

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

MaherDuessel
Certified Public Accountants

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

YEARS ENDED DECEMBER 31, 2010 AND 2009

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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, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority as of December 31, 2010 and 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

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

Maher Duessel

Pittsburgh, Pennsylvania
June 28, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUDIT ASSURANCE

The unqualified (i.e. clean) opinion of our independent auditors, Maher Duessel, Certified Public Accountants, is included in this report. The following section, Management's Discussion and Analysis, has been prepared so that the Authority is in compliance with Statement No. 34 of the Government Accounting Standards Board.

FINANCIAL HIGHLIGHTS

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

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

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

REQUIRED FINANCIAL STATEMENTS

The financial statement of the Authority reports information about the Authority's use of accounting methods that are similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities.

The Statement of Net Assets includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to Authority creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Authority, and assessing the liquidity and financial flexibility of the Authority.

All of the current year's revenue and expenses are accounted for in the Statement of Operating Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all its costs through its sewage disposal rates and other fees. The Authority's rate studies are updated periodically to reflect both the operating and long-term capital requirements of the Authority. The most recent rate evaluation was performed in mid 2010. The Authority Board increased sewer rates in September of 2010 that went into effect for the October 2010 billing. This rate increase was necessary to cover operating expenses for the Authority. The 2009 rate increase did not take in to account the loss of revenue from the General Motors plant closure, or the fact that operating expenses have increased all around due to the economic down turn.

The final required financial statement is its Statement of Cash Flows. The primary purpose of this statement is to provide information about the Authority's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities, and the change in cash during the reporting period.

The Notes to the Financial Statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events, if any.

SUMMARY OF ORGANIZATION AND BUSINESS

The Authority was incorporated on May 9, 1996 under the Pennsylvania Municipality Authorities Act of 1945. Plant operations began on September 1, 1996. The Authority serves as the exclusive agency for the collection, transportation, and treatment of wastewater for the Borough of West Mifflin. The Authority charges users for processing of wastewater at a base rate of \$15.00 per residential and \$23.00 per commercial plus a graduated rate for usage by the hundred gallons. Additional charges are levied for excess Biochemical Oxygen Demand (BOD) and suspended solids (SS) from industrial waste discharges into the system in the portion of the sewer system using ALCOSAN for treatment.

The Thompson Run Treatment Plant and Authority Offices are located at 1302 Lower Bull Run Road, West Mifflin, PA. The Authority also operates an additional treatment facility at 2439 New England Hollow Road. The Authority operates and maintains over 100 miles of interceptor and collector sewers, and 13 pumping or lift stations throughout the service area.

A small portion of the sewer system is connected to the Jefferson Hills sewage system that is treated at the Clairton Municipal Authority Treatment Plant. Beginning early in 2008, 40 accounts were being billed by the WMSSMA in this service area. In 2010, the number of customers in this service area was reduced to 37. The Authority is billed by Jefferson Hills Borough for these customers on a quarterly payment schedule for the wastewater treatment.

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

The Authority's Articles of Incorporation (Articles), provide that the Authority Board of Directors (Board) shall consist of five (5) members serving staggered five-year terms. Pursuant to the Articles, all members of the Board are appointed by West Mifflin Borough Council. The day-to-day operation of the Authority is the responsibility of the General Manager, who was employed by the Board to carry out its policies.

FINANCIAL ANALYSIS

The following comparative condensed financial statements and other selected information provide key financial data and indicators for management, monitoring, and planning.

Condensed Statement of Net Assets
(In Millions of Dollars)

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

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

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

OTHER SELECTED INFORMATION

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

* Based on 6,000 Gallons per month

GENERAL TRENDS AND SIGNIFICANT EVENTS

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

Authority compliance costs related to the ALCOSAN area Consent Order have been estimated to be between \$2 and \$3 million. Over the past several years, the ALCOSAN and the Allegheny County Health Department through joint effort have created the 3 Rivers Wet Weather Demonstration Project (3 Rivers) in order to encourage innovative, less expensive methods of sewer repair and foster cooperative arrangements among municipalities that share the same watersheds drainage basins. The Authority is an active

participant in the 3 Rivers program. Cooperation among neighboring communities is expected to help reduce the overall compliance cost to the Authority.

