
Western Townships Utilities Authority

**Financial Report
with Supplemental Information
September 30, 2019**

Western Townships Utilities Authority

Contents

Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-6
Basic Financial Statements	
Statement of Net Position	7
Statement of Revenue, Expenses, and Changes in Net Position	8
Statement of Cash Flows	9
Notes to Financial Statements	10-18
Other Supplemental Information	19
Schedule of Operating Expenditures - Budget and Actual	20
Schedule of Bonded Indebtedness	21

Independent Auditor's Report

To the Board of Commissioners
Western Townships Utilities Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the Western Townships Utilities Authority (the "Authority") as of and for the years ended September 30, 2019 and 2018 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, 2019 and 2018 and the changes in its financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of 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 16, 2020

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. These are 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 member townships. 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. The key financial statistics for the Authority, therefore, relate to measurements of the ability to reduce total costs to its members (as opposed to the ability to accumulate financial resources).

	2015	2016	2017	2018	2019
Total costs charged to townships	\$ 14,143,851	\$ 14,713,565	\$ 14,411,554	\$ 8,901,185	\$ 8,701,248
Total flow (thousands of gallons)	5,493,665	5,664,201	5,563,220	5,026,507	5,271,814
Cost per thousand gallons	\$2,575	\$2,598	\$2,591	\$1,771	\$1,651

*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). 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. Flow was approximately 5 percent higher for fiscal year 2018/2019 compared to the last fiscal year. WTUA anticipated an annual savings to the townships of approximately \$3.5 million upon exiting the Wayne County system, but actual realized savings on costs billed to the townships for the last two fiscal years have exceeded \$5 million when compared to 2016/2017.

Currently, WTUA is waiting for Wayne County, Michigan to execute the negotiated termination agreement, which has been signed by all parties except the county.

Western Townships Utilities Authority

Management's Discussion and Analysis (Continued)

Condensed Financial Information

The following table presents condensed information about the Authority's financial position compared to the prior year. The increase in net position is caused by a decrease in the long-term liabilities due mostly to principal payments made on bonds. The increase in restricted assets was due mostly to the prepayment by Canton Township of capital project costs for our expansion project, which is currently underway. Capital assets decreased as a result of depreciation expense.

	2017	2018	2019	Change (2018-2019)	Percent Change
Assets					
Current and restricted assets	\$ 3,484,250	\$ 5,519,097	\$ 13,811,921	\$ 8,292,824	150.3
Capital assets	139,328,185	134,594,817	130,294,678	(4,300,139)	(3.2)
Total assets	142,812,435	140,113,914	144,106,599	3,992,685	2.8
Deferred Outflows of Resources	490,496	179,540	82,714	(96,826)	(53.9)
Liabilities					
Current liabilities	1,327,827	2,622,065	2,865,653	243,588	9.3
Noncurrent liabilities	35,453,926	24,735,311	19,478,011	(5,257,300)	(21.3)
Total liabilities	36,781,753	27,357,376	22,343,664	(5,013,712)	(18.3)
Net Position					
Net investment in capital assets	105,734,255	111,383,796	112,244,131	860,335	0.8
Restricted cash	507,944	1,273,393	9,354,779	8,081,386	634.6
Unrestricted	278,979	278,889	246,739	(32,150)	(11.5)
Total net position	<u>\$ 106,521,178</u>	<u>\$ 112,936,078</u>	<u>\$ 121,845,649</u>	<u>\$ 8,909,571</u>	7.9

Western Townships Utilities Authority

Management's Discussion and Analysis (Continued)

