ 1,902,201
Corporate bonds	657,366	657,366
U.S. agencies	975,608	975,608
Total	\$ 3,535,175	\$ 3,535,175

The fair value of the Authority's investments is the same as their carrying amount. Investments of \$3,465,040 at December 31, 2013 and \$3,535,175 at December 31, 2012 are included as restricted investments on the statements of net position.

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, 2013 and 2012 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. The Authority's Wells Fargo money market funds of \$1,943,127 and J.P. Morgan corporate bonds of \$657,366 were rated Aa3 and A2, respectively, at December 31, 2013.

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As of December 31, 2012, the Authority's Wells Fargo money market funds of \$1,902,201 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 J.P. Morgan corporate bonds at December 31, 2013 and 2012. These investments are 19% of the Authority's total investments at December 31, 2013 and 2012.

4. CAPITAL ASSETS

A summary of changes in capital assets is as follows:

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	Balance at December 31, 2012	Additions	Transfers/ Deletions	Balance at December 31, 2013
Capital assets, not being depreciated:				
Construction in progress	\$ 28,687	\$ 12,903	\$ (1,126)	\$ 40,464
Capital assets, being depreciated:				
Plant and system	29,946,324	361,300	-	30,307,624
Vehicles and equipment	688,210	112,651	-	800,861
Other capital improvements	1,759,386	10,884	-	1,770,270
Total capital assets, being depreciated	32,393,920	484,835	-	32,878,755
Less accumulated depreciation	(10,828,240)	(868,047)	-	(11,696,287)
Total capital assets, being depreciated, net	21,565,680	(383,212)	-	21,182,468
Total capital assets, net	\$ 21,594,367	\$ (370,309)	\$ (1,126)	\$ 21,222,932
	Balance at December 31, 2011	Additions	Transfers/ Deletions	Balance at December 31, 2012
Capital assets, not being depreciated:				
Construction in progress	\$ 875,226	\$ 284,054	\$ (1,130,593)	\$ 28,687
Capital assets, being depreciated:				
Plant and system	28,699,513	1,246,811	-	29,946,324
Vehicles and equipment	687,505	705	-	688,210
Other capital improvements	1,754,615	4,771	-	1,759,386
Total capital assets, being depreciated	31,141,633	1,252,287	-	32,393,920
Less accumulated depreciation	(9,960,078)	(868,162)	-	(10,828,240)
Total capital assets, being depreciated, net	21,181,555	384,125	-	21,565,680
Total capital assets, net	\$ 22,056,781	\$ 668,179	\$ (1,130,593)	\$ 21,594,367

5. LONG-TERM DEBT

Current interest bonds payable at December 31, 2013 are composed of the following individual issues:

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Sewer Revenue Bonds	Balance at December 31, 2012	Retirements	Balance at December 31, 2013	Due Within One Year
2009	\$ 26,950,000	\$ 1,270,000	\$ 25,680,000	\$ 1,305,000

Sewer Revenue Bonds, Refunding Series of 2009, due in annual principal installments or mandatory sinking fund payments through August 1, 2028.

	\$ 25,680,000
Less: discount on bonds	(283,297)
Less: current portion	(1,305,000)
Total bonds payable - long-term	\$ 24,091,703

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 Sewer Revenue Bonds, Series of 1998 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 not permitted to include the surplus of the revenue fund. In 2013, the Authority was not in compliance with the rate covenant, as its operating surplus was less than 110% of the debt service requirements (the necessary surplus was short approximately \$420,000). The Authority raised rates effective January 1, 2014, engaged in a consulting project which reviewed the Authority's funding needs and rate structure through 2018, and will continue cost containment measures in order for the debt covenant to be met at December 31, 2014.

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

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December 31,	Principal	Interest	Total
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	1,450,000	902,586	2,352,586
2018	1,500,000	852,561	2,352,561
2019-2023	8,380,000	3,094,531	11,474,531
2024-2028	10,300,000	1,344,425	11,644,425
	\$ 25,680,000	\$ 9,185,250	\$ 34,865,250

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 to be paid to PWSA through fiscal year 2024. The outstanding balance of the loan is \$157,530 and \$170,736 at December 31, 2013 and 2012, respectively.

The following summarizes the required payments for the PWSA loan:

December 31	Principal	Interest	Total
2014	\$ 13,603	\$ 4,494	\$ 18,097
2015	14,013	4,085	18,098
2016	14,435	3,663	18,098
2017	14,869	3,228	18,097
2018	15,317	2,781	18,098
2019-2023	83,787	6,702	90,489
2024	1,506	4	1,510
	\$ 157,530	\$ 24,957	\$ 182,487

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,

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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 \$272,312 and \$288,339 at December 31, 2013 and 2012, respectively.

The following summarizes the required payments for the PennVest loan:

December 31,	Principal	Interest	Total
2014	\$ 16,465	\$ 7,142	\$ 23,607
2015	16,915	6,692	23,607
2016	17,376	6,230	23,606
2017	17,851	5,756	23,607
2018	18,338	5,268	23,606
2019-2023	99,482	18,551	118,033
2024-2027	85,885	4,612	90,497
	\$ 272,312	\$ 54,251	\$ 326,563

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 sum were payable monthly beginning with the first calendar month following a loan advance and ending on May 1, 2012. On June 1, 2012, the unpaid principal and interest became due and payable according to the preliminary amortization schedule in the loan agreement. During 2013, the Authority received a final amortization schedule from PennVest. The outstanding balance of the loan is \$804,461 and \$851,638 at December 31, 2013 and 2012, respectively.