FINANCIAL CONDITION

The Authority was negatively impacted by the loss of the Pennsylvania Act 339 Operating Grant. In order to offset the loss of the state grant and reduction in revenues, the Authority utilized its reserves to balance its budget in 2009. Using these reserves in 2009 has negatively impacted the Authority for 2010 and therefore another rate increase was issued for the October 2010 billing period.

RESULTS OF OPERATIONS

Operating Revenue:

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

Operating Expenses:

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

Non-Operating Revenues and Non-Operating Expenses:

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

Depreciation:

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

DEBT

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

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

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

FINAL COMMENTS

While fiscal year 2010 presented financial challenges, the Board of Directors and the Authority staff worked hard to position the Authority for the future. The Authority responded by taking advantage of cost cutting through the implementation and use of new technologies and operating procedures.

The Authority is looking at a cooperative agreement with the Pittsburgh Water and Sewer Authority to treat the wastewater from about 1,000 customers that would be connected by gravity to the Authority's sewer system and be treated at the Thomson Run Plant. The Authority is also looking into providing sewer service to other adjacent communities as long as they are financially feasible.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGER

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the West Mifflin Sanitary Sewer Municipal Authority's General Manager and Administration at 1302 Lower Bull Run Road, West Mifflin, PA 15122. (412-466-6070).

**WEST MIFFLIN SANITARY SEWER
MUNICIPAL AUTHORITY**

STATEMENTS OF NET ASSETS

DECEMBER 31, 2010 AND 2009

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

See accompanying notes to financial statements.

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

YEARS ENDED DECEMBER 31, 2010 AND 2009

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

See accompanying notes to financial statements.

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STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
Cash Flows From Operating Activities:		
Cash received from customers	\$ 5,866,059	\$ 5,838,709
Cash payments for operating expenses	(4,166,393)	(4,271,213)
Net cash provided by (used in) operating activities	1,699,666	1,567,496
Cash Flows From Noncapital Financing Activities:		
Grant revenue received	-	1,123
Payment received on swap transactions	100,574	64,635
Interest paid on borrowing payable - swap	(25,058)	(26,693)
Other	207,446	50,863
Net cash provided by (used in) noncapital financing activities	282,962	89,928
Cash Flows From Capital and Related Financing Activities:		
Interest paid on debt	(1,108,376)	(1,489,277)
Interest received on restricted bond funds	42,794	73,003
Capital assets and related purchases	(204,876)	(252,414)
Proceeds from issuance of refunding bonds	-	29,320,000
Payment to refunded bond escrow agent/fund	-	(28,634,490)
Payment for bond issue costs	-	(1,135,679)
Payment of notes payable	(29,818)	(29,641)
Payment of bond principal	(675,000)	(885,000)
Net cash provided by (used in) capital and related financing activities	(1,975,276)	(3,033,498)
Cash Flows From Investing Activities:		
Sale of investments	19,274	865,585
Interest earned	24,739	26,874
Net cash provided by (used in) investing activities	44,013	892,459
Increase (Decrease) in Cash and Cash Equivalents	51,365	(483,615)
Cash and Cash Equivalents:		
Beginning of year	430,330	913,945
End of year	\$ 481,695	\$ 430,330
Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities:		
Operating income	\$ 763,324	\$ 787,723
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation and amortization	905,463	890,411
Change in operating assets:		
Accounts receivable	58,829	(197,430)
Prepaid expenses	(4,977)	2,123
Change in operating liabilities:		
Accounts payable	(27,437)	32,568
Accrued payroll and withholdings	(14,301)	19,205
Accrued compensated absences	18,765	32,896
Net cash provided by (used in) operating activities	\$ 1,699,666	\$ 1,567,496
Non-Cash Investing, Capital, and Financing Activities:		
Investment income (loss) on embedded derivative instrument	\$ (441,732)	\$ 1,751,584

See accompanying notes to financial statements.