Authority's Changes in Net Position

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

	2017	2018	2019	Change (2018-2019)	Percent Change
Operating Revenue					
Earned revenue from townships	\$ 14,411,554	\$ 8,901,185	\$ 8,701,248	\$ (199,937)	(2.2)
SAW grant revenue	163,555	-	-	-	-
Other operating revenue	783,769	37,503	28,355	(9,148)	(24.4)
Total operating revenue	15,358,878	8,938,688	8,729,603	(209,085)	(2.3)
Operating Expenses					
Sewage treatment charges	12,317,450	5,881,570	5,771,489	(110,081)	(1.9)
Administrative	494,437	530,184	520,964	(9,220)	(1.7)
Sewage capacity rental	515,371	479,913	442,154	(37,759)	(7.9)
Operating and maintenance	1,789,566	1,815,213	1,762,878	(52,335)	(2.9)
Total operating expenses	15,116,824	8,706,880	8,497,485	(209,395)	(2.4)
Operating Income	242,054	231,808	232,118	310	0.1
Nonoperating Revenue	5,072,743	5,383,092	211,329	(5,171,763)	(96.1)
Income - Before capital contributions	5,314,797	5,614,900	443,447	(5,171,453)	(92.1)
Capital Contributions from Townships	297,936	800,000	8,466,124	7,666,124	958.3
Change in Net Position	5,612,733	6,414,900	8,909,571	2,494,671	38.9
Net Position - Beginning of year	100,908,445	106,521,178	112,936,078	6,414,900	6.0
Net Position - End of year	\$ 106,521,178	\$ 112,936,078	\$ 121,845,649	\$ 8,909,571	7.9

Sewage treatment charges, operations and maintenance costs, and administrative expenses all remained relatively stable compared to the last fiscal year. The revenue and expenditure report shows \$232,118 in excess operating revenue. This amount represents payments for YCUA's UAAL for pension and a reduction of the liability.

In previous years, WTUA had nonoperating income exceeding \$5 million due to payments of approximately \$10 million in debt service annually, which were offset by close to \$5 million in depreciation expense. The 2009 bond issue was paid off on January 1, 2019, so liabilities were only reduced by approximately \$5 million in 2018/2019 and were offset by depreciation expense of almost \$5 million, reducing nonoperating income to \$211,329.

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 asset management program in 2017, with the exception of WTUA's expansion project. 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. The expansion project is currently underway and was not included in the program because it did not exist at that time. Canton Township requested that its approximate portion of the expansion costs (\$7.5 million of the \$11 million project) be billed to the township in advance of the project, increasing WTUA's capital contributions by over \$7 million for fiscal year 2018/2019, which accounts for 87 percent of the total change in net position.

Budgetary Highlights

During the year, the Authority did not make any amendments to the operating budget. Operating costs came in at 72.4 percent of the budget.

Western Townships Utilities Authority

Management's Discussion and Analysis (Continued)

Capital Assets and Debt Administration

During the current year, the Authority managed the following capital improvement projects:

Increased equity in YCUA	\$	139,500
Pipe lining project/sewer lines		243,616
Retention basin and pump station structures		11,750
Lower Rouge expansion project - Construction in progress		89,733
		<hr/>
Total capital project additions	\$	484,599
		<hr/>

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

At the close of the year, the Authority had \$14.6 million in outstanding debt, as compared to \$19.1 million in the previous year. See Note 6 for more information.

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 waiting on the county to execute both the termination agreement and the sale of capacity to the City of Plymouth, Michigan, the proceeds of which will be used to offset the termination costs.

Sewage treatment charges represent approximately 71 percent of the Authority's operating budget for the next fiscal year. YCUA has decreased its rates for the next fiscal year by approximately 6 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 show 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, 2019 and 2018

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents (Note 3)	\$ 2,064,994	\$ 330,838
Receivables:		
Due from members	503,869	2,011,066
Other	1,649,074	1,633,749
Prepaid expenses and other assets	74,867	62,207
Unbilled debt service receivable	164,338	207,844
Total current assets	4,457,142	4,245,704
Noncurrent assets:		
Restricted assets (Notes 3 and 4)	9,354,779	1,273,393
Capital assets: (Note 5)		
Assets not subject to depreciation	3,639,335	3,549,602
Assets subject to depreciation - Net	126,655,343	131,045,215
Total noncurrent assets	139,649,457	135,868,210
Total assets	144,106,599	140,113,914
Deferred Outflows of Resources - Deferred charges on refundings	82,714	179,540
Liabilities		
Current liabilities:		
Accounts payable	585,066	693,251
Accrued payables, payroll, and compensated absences	53,377	47,801
Construction payable	281,234	-
Billing lookback - Due to members	1,781,638	1,673,169
Accrued interest payable	164,338	207,844
Total current liabilities	2,865,653	2,622,065
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)	2,069,740	2,301,856
Due to Wayne County, Michigan - Due in more than one year (Note 9)	1,344,750	1,344,750
Long-term debt - Due within one year (Note 6)	3,954,663	5,025,185
Long-term debt - Due in more than one year (Note 6)	11,876,739	15,831,401
Total noncurrent liabilities	19,478,011	24,735,311
Total liabilities	22,343,664	27,357,376
Net Position		
Net investment in capital assets	112,244,131	111,383,796
Restricted	9,354,779	1,273,393
Unrestricted	246,739	278,889
Total net position	<u>\$ 121,845,649</u>	<u>\$ 112,936,078</u>

