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# Western Townships Utilities Authority

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**Financial Report  
with Supplemental Information  
September 30, 2018**

# Western Townships Utilities Authority

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## Contents

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<b>Independent Auditor's Report</b>	1-2
<b>Management's Discussion and Analysis</b>	3-5
<b>Basic Financial Statements</b>	
Statement of Net Position	6
Statement of Revenue, Expenses, and Changes in Net Position	7
Statement of Cash Flows	8
Notes to Financial Statements	9-17
<b>Other Supplemental Information</b>	18
Schedule of Operating Expenditures - Budget and Actual	19
Schedule of Bonded Indebtedness	20

## Independent Auditor's Report

To the Commissioners  
Western Townships Utilities Authority

### Report on the Financial Statements

We have audited the accompanying basic financial statements of the Western Townships Utilities Authority (the "Authority") as of and for the years ended September 30, 2018 and 2017 and the related notes to the financial statements, which collectively comprise the Western Townships Utilities 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 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 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 basic financial statements referred to above present fairly, in all material respects, the financial position of the Western Townships Utilities Authority as of September 30, 2018 and 2017 and the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Commissioners  
Western Townships Utilities Authority

**Other Matters**

*Required Supplemental Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which 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 supplemental 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 responses 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 audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Western Townships Utilities Authority's basic financial statements. The schedule of operating expenditures - budget and actual and schedule of bonded indebtedness are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

The schedule of operating expenditures - budget and actual 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 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 schedule of operating expenditures - budget and actual is fairly stated in all material respects in relation to the basic financial statements as a whole.

The schedule of bonded indebtedness has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

*Plante & Moran, PLLC*

January 15, 2019

# Western Townships Utilities Authority

## Management's Discussion and Analysis

### Using this Annual Report

The Western Townships Utilities Authority (WTUA or the "Authority") is a joint venture of three townships located in western Wayne County: Canton, Northville, and Plymouth townships. The primary role of the Authority is to operate a sewage transportation system for these communities. This annual report consists of a series of financial statements, footnotes, and supplemental information. The statement of net position and the statement of revenue, expenses, and changes in net position provide information about the financial activities of the Authority. This is followed by the statement of cash flows, which presents detailed information about the changes in the Authority's cash position during the year. The next section includes the notes to the financial statements, which disclose the Authority's significant accounting policies and additional information related to certain amounts included on the statement of net position. The final component of the annual report is the supplemental information, which is provided for the purpose of additional analysis.

### Financial Overview

In analyzing the Authority's financial position, it is important to recognize the mission of the Authority. All debt of the Authority is backed by the full faith and credit of its three member townships. From a financial perspective, the Authority's core objective is to manage the long-term costs of sewage disposal for its three member townships. In essence, the Authority acts as a conduit for its three members. The amounts to be charged to its members will, by definition, be equal to the Authority's costs of providing sewage transportation and treatment. Therefore, the key financial statistics for the Authority relate to measurements of the ability to reduce total costs to its members (as opposed to the ability to accumulate financial resources).

	2014	2015	2016	2017	2018
Total costs charged to townships	\$12,687,670	\$14,143,851	\$14,713,565	\$14,411,554	\$8,901,185
Total flow (thousands of gallons)*	5,677,317	5,493,666	5,664,201	5,563,220	5,026,507
Cost per thousand gallons	\$2.235	\$2.575	\$2.598	\$2.591	\$1.771

\*For the purpose of this calculation, flow volumes are measured as the metered quantity of sewage transported to treatment facilities.

In past years, WTUA transported the sewage to two treatment plants, the Ypsilanti Community Utilities Authority (YCUA) and the Great Lakes Water Authority (GLWA) through the Wayne County/RVIS system. As of July 2017, WTUA discontinued sending flow to GLWA (with the exception of the "swap" area, which represents flow from the City of Plymouth, Michigan). Wayne County, Michigan invoices were based upon the amount of water purchased from GLWA (adjusted for water-only and sewer-only customers); however, YCUA bills the Authority based upon actual sewage flow. Fiscal year 2017/2018 was the first year that the Authority sent flows solely to YCUA for the entire year. Since the billing is no longer based upon water purchased, but on actual flows, the flow amount is more accurate and is almost 10 percent lower than the flow figure from fiscal year 2016/2017. WTUA anticipated an annual savings to the townships of approximately \$3.5 million upon exiting the Wayne County, Michigan system, but actual realized savings on costs billed to the townships for fiscal year 2017/2018 exceeded \$5 million.