WEST MIFFLIN SANITARY SEWER MUNICIPAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

1. REPORTING ENTITY

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of Accounting and Measurement Focus

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

Statements of Cash Flows

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

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

Restricted Assets

The Authority has established certain restricted asset accounts to satisfy the requirements of a bond trust indenture (indenture). In accordance with the terms of the indenture, the Authority is required to periodically set aside certain amounts to assure the availability of adequate monies for servicing the Authority's long-term debt and completing capital additions. These restricted accounts are held by a Trustee.

Capital Assets

Capital assets, which include property, plant, and equipment, are recorded at cost, including capitalized interest. Depreciation is provided on all capital assets on a straight-line basis over the estimated useful lives. The cost of maintenance and repairs is charged to operations as incurred. Construction in progress will be depreciated when the project is completed.

Bond Issue Costs

Bond issue costs are amortized over the life of the related bonds utilizing the straight-line method.

Sick Leave

Employees of the Authority earn and are entitled to accumulate sick days based on length of service. The Authority has established a liability of \$338,889 and \$320,124 for 2010 and 2009, respectively, for compensated absences that are eligible for payment upon termination.

GAAP Hierarchy

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

Net Assets

GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, requires the classification of new assets into

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NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

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 \$3,142,823 and \$3,295,901 at December 31, 2010 and 2009, 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 Pronouncement

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.

Reclassifications

Certain comparative amounts for the prior year have been reclassified to conform to the current year presentation. Such reclassifications did not affect net assets or changes therein.

Adoption of Pronouncements

Effective December 31, 2009, the Authority adopted GASB Statement No. 53, “*Accounting and Financial Reporting for Derivative Instruments.*” This Statement addresses the

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recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the accrual basis of accounting. The standard requires that accounting changes to conform with the provisions of this statement should be applied retroactively by restating financial statements for all prior periods presented. As such, beginning net assets as of December 31, 2008 were restated to comply with the provision of this statement as follows:

Net assets, December 31, 2008	\$ (681,104)
Adjustment of prior year deferred revenue for upfront payment	676,261
Establish borrowing payable - swap	(600,394)
Establish embedded derivative instrument	<u>(1,673,736)</u>
Net assets, December 31, 2008, as restated	<u>(2,278,973)</u>
Investment income on embedded derivative instrument	1,751,584
2009 adjustment of deferred revenue to market	(153,715)
Change in net assets - 2009 financial statements	<u>(349,004)</u>
Net assets, December 31, 2009	<u><u>\$ (1,030,108)</u></u>

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, 2010 and 2009, 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:

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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, 2010 and 2009, respectively, \$125,220 and \$0 of the Authority’s bank balance of \$375,220 and \$224,654 was exposed to custodial credit risk. Any exposed amount is collateralized in accordance with Act 72 of the Pennsylvania state legislature, which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution’s name. This deposit has a carrying amount of \$310,910 and \$259,731 as of December 31, 2010 and 2009, 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 \$101,301 and \$101,235 for 2010 and 2009, 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 \$69,484 and \$69,364 in 2010 and 2009, 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, 2010, the Authority held the following investment balances:

	Fair Market Value	<u>Maturity in Years</u> 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	<u>\$ 3,610,135</u>	<u>\$ 3,610,135</u>

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

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

The fair value of the Authority's investments is the same as their carrying amount. Investments of \$3,610,135 at December 31, 2010 and \$3,629,409 at December 31, 2009 are included as non-current 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, 2010 and 2009 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, 2010 and 2009, the Authority held \$777,940 and \$155,814, respectively, of FNMA and \$194,935 and \$2,000, respectively, of FHLMC investments, which were rated Aaa by Moody's. The Authority's Wells Fargo money market funds of \$1,979,894 and J.P. Morgan corporate bonds of \$657,366 are unrated at December 31, 2010.