Western Townships Utilities Authority

Statement of Revenue, Expenses, and Changes in Net Position

Years Ended September 30, 2019 and 2018

	2019	2018
Operating Revenue		
Earned revenue from townships	\$ 8,701,248	\$ 8,901,185
Other operating revenue	28,355	37,503
Total operating revenue	<u>8,729,603</u>	<u>8,938,688</u>
Operating Expenses		
Sewage treatment charges	5,771,489	5,881,570
Administrative	520,964	530,184
Sewage capacity rental	442,154	479,913
Operating and maintenance	1,762,878	1,815,213
Total operating expenses	<u>8,497,485</u>	<u>8,706,880</u>
Operating Income	232,118	231,808
Nonoperating Revenue (Expense)		
Interest earnings	67,710	15,201
Debt billings to townships	5,230,856	10,594,188
Interest expense	(700,856)	(944,188)
Depreciation	(4,784,738)	(4,782,903)
Amortization	398,357	500,794
Total nonoperating revenue	<u>211,329</u>	<u>5,383,092</u>
Income - Before capital contributions from townships	443,447	5,614,900
Capital Contributions from Townships	<u>8,466,124</u>	<u>800,000</u>
Change in Net Position	8,909,571	6,414,900
Net Position - Beginning of year	<u>112,936,078</u>	<u>106,521,178</u>
Net Position - End of year	<u><u>\$ 121,845,649</u></u>	<u><u>\$ 112,936,078</u></u>

Western Townships Utilities Authority

Statement of Cash Flows

Years Ended September 30, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Cash received from townships and other receipts	\$ 10,325,282	\$ 8,467,435
Cash payments to suppliers for goods and services	(8,259,583)	(8,269,755)
Cash payments for employee services	(334,946)	(323,304)
Net cash and cash equivalents provided by (used in) operating activities	1,730,753	(125,624)
Cash Flows from Capital and Related Financing Activities		
Payments on YCUA contracts payable	(232,116)	(232,116)
Collection of debt billings to townships	5,274,362	10,707,000
Capital contributions from members	8,452,561	809,232
Payments for the acquisition or construction of capital assets	(203,365)	(49,535)
Principal and interest paid on capital debt	(5,274,363)	(10,707,000)
Net cash and cash equivalents provided by capital and related financing activities	8,017,079	527,581
Cash Flows Provided by Investing Activities - Interest received on investments	67,710	15,201
Net Increase in Cash and Cash Equivalents	9,815,542	417,158
Cash and Cash Equivalents - Beginning of year	1,604,231	1,187,073
Cash and Cash Equivalents - End of year	<u>\$ 11,419,773</u>	<u>\$ 1,604,231</u>
Classification of Cash and Cash Equivalents		
Unrestricted cash	\$ 2,064,994	\$ 330,838
Restricted cash	9,354,779	1,273,393
Total cash and cash equivalents	<u>\$ 11,419,773</u>	<u>\$ 1,604,231</u>
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating income	\$ 232,118	\$ 231,808
Adjustments to reconcile operating income to net cash from operating activities - Changes in assets and liabilities:		
Due from members - Monthly billings	1,520,760	(471,253)
Accounts receivable - Nonmembers	(15,325)	(1,265,661)
Prepaid expenses	(12,660)	(2,819)
Accounts payable	(108,185)	95,813
Accrued payable and payroll	114,045	1,311,238
Due to Wayne County, Michigan	-	(24,750)
Net cash and cash equivalents provided by (used in) operating activities	<u>\$ 1,730,753</u>	<u>\$ (125,624)</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 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 the Ypsilanti Community Utilities Authority (YCUA)	15 to 40
Utility system - Furniture and equipment	5 to 7

Upcoming Accounting Pronouncements

In January 2017, the Governmental Accounting Standards Board issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. 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, 2020.