Currently, WTUA is in the process of negotiating a termination agreement with Wayne County/RVIS and anticipates that the only GLWA/Wayne County costs moving forward will be WTUA's alleged portion of their long-term debt. WTUA hopes to offset some, if not all, of the termination costs with revenue from its sale of capacity in the Wayne County/RVIS system, which is also currently being negotiated.

### Condensed Financial Information

The following table presents condensed information about the Authority's financial position compared to the two prior years. The increase in net position is caused by a decrease in the long-term liabilities due to principal payments made on bonds. A portion of the decrease in liabilities was offset by a decrease in capital assets due to depreciation expense.

## Western Townships Utilities Authority

### Management's Discussion and Analysis (Continued)

	2016	2017	2018	Change (2017-2018)	Percent Change
<b>Assets</b>					
Current and restricted assets	\$ 3,700,605	\$ 3,484,250	\$ 5,519,097	\$ 2,034,847	58.4 %
Capital assets	143,875,783	139,328,185	134,594,817	(4,733,368)	(3.4)
Total assets	147,576,388	142,812,435	140,113,914	(2,698,521)	(1.9)
<b>Deferred Outflows of Resources</b>	801,450	490,496	179,540	(310,956)	(63.4)
<b>Liabilities</b>					
Current liabilities	1,852,092	1,327,827	2,622,065	1,294,238	97.5
Noncurrent liabilities	45,617,301	35,453,926	24,735,311	(10,718,615)	(30.2)
Total liabilities	47,469,393	36,781,753	27,357,376	(9,424,377)	(25.6)
<b>Net Position</b>					
Net investment in capital assets	100,123,414	105,734,255	111,383,796	5,649,541	5.3
Restricted cash	506,142	507,944	1,273,393	765,449	150.7
Unrestricted	278,889	278,979	278,889	(90)	-
Total net position	<u>\$ 100,908,445</u>	<u>\$ 106,521,178</u>	<u>\$ 112,936,078</u>	<u>\$ 6,414,900</u>	<u>6.0 %</u>

The following table presents condensed information about the Authority's revenue and expenses compared to the two prior years:

	2016	2017	2018	Change (2017-2018)	Percent Change
<b>Operating Revenue</b>					
Earned revenue from townships	\$ 14,713,565	\$ 14,411,554	\$ 8,901,185	\$ (5,510,369)	(38.2)%
SAW grant revenue	109,411	163,555	-	(163,555)	(100.0)
Other operating revenue	78,227	783,769	37,503	(746,266)	(95.2)
Total operating revenue	14,901,203	15,358,878	8,938,688	(6,420,190)	(41.8)
<b>Operating Expenses</b>					
Sewage treatment charges	11,792,971	12,317,450	5,881,570	(6,435,880)	(52.3)
Administrative	494,527	494,437	530,184	35,747	7.2
Sewage capacity rental	550,811	515,371	479,913	(35,458)	(6.9)
Operating and maintenance	1,598,661	1,789,566	1,815,213	25,647	1.4
Total operating expenses	14,436,970	15,116,824	8,706,880	(6,409,944)	(42.4)
<b>Operating Income</b>	464,233	242,054	231,808	(10,246)	(4.2)
<b>Nonoperating Revenue</b>	4,219,256	5,072,743	5,383,092	310,349	6.1
<b>Income - Before capital contributions</b>	4,683,489	5,314,797	5,614,900	300,103	5.6
<b>Capital Contributions from Townships</b>	314,510	297,936	800,000	502,064	168.5
<b>Change in Net Position</b>	<u>\$ 4,997,999</u>	<u>\$ 5,612,733</u>	<u>\$ 6,414,900</u>	<u>\$ 802,167</u>	<u>14.3 %</u>

Sewage treatment charges decreased 52.3 percent this year, while the total volume of sewage flow treated decreased 9.6 percent this year. The realized savings in treatment costs exceed the amount of flow reduction because WTUA now pays for the actual amount of sewage treated, versus paying Wayne County, Michigan's fixed charges as was done in 2017. The revenue and expenditure report shows \$232,116 in excess operating revenue. This amount represents payments for YCUA's UAAL for pension and a reduction of the liability.