The following summarizes the required payments for the PennVest loan:

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<u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 47,647	\$ 7,827	\$ 55,474
2015	48,125	7,348	55,473
2016	48,609	6,865	55,474
201	49,097	6,376	55,473
2018	49,590	5,883	55,473
2019-2023	255,526	21,841	277,367
2024-2028	268,623	8,747	277,370
2029	37,244	141	37,385
	<u>\$ 804,461</u>	<u>\$ 65,028</u>	<u>\$ 869,489</u>

At December 31, 2013, the PWSA loan and the PennVest loans are presented as notes payable on the statements of net position in the amount of \$1,156,588 (long-term) and \$77,715 (short-term). At December 31, 2012, the PWSA loan and the PennVest loans are presented as notes payable on the statements of net position in the amount of \$1,235,583 (long-term) and \$75,130 (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, 2013 and 2012, the borrowing had an outstanding balance of \$400,857 and \$442,278, 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 net monthly payments the Authority has received from the counterparty in 2013.

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 39,825	\$ 17,438	\$ 57,263
2015	38,679	15,673	54,352
2016	38,549	13,897	52,446
2017	37,133	12,167	49,300
2018	35,845	10,504	46,349
2019-2023	145,813	30,571	176,384
2024-2028	65,013	5,512	70,525
Total	<u>\$ 400,857</u>	<u>\$ 105,762</u>	<u>\$ 506,619</u>

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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, 2013 and 2012, the borrowing had an outstanding balance of \$400,857 and \$442,278, 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

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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, 2013 and 2012, the swap had a fair value of \$(27,623) and \$301,531, respectively. As the swap is considered to be an investment type derivative instrument per accounting standards, it is reported as a derivative asset/liability on the statements of net position. The changes in fair value of \$(329,154) and \$366,344 during fiscal years 2013 and 2012, respectively, are recorded as a component of investment income on the statements of revenues, expenses, and changes in net position. 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, 2013, the interest rate swap counterparty was rated A1 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 value of the swap. However, as of December 31, 2013, the swap had a negative fair 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, 2013, 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

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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 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 unearned and is being amortized into earnings over the term of the bonds using the straight-line method. The unamortized portions of \$209,344 and \$224,297 are included as unearned fees on the statements of net position at December 31, 2013 and 2012, 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

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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, 2013, participants in the plan were as follows:

Active	23
In payment status:	
Retirement benefits	9
Disability benefits	1
Surviving spouse benefits	2
Deferred	2
Total	<u>37</u>

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.

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For the year ended December 31, 2013, the following plan information is presented:

Annual pension cost	\$ 159,449
Contributions made	\$ 159,449
Actuarial valuation date	1/1/2013
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar Closed
Amortization period	4 years
Asset valuation method	3-Year Smoothing
Actuarial assumptions:	
Investment rate of return	7.25%
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
12/31/2011	\$ 108,787	100%	\$ 81,227
12/31/2012	110,505	100%	81,227
12/31/2013	159,449	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 position.

Funded Status

The Authority's funded status and related information as of the latest actuarial valuation date, January 1, 2013, is as follows:

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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
\$1,667,589	\$ 2,760,605	\$(1,093,016)	60.41%	\$1,409,101	(77.57)%

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, 2013, 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 position.

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

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, 2013.

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 \$1.75 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

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2013 AND 2012

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, 2013 was \$6,461,045, a decrease of approximately \$187,000 from December 31, 2012, largely as a result of decreased usage from the prior year. In addition, for the year ended December 31, 2013, the Authority had negative net position of \$295,668, a decrease of \$51,105 from December 31, 2012.

As a result of this decrease in operating revenue, the Authority was not in compliance with the rate covenant in 2013 and 2012, as its operating surplus was less than 110% of the debt service requirements (the necessary surplus was short approximately \$420,000 for 2013 and \$293,000 for 2012). The 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 2014, the Authority raised rates effective January 1, 2014, engaged in a consulting project which reviewed the Authority's funding needs and rate structure through 2018, and will 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
1/1/2009	\$ 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)%
1/1/2013	1,667,589	2,760,605	(1,093,016)	60.41%	1,409,101	(77.57)%

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, 2013

<u>Year Ended December 31,</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2009	\$ 91,954	109%
2010	97,471	106%
2011	108,787	100%
2012	110,505	100%
2013	159,449	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, 2013

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	1/1/2013
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar Closed
Amortization period	4 years
Asset valuation method	3-Year Smoothing
Actuarial assumptions:	
Investment rate of return	7.25%
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, 2013 AND 2012

	2013	2012
Operating Revenues:		
Sewage rentals	\$ 6,461,045	\$ 6,648,227
Operating Expenses:		
Sewer system operation:		
Sewage treatment plants	\$ 390,559	\$ 318,402
Utilities	438,869	406,504
Sewer crew expenses	28,581	21,305
Pretreatment expenses	-	36
Payroll	1,685,336	1,715,796
Payroll taxes	136,461	160,864
Benefits	679,273	681,279
Office supplies	19,822	22,118
Communications	27,539	24,986
Postage	3,099	3,833
Advertisements	1,898	1,402
Fee collection costs	241,820	306,074
Engineering fees	65,742	49,296
Insurance	137,122	130,030
Professional services	97,814	55,013
Miscellaneous expenses	5,927	4,837
Purchased sewer treatment	415,773	417,707
Depreciation and amortization	888,000	888,113
Bad debt expense	-	154,564
Total operating expenses	\$ 5,263,635	\$ 5,362,159