In June 2017, the GASB issued 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 previously were 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 year ending September 30, 2021.

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.

September 30, 2019 and 2018

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, 2019 and 2018.

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 that matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions that 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, 2019 and 2018, the Authority had \$0 and \$97,755, 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, 2019 and 2018. The balance of this investment is \$9,581,953 and \$1,267,522 at September 30, 2019 and 2018, respectively.

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, 2019, 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	\$ 9,581,953	\$ -	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, 2019 and 2018, restricted assets are composed of the following:

	<u>2019</u>	<u>2018</u>
Cash and investments:		
Capital replacement reserve - Emergency	\$ 520,063	\$ 507,681
Capital replacement reserve - Construction	8,827,201	759,841
Debt service	7,515	5,871
Total	<u>\$ 9,354,779</u>	<u>\$ 1,273,393</u>

Western Townships Utilities Authority

Notes to Financial Statements

September 30, 2019 and 2018

Note 5 - Capital Assets

Capital asset activity of the Authority was as follows:

	Balance October 1, 2018	Additions	Disposals	Balance September 30, 2019
Capital assets not being depreciated:				
Land	\$ 3,549,602	\$ -	\$ -	\$ 3,549,602
Construction in progress	-	89,733	-	89,733
Subtotal	3,549,602	89,733	-	3,639,335
Capital assets being depreciated:				
Land restoration costs	2,412,243	-	-	2,412,243
Sewage transmission lines	46,509,159	243,616	-	46,752,775
Equalization basin and pump station	67,445,801	11,750	-	67,457,551
Equity in YCUA	91,229,341	139,500	-	91,368,841
Furniture and equipment	127,527	-	-	127,527
Subtotal	207,724,071	394,866	-	208,118,937
Accumulated depreciation:				
Land restoration costs	2,412,243	-	-	2,412,243
Sewage transmission lines	17,927,043	796,763	-	18,723,806
Equalization basin and pump station	27,762,784	1,698,336	-	29,461,120
Equity in YCUA	28,487,508	2,281,598	-	30,769,106
Furniture and equipment	89,278	8,041	-	97,319
Subtotal	76,678,856	4,784,738	-	81,463,594
Net capital assets being depreciated	131,045,215	(4,389,872)	-	126,655,343
Net capital assets	<u>\$ 134,594,817</u>	<u>\$ (4,300,139)</u>	<u>\$ -</u>	<u>\$ 130,294,678</u>

Western Townships Utilities Authority

Notes to Financial Statements

September 30, 2019 and 2018

Note 5 - Capital Assets (Continued)

	Balance October 1, 2017	Reclassifications	Additions	Disposals	Balance September 30, 2018
Capital assets not being depreciated:					
Land	\$ 3,549,602	\$ -	\$ -	\$ -	\$ 3,549,602
Construction in progress	9,232	(9,232)	-	-	-
Subtotal	3,558,834	(9,232)	-	-	3,549,602
Capital assets being depreciated:					
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
Accumulated depreciation:					
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
Net capital assets being depreciated	135,769,351	9,232	(4,733,368)	-	131,045,215
Net capital assets	<u>\$ 139,328,185</u>	<u>\$ -</u>	<u>\$ (4,733,368)</u>	<u>\$ -</u>	<u>\$ 134,594,817</u>

Construction Commitments

The Authority has two ongoing construction projects at September 30, 2019: repairs to interceptors and an expansion project. The repairs to interceptors project had a total project commitment of \$257,716 and total expenditures of \$58,767. The expansion project had a total project commitment of \$1,877,631 and total expenditures of \$72,445. The unspent commitments totaled \$198,949 and \$1,805,186 for the repairs to interceptors project and the expansion project, respectively, at September 30, 2019.

Western Townships Utilities Authority

Notes to Financial Statements

September 30, 2019 and 2018

Note 6 - Long-term Debt

Long-term debt activity for the years ended September 30, 2019 and 2018 can be summarized as follows:

		2019						
		Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds and contracts payable -								
Other debt:								
2009 General Obligation Bond (used to refund 2001 bonds)								
	3.50%	2019	\$ 1,435,000	\$ -	\$ (1,435,000)	\$ -	\$ -	
2012 General Obligation Bond (used to refund 2002 bonds)								
	4.00% - 5.00%	2023	17,660,000	-	(3,095,000)	14,565,000	3,565,000	
Unamortized premium on 2009 issue								
			105,523	-	(105,523)	-	-	
Unamortized premium on 2012 issue								
			1,656,063	-	(389,661)	1,266,402	389,663	
Total bonds and contracts payable			<u>\$ 20,856,586</u>	<u>\$ -</u>	<u>\$ (5,025,184)</u>	<u>\$ 15,831,402</u>	<u>\$ 3,954,663</u>	
		2018						
		Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds and contracts payable -								
Other debt:								
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	
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	
Total bonds and contracts payable			<u>\$ 31,318,335</u>	<u>\$ -</u>	<u>\$ (10,461,749)</u>	<u>\$ 20,856,586</u>	<u>\$ 5,025,185</u>	

Debt Service Requirements to Maturity

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	Other Debt		
	Principal	Interest	Total
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
Total	<u>\$ 14,565,000</u>	<u>\$ 1,416,175</u>	<u>\$ 15,981,175</u>

Western Townships Utilities Authority

Notes to Financial Statements

September 30, 2019 and 2018

Note 6 - Long-term Debt (Continued)

Interest

For the year ended September 30, 2019, interest incurred by the Authority totaled \$700,856. For the year ended September 30, 2018, interest incurred by the Authority totaled \$944,188.

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:

Years Ending September 30	Amount
2020	\$ 403,883
2021	364,630
2022	322,936
2023	282,060
2024	268,777
2025-2029	1,211,561
2030-2034	1,003,324
2035-2039	753,333
2040-2044	475,564
2045-2049	419,251
2050-2054	443,439
2055-2059	487,626
2060-2064	491,814
2065-2069	516,001
2070-2074	540,189
2075-2079	564,376
2080-2084	588,564
2085-2089	612,751
2090-2094	636,939
2095-2099	661,126
Total	<u>\$ 11,028,144</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. A formal termination agreement has been signed by all parties except Wayne County, Michigan. 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 toward 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. There is another agreement pending for the sale of capacity to the City of Plymouth, Michigan, the proceeds of which will be used to offset the termination 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 (the "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 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, 2019 and 2018, the Authority contributed approximately \$35,000 and \$34,000, respectively.

Other Supplemental Information

Western Townships Utilities Authority

**Other Supplemental Information
Schedule of Operating Expenditures - Budget and Actual**

Year Ended September 30, 2019

	<u>Original Budget (Unaudited)</u>	<u>Final Budget (Unaudited)</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Sewage treatment charges	\$ 8,446,400	\$ 8,446,400	\$ 5,771,489	\$ 2,674,911
Operation and maintenance costs	2,247,750	2,247,750	1,762,878	484,872
Administrative costs	599,975	599,975	520,964	79,011
Sewage capacity rental costs	442,154	442,154	442,154	-

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, 2019

Date of Maturity January 1	Limited Tax General Obligation Bonds 2012 Bond Issue		
	Principal Debt Outstanding at September 30, 2019	Annual Interest Payable	Total
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
Total remaining payments	<u>\$ 14,565,000</u>	<u>\$ 1,416,175</u>	<u>\$ 15,981,175</u>
Interest rate	4.00-5.00%		
Original issue	<u>\$ 32,205,000</u>		

In 2019, the principal payment for the 2009 bond issue was \$1,435,000 at an interest rate of 3.50 percent. This was the final payment on the 2009 bond issue. The principal payment for the 2012 bond issue was \$3,095,000 at an interest rate of 4.00 percent. Interest payable for the 2009 bond issue and the 2012 bond issue in 2019 was \$25,113 and \$719,250, respectively.

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