## **Western Townships Utilities Authority**

### **Management's Discussion and Analysis (Continued)**

Capital contributions are billed to the townships annually, in January of each year, as was decided by the board of commissioners upon completion of the Authority's new asset management program. The first annual billing was in January 2018. WTUA will compute a lookback every five years to reconcile the actual costs to the amount billed to the townships, the first of which will be done in 2023 and will cover years 2018-2022.

#### **Budgetary Highlights**

During the year, the Authority did not make any amendments to the operating budget. Operating costs came in at 70.0 percent of the budget.

#### **Capital Assets and Debt Administration**

During the current year, the Authority managed one capital improvement project. The Authority spent \$49,535 on a sewer pipe lining project.

The Authority's total investment in capital assets is over \$211 million (before considering depreciation).

#### **Economic Factors and Next Year's Budgets and Rates**

WTUA ceased sending flow to the Wayne County/RVIS as of July 1, 2017 and is currently working to negotiate a termination agreement with Wayne County, Michigan. WTUA is also currently negotiating a possible sale of its capacity in the Wayne County/RVIS system, the proceeds of which could be used to offset some or all of the termination costs.

Sewage treatment charges represent approximately 72 percent of the Authority's operating budget for the next fiscal year. YCUA has decreased its rates for the next fiscal year by approximately 0.5 percent when compared with the rate set for the current year, but the rate does not take the YCUA pension UAAL payments into account. WTUA pays YCUA a fixed cost of \$19,343 per month, in addition to the sewage bill, to pay down the Authority's portion of the unfunded actuarial accrued liability for YCUA's pension plan.

#### **Requests for Further Information**

This financial report is intended to provide our member townships and WTUA bondholders with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives from the member townships. If you have questions about this report or need additional information, we welcome you to contact the director of operations.

# Western Townships Utilities Authority

## Statement of Net Position

September 30, 2018 and 2017

	2018	2017
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (Note 3)	\$ 330,838	\$ 679,129
Receivables:		
Due from members	2,011,066	1,549,045
Other	1,633,749	368,088
Prepaid expenses and other assets	62,207	59,388
Unbilled debt service receivable	207,844	320,656
Total current assets	4,245,704	2,976,306
Noncurrent assets:		
Restricted assets (Notes 3 and 4)	1,273,393	507,944
Capital assets: (Note 5)		
Assets not subject to depreciation	3,549,602	3,558,834
Assets subject to depreciation - Net	131,045,215	135,769,351
Total noncurrent assets	135,868,210	139,836,129
Total assets	140,113,914	142,812,435
Deferred Outflows of Resources - Deferred charges on refundings	179,540	490,496
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	693,251	597,438
Accrued payables, payroll, and compensated absences	47,801	41,644
Billing lookback - Due to members	1,673,169	368,088
Accrued interest payable	207,844	320,657
Total current liabilities	2,622,065	1,327,827
Noncurrent liabilities:		
Contracts payable - YCUA - Due within one year (Note 8)	232,119	232,119
Contracts payable - YCUA - Due in more than one year (Note 8)	2,301,856	2,533,972
Due to Wayne County, Michigan - Due within one year (Note 9)	-	99,000
Due to Wayne County, Michigan - Due in more than one year (Note 9)	1,344,750	1,270,500
Long-term debt - Due within one year (Note 6)	5,025,185	10,461,749
Long-term debt - Due in more than one year (Note 6)	15,831,401	20,856,586
Total noncurrent liabilities	24,735,311	35,453,926
Total liabilities	27,357,376	36,781,753
<b>Net Position</b>		
Net investment in capital assets	111,383,796	105,734,255
Restricted	1,273,393	507,944
Unrestricted	278,889	278,979
Total net position	<u>\$ 112,936,078</u>	<u>\$ 106,521,178</u>