As of December 31, 2009, the Authority's Wells Fargo money market funds of \$2,108,313 and J.P. Morgan corporate bonds of \$657,366 were unrated. Also, at 2009 year end, the Authority held \$505,948 and \$199,968 of Irish Permanent Treasury Commercial Paper and Irish Life and Permanent Commercial Paper, respectively, which were rated P-1 by Moody's.

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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 55%, 22%, and 18%, respectively, of the Authority’s total investments at December 31, 2010.

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4. CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	Balance at December 31, 2009	Additions	Transfers/ Deletions	Balance at December 31, 2010
<u>Capital assets, not being depreciated:</u>				
Construction in progress	\$ 520,217	\$ -	\$ (520,217)	\$ -
<u>Capital assets, being depreciated:</u>				
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	<u>\$ 22,565,335</u>	<u>\$ (160,872)</u>	<u>\$ (520,217)</u>	<u>\$ 21,884,246</u>
	Balance at December 31, 2008	Additions	Transfers/ Deletions	Balance at December 31, 2009
<u>Capital assets, not being depreciated:</u>				
Construction in progress	\$ 595,863	\$ 25,152	\$ (100,798)	\$ 520,217
<u>Capital assets, being depreciated:</u>				
Plant and system	27,751,604	179,868	-	27,931,472
Vehicles and equipment	627,787	-	-	627,787
Other capital improvements	1,540,267	148,192	-	1,688,459
Total capital assets, being depreciated	29,919,658	328,060	-	30,247,718
Less accumulated depreciation	(7,332,140)	(870,460)	-	(8,202,600)
Total capital assets, being depreciated, net	22,587,518	(542,400)	-	22,045,118
Total capital assets, net	<u>\$ 23,183,381</u>	<u>\$ (517,248)</u>	<u>\$ (100,798)</u>	<u>\$ 22,565,335</u>

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5. LONG-TERM DEBT

Current interest bonds payable at December 31, 2010 are composed of the following individual issues:

Sewer Revenue Bonds	Balance at December 31, 2009	Retirements	Balance at December 31, 2010	Due Within One Year
2009	\$ 29,320,000	\$ 675,000	\$ 28,645,000	\$ 530,000

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

	\$ 28,645,000
Less: deferred loss on advance refunding	(1,169,729)
Less: discount on bonds	(341,080)
Less: current portion	(530,000)
Total bonds payable - long-term	\$ 26,604,191

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. As of December 31, 2009, \$425,000 remains outstanding as defeased debt. During 2010, the final payment 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) the undertaking of various capital improvements to the Authority's sewer system; and (3) payment of costs incurred in connection with the issuance of the 1998 Bonds. The interest rates on these bonds ranged from 4.3% to 5%. During 2009, these bonds were currently refunded.

On September 15, 2009, the Authority issued \$29,320,000 of Sewer Revenue Bonds, Refunding Series of 2009, bearing interest rates ranging from 2% to 4.625%. The proceeds

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of the bonds were used to (1) currently refund all of the outstanding 1998 bonds in the amount of \$27,985,000 and (2) to pay all costs incurred in connection with the issuance of the 2009 Bonds. A supplemental indenture (2009 Bond Indenture) was made and entered into as of September 15, 2009, between the Authority and the Trustee, Wells Fargo Bank, N.A.

The 2009 Bond Indenture includes rate covenants that the Authority must meet on an annual basis. The Authority must generate operating surplus annually equal to 110% of the debt service requirements with respect to all outstanding bonds during the current fiscal year of the Authority. This calculation can only include operating revenues of the Authority and is no longer permitted to include the surplus of the revenue fund. In 2010, 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 \$50,000). The Authority will work with the Trustee and bond counsel to assess the appropriateness of its rate structure in order for the debt covenant to be met at December 31, 2011.