## Western Townships Utilities Authority

### Statement of Revenue, Expenses, and Changes in Net Position

Years Ended September 30, 2018 and 2017

	2018	2017
<b>Operating Revenue</b>		
Earned revenue from townships	\$ 8,901,185	\$ 14,411,554
SAW grant revenue	-	163,555
Other operating revenue	37,503	783,769
Total operating revenue	8,938,688	15,358,878
<b>Operating Expenses</b>		
Sewage treatment charges	5,881,570	12,317,450
Administrative	530,184	494,437
Sewage capacity rental	479,913	515,371
Operating and maintenance	1,815,213	1,789,566
Total operating expenses	8,706,880	15,116,824
<b>Operating Income</b>	231,808	242,054
<b>Nonoperating Revenue (Expense)</b>		
Interest earnings	15,201	1,894
Debt billings to townships	10,594,188	10,834,950
Interest expense	(944,188)	(1,384,950)
Depreciation	(4,782,903)	(4,889,345)
Amortization	500,794	500,794
Gain on sale of assets	-	9,400
Total nonoperating revenue	5,383,092	5,072,743
<b>Income - Before capital contributions from townships</b>	5,614,900	5,314,797
<b>Capital Contributions from Townships</b>	800,000	297,936
<b>Change in Net Position</b>	6,414,900	5,612,733
<b>Net Position - Beginning of year</b>	106,521,178	100,908,445
<b>Net Position - End of year</b>	<u>\$ 112,936,078</u>	<u>\$ 106,521,178</u>

# Western Townships Utilities Authority

## Statement of Cash Flows

Years Ended September 30, 2018 and 2017

	2018	2017
<b>Cash Flows from Operating Activities</b>		
Cash received from townships and other receipts	\$ 8,467,435	\$ 14,540,050
Cash payments to suppliers for goods and services	(8,269,755)	(14,176,059)
Cash payments for employee services	(323,304)	(327,581)
Net cash and cash equivalents (used in) provided by operating activities	(125,624)	36,410
<b>Cash Flows from Capital and Related Financing Activities</b>		
Payments on YCUA contracts payable	(232,116)	(232,113)
Collection of debt billings to townships	10,707,000	10,937,276
Capital contributions from members	809,232	295,564
Proceeds from sales of capital assets	-	9,400
Payments for the acquisition or construction of capital assets	(49,535)	(620,389)
Principal and interest paid on capital debt	(10,707,000)	(10,937,275)
Net cash and cash equivalents provided by (used in) capital and related financing activities	527,581	(547,537)
<b>Cash Flows Provided by Investing Activities - Interest received on investments</b>	15,201	1,894
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	417,158	(509,233)
<b>Cash and Cash Equivalents - Beginning of year</b>	1,187,073	1,696,306
<b>Cash and Cash Equivalents - End of year</b>	<u>\$ 1,604,231</u>	<u>\$ 1,187,073</u>
<b>Classification of Cash and Cash Equivalents</b>		
Unrestricted cash	\$ 330,838	\$ 679,129
Restricted cash	1,273,393	507,944
Total cash and cash equivalents	<u>\$ 1,604,231</u>	<u>\$ 1,187,073</u>
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>		
Operating income	\$ 231,808	\$ 242,054
Adjustments to reconcile operating income to net cash from operating activities:		
Changes in assets and liabilities:		
Due from members - Monthly billings	(471,253)	(82,048)
Accounts receivable - Nonmembers	(1,265,661)	(321,099)
Prepaid expenses	(2,819)	10,315
Accounts payable	95,813	(753,083)
Accrued payable and payroll	1,311,238	(797,317)
Due to members - Billing lookback	-	368,088
Due to Wayne County, Michigan	(24,750)	1,369,500
Net cash and cash equivalents (used in) provided by operating activities	<u>\$ (125,624)</u>	<u>\$ 36,410</u>

**Note 1 - Significant Accounting Policies**

***Nature of Entity***

The Western Townships Utilities Authority (WTUA or the "Authority") is a joint venture of the charter townships of Canton, Northville, and Plymouth and was created pursuant to Act 233, Michigan Public Acts of 1955. Its allowed purpose is to acquire and operate a sewage disposal system, a solid waste management system, and/or a water supply system. The Authority currently operates a sewage transportation system for these communities.

The Internal Revenue Service has ruled that the Authority is a political subdivision of the State of Michigan and, as a result, is exempt from federal income tax.

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental units.

***Reporting Entity***

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. In accordance with these guidelines, there are no component units to be included in these financial statements.

***Basis of Accounting***

The accrual basis of accounting is used by the Authority.

***Use of Estimates***

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

***Operating Revenue***

Operating revenue represents billings to member townships based on the Authority's operating expenses. Therefore, the Authority has shown depreciation expense as a nonoperating expense for the purpose of the statement of revenue, expenses, and changes in net position.

***Cash Equivalents***

For the purpose of the statement of cash flows, all highly liquid investments with original maturities of three months or less are considered to be cash equivalents. In addition, the statement of cash flows includes both restricted and unrestricted cash and cash equivalents.

***Due from Members***

Due from members represents amounts that will be collected from the three townships to pay for the Authority's operational and administrative costs and for reimbursement of capital-related costs.

***Unbilled Receivable***

Unbilled receivable represents amounts that have not been billed to the townships for debt service as of the end of the year. The Authority has accrued interest payable in an amount equal to the unbilled receivable for debt service.

**Note 1 - Significant Accounting Policies (Continued)**

**Restricted Assets**

The Authority has funds set aside to pay for capital asset projects and emergency replacement of critical assets. These funds are provided by the townships and are held by WTUA for each restricted purpose. When an expense is incurred that allows the use of restricted assets, those assets are applied before utilizing any unrestricted assets.

**Capital Assets**

Generally, purchases for capital outlay exceeding \$5,000 are capitalized. All capital assets are recorded at cost or, if donated, at their acquisition cost on the date donated. Depreciation on such capital assets is charged as an expense against the operations of the Authority.

Capital assets are depreciated using the straight-line method over the following useful lives:

	Depreciable Life - Years
Land restoration	15
Utility system - Equalization basin and pump station	10 to 40
Utility system - Sewage transmission lines	60
Utility system - Equity in Ypsilanti Community Utilities Authority (YCUA)	15 to 40
Utility system - Furniture and equipment	5 to 7

**Upcoming Accounting Pronouncements**

In June 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The Authority is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Authority's financial statements for the 2020-2021 fiscal year.

In March 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This statement establishes criteria to improve the information that is disclosed in the notes to the government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The Authority is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Authority's financial statements for the year ending September 30, 2019.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, which simplifies accounting for interest cost incurred before the end of construction and requires those costs to be expensed in the period incurred. As a result, interest cost incurred before the end of a construction period will not be capitalized and included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of the standard will be applied prospectively and result in increased interest expense during periods of construction. The provisions of this statement are effective for the Authority's financial statements for the September 30, 2021 fiscal year.

**Note 2 - Stewardship, Compliance, and Accountability**

***Budgetary Information***

An annual budget is adopted on the modified accrual basis of accounting, which is a comprehensive basis of accounting used for governmental fund-type operations; it differs from accounting principles generally accepted in the United States of America for proprietary fund-type operations, such as the Western Townships Utilities Authority. The annual budget is prepared by the Authority's accountant and is adopted by the Authority's board of commissioners and member townships; subsequent amendments are approved by the Authority's board of commissioners.

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operating expenditures to the budget adopted by the board of commissioners for the enterprise fund is included in the supplemental information.

There were no budget overruns at September 30, 2018 and 2017.

**Note 3 - Deposits and Investments**

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The law also allows investments outside the state of Michigan when fully insured. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Authority has designated three banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above. The Authority's deposits and investments are in accordance with statutory authority.

The Authority's cash and investments are subject to one type of risk, which is examined in more detail below:

***Custodial Credit Risk of Bank Deposits***

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 deposit policy for custodial credit risk. At September 30, 2018 and 2017, the Authority had \$97,755 and \$1,265,232, respectively, of bank deposits that were uninsured and uncollateralized. The Authority believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

***Fair Value Measurements***

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using net asset value (NAV) per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

**Note 3 - Deposits and Investments (Continued)**

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Authority's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The Authority has an investment in Michigan CLASS measured at NAV as of September 30, 2018. The balance of this investment is \$1,267,522. There were no such investments at September 30, 2017.

The valuation method for investments measured at net asset value per share (or its equivalent) is presented on the table below.

**Investments in Entities that Calculate Net Asset Value per Share**

The Authority holds shares or interests in investment companies whereby the fair value of the investments is measured on a recurring basis using net asset value per share (or its equivalent) of the investment companies as a practical expedient.

At September 30, 2018, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

	<u>Carrying Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency, if Eligible</u>	<u>Redemption Notice Period</u>
Michigan CLASS	\$ 1,267,522	\$ -	No restrictions	None

The Michigan CLASS investment pool invests in U.S. Treasury obligations, federal agency obligations of the U.S. government, high-grade commercial paper (rated "A1" or better), collateralized bank deposits, repurchase agreements (collateralized at 102 percent by treasuries and agencies), and approved money market funds. The program is designed to meet the needs of Michigan public sector investors. It purchases securities that are legally permissible under state statutes and are available for investment by Michigan counties, cities, townships, school districts, authorities, and other public agencies.

**Note 4 - Restricted Assets**

At September 30, 2018 and 2017, restricted assets are composed of the following:

	<u>2018</u>	<u>2017</u>
Cash and investments:		
Capital replacement reserve - Emergency	\$ 507,681	\$ 503,372
Capital replacement reserve - Construction	759,841	-
Debt service	5,871	4,572
<b>Total</b>	<b>\$ 1,273,393</b>	<b>\$ 507,944</b>

# Western Townships Utilities Authority

## Notes to Financial Statements

September 30, 2018 and 2017

### Note 5 - Capital Assets

Capital asset activity of the Authority was as follows:

	Balance October 1, 2017	Reclassifications	Additions	Disposals	Balance September 30, 2018
<b>Capital assets not being depreciated:</b>					
Land	\$ 3,549,602	\$ -	\$ -	\$ -	\$ 3,549,602
Construction in progress	9,232	(9,232)	-	-	-
Subtotal	3,558,834	(9,232)	-	-	3,549,602
<b>Capital assets being depreciated:</b>					
Land restoration costs	2,412,243	-	-	-	2,412,243
Sewage transmission lines	46,450,392	9,232	49,535	-	46,509,159
Equalization basin and pump station	67,445,801	-	-	-	67,445,801
Equity in YCUA	91,229,341	-	-	-	91,229,341
Furniture and equipment	127,527	-	-	-	127,527
Subtotal	207,665,304	9,232	49,535	-	207,724,071
<b>Accumulated depreciation:</b>					
Land restoration costs	2,412,243	-	-	-	2,412,243
Sewage transmission lines	17,132,799	-	794,244	-	17,927,043
Equalization basin and pump station	26,064,582	-	1,698,202	-	27,762,784
Equity in YCUA	26,207,653	-	2,279,855	-	28,487,508
Furniture and equipment	78,676	-	10,602	-	89,278
Subtotal	71,895,953	-	4,782,903	-	76,678,856
<b>Net capital assets being depreciated</b>	<u>135,769,351</u>	<u>9,232</u>	<u>(4,733,368)</u>	<u>-</u>	<u>131,045,215</u>
<b>Net capital assets</b>	<u>\$ 139,328,185</u>	<u>\$ -</u>	<u>\$ (4,733,368)</u>	<u>\$ -</u>	<u>\$ 134,594,817</u>

# Western Townships Utilities Authority

## Notes to Financial Statements

September 30, 2018 and 2017

### Note 5 - Capital Assets (Continued)

	Balance October 1, 2016	Reclassifications	Additions	Disposals	Balance September 30, 2017
Capital assets not being depreciated:					
Land	\$ 3,549,602	\$ -	\$ -	\$ -	\$ 3,549,602
Construction in progress	8,540	(8,540)	9,232	-	9,232
Subtotal	3,558,142	(8,540)	9,232	-	3,558,834
Capital assets being depreciated:					
Land restoration costs	2,412,243	-	-	-	2,412,243
Sewage transmission lines	46,286,651	8,540	155,201	-	46,450,392
Equalization basin and pump station	67,334,823	-	110,978	-	67,445,801
Equity in YCUA	91,209,998	-	19,343	-	91,229,341
Furniture and equipment	101,282	-	46,993	(20,748)	127,527
Subtotal	207,344,997	8,540	332,515	(20,748)	207,665,304
Accumulated depreciation:					
Land restoration costs	2,412,243	-	-	-	2,412,243
Sewage transmission lines	16,336,854	-	795,945	-	17,132,799
Equalization basin and pump station	24,259,276	-	1,805,306	-	26,064,582
Equity in YCUA	23,928,040	-	2,279,613	-	26,207,653
Furniture and equipment	90,943	-	8,481	(20,748)	78,676
Subtotal	67,027,356	-	4,889,345	(20,748)	71,895,953
Net capital assets being depreciated	140,317,641	8,540	(4,556,830)	-	135,769,351
Net capital assets	\$ 143,875,783	\$ -	\$ (4,547,598)	\$ -	\$ 139,328,185

#### Construction Commitments

The Authority has one ongoing construction project at year end: repairs to interceptors. The repairs to interceptors project had a total project commitment of \$257,716 and total expenditures of \$58,767. Unspent commitments totaled \$198,949 at year end.



# Western Townships Utilities Authority

## Notes to Financial Statements

September 30, 2018 and 2017

### Note 6 - Long-term Debt

Long-term debt activity for the years ended September 30, 2018 and 2017 can be summarized as follows:

		2018					
	Interest Rate Ranges	Principal Maturing Through	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
2009 General Obligation Bond (used to refund 2001 bonds)	3.50%	2019	\$ 7,960,000	\$ -	\$ (6,525,000)	\$ 1,435,000	\$ 1,435,000
2012 General Obligation Bond (used to refund 2002 bonds)	4.00% - 5.00%	2023	20,785,000	-	(3,125,000)	17,660,000	3,095,000
Less:							
Unamortized premium on 2009 issue			527,609	-	(422,086)	105,523	105,523
Unamortized premium on 2012 issue			2,045,726	-	(389,663)	1,656,063	389,662
<b>Total long-term debt</b>			<b>\$ 31,318,335</b>	<b>\$ -</b>	<b>\$ (10,461,749)</b>	<b>\$ 20,856,586</b>	<b>\$ 5,025,185</b>
		2017					
	Interest Rate Ranges	Principal Maturing Through	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
2009 General Obligation Bond (used to refund 2001 bonds)	3.50% - 5.00%	2019	\$ 14,250,000	\$ -	\$ (6,290,000)	\$ 7,960,000	\$ 6,525,000
2012 General Obligation Bonds (used to refund 2002 bonds)	3.00% - 5.00%	2023	23,945,000	-	(3,160,000)	20,785,000	3,125,000
Less:							
Unamortized premium on 2009 issue			949,695	-	(422,086)	527,609	422,086
Unamortized premium on 2012 issue			2,435,388	-	(389,662)	2,045,726	389,663
<b>Total long-term debt</b>			<b>\$ 41,580,083</b>	<b>\$ -</b>	<b>\$ (10,261,748)</b>	<b>\$ 31,318,335</b>	<b>\$ 10,461,749</b>

#### Debt Service Requirements

The annual principal and interest requirements to service all debt, following the refunding described above and including interest payments on the refunded bonds through January 1, 2023, are as follows:

Years Ending September 30	Principal	Interest	Total
2019	\$ 4,530,000	\$ 744,363	\$ 5,274,363
2020	3,565,000	586,050	4,151,050
2021	3,525,000	444,250	3,969,250
2022	3,495,000	286,375	3,781,375
2023	3,980,000	99,500	4,079,500
<b>Total</b>	<b>\$ 19,095,000</b>	<b>\$ 2,160,538</b>	<b>\$ 21,255,538</b>

#### Interest

For the year ended September 30, 2018, interest incurred by the Authority totaled \$944,188. For the year ended September 30, 2017, interest incurred by the Authority totaled \$1,384,950.

## Western Townships Utilities Authority

## Notes to Financial Statements

September 30, 2018 and 2017

### Note 6 - Long-term Debt (Continued)

#### *Classifications*

Long-term debt that is due within one year has been classified as a noncurrent liability on the statement of net position since these obligations are not payable with the current resources of the Authority. The Authority will bill the member townships when bond payments are due.

### Note 7 - Leases

#### *Operating Leases*

The Authority has entered into an agreement with the Ypsilanti Community Utilities Authority (YCUA), under which the Authority obtains certain rights to use a portion of the treatment capacity of the YCUA wastewater treatment plant. This agreement requires a rental payment on November 17 each year through November 17, 2098. Annual payment requirements for the above are as follows:

<u>Years Ending September 30</u>	<u>Amount</u>
2019	\$ 442,154
2020	403,883
2021	364,630
2022	322,936
2023	282,060
2024-2028	1,253,349
2029-2033	1,048,311
2034-2038	806,672
2039-2043	523,279
2044-2048	414,414
2049-2053	438,601
2054-2058	462,789
2059-2063	486,976
2064-2068	511,164
2069-2073	535,351
2074-2078	559,539
2079-2083	583,726
2084-2088	607,914
2089-2093	632,101
2094-2098	656,289
2099	134,160
Total	<u>\$ 11,470,298</u>

### Note 8 - Contracts Payable - YCUA

The Authority assumed a liability equal to 18.57 percent of YCUA's unfunded pension obligation as of August 31, 2015. As a result, the Authority recorded a liability in the amount of \$3,481,782 and makes monthly contributions of \$19,343 through August 2029. In exchange, the Authority received 4.3 million gallons per day of additional capacity in the YCUA wastewater treatment plant.

**Note 9 - Settlement Agreement - Wayne County RVIS**

The Authority discontinued utilization of the Wayne County RVIS for disposal of wastewater as of July 1, 2017. All flow to the county was ceased by that date, with the exception of the "swap" areas representing flow from the City of Plymouth, Michigan. Discussions are currently taking place with Wayne County, Michigan regarding the termination agreement (presently in draft form), as well as discussions with cities potentially interested in purchasing a portion of the Authority's capacity in the system. Wayne County, Michigan is alleging that the Authority owes a share of outstanding debt to the county (\$1,386,000). As a result, the Authority began to pay \$8,250 per month towards the alleged debt share in August 2017. After five payments, the Authority stopped making payments, as it concluded that it would be able to sell its capacity. Any sale of the Authority's capacity in the Wayne County, Michigan system will offset future costs.

**Note 10 - Risk Management**

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Authority has purchased commercial insurance for medical benefits provided to employees and workers' compensation and participates in the Michigan Municipal Risk Management Authority (MMRMA) State Pool for claims relating to property loss and torts. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal Risk Management Authority (the "MMRMA") risk pool program operates as a claims servicing pool for amounts up to member retention limits and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the MMRMA that it uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the MMRMA.

**Note 11 - Retirement Plans**

The Authority provides pension benefits to all of its full-time employees through a defined contribution plan. The Authority participates in the Municipal Employees' Retirement System of Michigan (MERS) for all defined contribution plan participants. MERS issues a publicly available financial report that includes financial statements and required supplemental information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48917.

In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by the personnel policies manual, the Authority contributes 15 percent of employees' gross earnings, and employees contribute 5 percent of earnings. Employees are 100 percent vested after a period of five years. In accordance with these requirements, for the fiscal years ended September 30, 2018 and 2017, the Authority contributed approximately \$34,000 and \$32,000, respectively.

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## Other Supplemental Information

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**Western Townships Utilities Authority**

**Schedule of Operating Expenditures - Budget and Actual**

**Year Ended September 30, 2018**

	<u>Original Budget (Unaudited)</u>	<u>Final Budget (Unaudited)</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Sewage treatment charges	\$ 9,160,051	\$ 9,160,051	\$ 5,881,570	\$ 3,278,481
Operation and maintenance costs	2,212,095	2,212,095	1,815,213	396,882
Administrative costs	584,647	584,647	530,184	54,463
Sewage capacity rental costs	479,913	479,913	479,913	-

The above schedule represents operating expenditures for the year based on the modified accrual basis of accounting to be consistent with the basis of accounting used in the preparation of the budget.

**Western Townships Utilities Authority**

**Other Supplemental Information  
Schedule of Bonded Indebtedness**

**September 30, 2018**

Date of Maturity January 1	Limited Tax General Obligation Bonds 2009 Bond Issue		Limited Tax General Obligation Bonds 2012 Bond Issue		Total
	Principal Debt Outstanding September 30, 2018	Annual Interest Payable	Principal Debt Outstanding September 30, 2018	Annual Interest Payable	
2019	\$ 1,435,000	\$ 25,113	\$ 3,095,000	\$ 719,250	\$ 5,274,363
2020	-	-	3,565,000	586,050	4,151,050
2021	-	-	3,525,000	444,250	3,969,250
2022	-	-	3,495,000	286,375	3,781,375
2023	-	-	3,980,000	99,500	4,079,500
<b>Total remaining payments</b>	<b>\$ 1,435,000</b>	<b>\$ 25,113</b>	<b>\$ 17,660,000</b>	<b>\$ 2,135,425</b>	<b>\$ 21,255,538</b>
Interest rate	3.50%		4.00-5.00%		
Original issue	<b>\$ 46,660,000</b>		<b>\$ 32,205,000</b>		

In 2018, the principal payment for the 2009 Bond Issue was \$6,525,000 at an interest rate of 5.00 percent, and the principal payment for the 2012 Bond Issue was \$3,125,000 at an interest rate of 4.00 percent. Interest payable for the 2009 Bond Issue and the 2012 Bond Issue in 2018 was \$213,350 and \$843,650, respectively.

Interest payments for the bond issues are due on January 1 and July 1 of each year.