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

<u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 530,000	\$ 1,121,549	\$ 1,651,549
2012	1,165,000	1,108,299	2,273,299
2013	1,270,000	1,079,174	2,349,174
2014	1,305,000	1,041,074	2,346,074
2015	1,350,000	998,662	2,348,662
2016-2020	7,505,000	4,244,782	11,749,782
2021-2025	9,075,000	2,670,041	11,745,041
2026-2028	6,445,000	601,309	7,046,309
	<u>\$ 28,645,000</u>	<u>\$ 12,864,890</u>	<u>\$ 41,509,890</u>

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 \$196,001 and \$208,082 at December 31, 2010 and 2009, respectively.

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The following summarizes the required payments for the PWSA loan:

December 31	Principal	Interest	Total
2011	\$ 12,445	\$ 5,653	\$ 18,098
2012	12,820	5,278	18,098
2013	13,206	4,892	18,098
2014	13,604	4,494	18,098
2015	14,013	4,085	18,098
2016-2020	76,653	13,836	90,489
2021-2024	53,260	2,542	55,802
	\$ 196,001	\$ 40,780	\$ 236,781

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 \$322,088 and \$356,590 at December 31, 2010 and 2009, respectively.

The following summarizes the required payments for the PennVest loan:

December 31,	Principal	Interest	Total
2011	\$ 16,864	\$ 4,904	\$ 21,768
2012	16,885	5,190	22,075
2013	16,027	7,579	23,606
2014	16,465	7,142	23,607
2015	16,915	6,692	23,607
2016-2020	91,758	26,274	118,032
2021-2025	104,989	13,044	118,033
2026-2027	42,185	1,099	43,284
	\$ 322,088	\$ 71,924	\$ 394,012

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

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, 2010 and 2009, the borrowing had an outstanding balance of \$528,203 and \$565,892, respectively. Principal and interest payments are made monthly and will continue until the borrowing's final maturity in 2029, as summarized in the table below. Principal and interest payments are aggregated into the monthly payments the Authority has received from the counterparty in 2010.

Year Ending June 30,	Principal	Interest	Total
2011	\$ 42,727	\$ 23,238	\$ 65,965
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
2016-2020	177,036	52,889	229,925
2021-2025	118,468	18,405	136,873
2026-2029	26,848	1,357	28,205
Total	<u>\$ 528,203</u>	<u>\$ 169,581</u>	<u>\$ 697,784</u>

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

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31, 2010 and 2009, the borrowing had an outstanding balance of \$528,203 and \$565,892, 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, 2010 and 2009, the swap had a fair value of (\$436,075) and \$43,346, respectively. As the swap is considered to be an investment type derivative instrument per accounting standards, it is reported as a derivative liability and as a borrowing on the

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statements of net assets. The changes in fair market value of (\$441,732) and \$1,751,584 during fiscal years 2010 and 2009, 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, 2010, the interest rate swap counterparty was rated Aa2 by Moody's Investors Services, Inc., a nationally recognized statistical rating organization. If the counterparty failed to perform according to the terms of the swap agreement, there is some risk of loss to the Authority, up to the fair market value of the swap. However, as of December 31, 2010, 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, 2010, 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.

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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 \$254,203 and \$269,156 are included as deferred fees on the statements of net assets at December 31, 2010 and 2009, 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

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at determination. The normal form of payment is a monthly pension benefit payable for life with 120 payments guaranteed.

At January 1, 2009, participants in the plan were as follows:

Active	30
In payment status:	
Retirement benefits	3
Disability benefits	1
Deferred	<u>1</u>
Total	<u><u>35</u></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.

For the year ended December 31, 2010, the following plan information is presented:

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Annual pension cost	\$ 97,471
Contributions made	\$ 103,379
Actuarial valuation date	1/1/2009
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar Closed
Amortization period	8 years
Asset valuation method	3-Year Smoothing
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	n/a
Underlying inflation rate	3.00%

Three-Year Trend Information

Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
12/31/2008	\$ 109,109	100%	\$ 67,773
12/31/2009	91,954	109%	75,319
12/31/2010	97,471	106%	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, they have not been recorded on the statements of net assets.

Funded Status

The Authority's funded status and related information as of the latest actuarial valuation date, January 1, 2009, is as follows: