

# **Western Townships Utilities Authority**

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**Financial Report  
with Supplemental Information  
September 30, 2016**

# **Western Townships Utilities Authority**

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## Independent Auditor's Report

To the 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, 2016 and 2015 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, 2016 and 2015 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, as identified in the table of contents, 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 Western Townships Utilities Authority's basic financial statements. The schedule of operating expenditures - budget and actual and the schedule of 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 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 13, 2017



# 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. 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).

	2012	2013	2014	2015	2016
Total costs charged to townships	\$ 12,221,503	\$ 12,120,169	\$ 12,687,670	\$ 14,143,851	\$ 14,713,565
Total flow (thousands of gallons)*	5,512,508	5,154,879	5,677,317	5,493,666	5,664,201
Cost per thousand gallons	\$ 2.217	\$ 2.351	\$ 2.235	\$ 2.575	\$ 2.598

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

# Western Townships Utilities Authority

## Management's Discussion and Analysis (Continued)

WTUA currently transports 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. YCUA bills the Authority based upon actual sewage flow. A lookback is calculated by YCUA at the end of its fiscal year and charged or credited to the Authority based upon its share of the sewage flow and actual expenditures. Payments are made to Wayne County for sewage that is treated by GLWA as Wayne County maintains the RVIS sewage transportation system. Both Wayne County and GLWA changed the billing methodology in 2014 to a monthly fixed charge based on historical flows. Wayne County billings are based on a five-year average (recalculated yearly) of the amount of water purchased by the Authority's townships from Detroit, adjusted for water-only and sewer-only customers. This adjusted water number is then further adjusted by the percentage of WTUA's actual metered flow that is sent to the RVIS system. Wayne County pays GLWA based upon a five-year average (recalculated every three years) of actual sewage flow.

### 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 to principal payments made on bonds. The decrease in liabilities was offset by a decrease in capital assets. In 2015, we closed over \$33 million in capital projects due to the substantial completion of the Lower Rouge expansion. For 2016, that figure was reduced to \$730,733.

	September 30			Change (2015 to 2016)	
	2014	2015	2016	Amount	Percent
<b>Assets</b>					
Current assets	\$ 3,035,843	\$ 2,397,880	\$ 2,130,981	\$ (266,899)	(11.1)
Restricted assets	1,783,025	1,732,737	1,569,624	(163,113)	(9.4)
Capital assets	147,707,301	148,402,624	143,875,783	(4,526,841)	(3.1)
Total assets	152,526,169	152,533,241	147,576,388	(4,956,853)	(3.2)
<b>Deferred Outflow</b>	1,423,360	1,112,406	801,450	(310,956)	(28.0)
<b>Liabilities</b>					
Current liabilities	2,756,954	2,118,991	1,852,092	(266,899)	(12.6)
Other liabilities	1,034,869	1,036,939	1,039,014	2,075	0.2
Long-term liabilities	60,438,581	54,579,271	44,578,287	(10,000,984)	(18.3)
Total liabilities	64,230,404	57,735,201	47,469,393	(10,265,808)	(17.8)
<b>Net Position</b>					
Net investment in capital assets	88,937,487	95,127,179	100,123,414	4,996,235	5.3
Restricted	502,749	504,378	506,142	1,764	0.3
Unrestricted	278,889	278,889	278,889	-	-
Total net position	<u>\$ 89,719,125</u>	<u>\$ 95,910,446</u>	<u>\$ 100,908,445</u>	<u>\$ 4,997,999</u>	5.2



# Western Townships Utilities Authority

## Management's Discussion and Analysis (Continued)

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

	Year Ended September 30			Change (2015 to 2016)	
	2014	2015	2016	Amount	Percent
Earned revenue from townships	\$ 12,687,670	\$ 14,143,851	\$ 14,713,565	\$ 569,714	4.0
SAW grant revenue	136,339	115,827	109,411	(6,416)	(5.5)
MMRMA distribution	-	119,358	78,227	(41,131)	100.0
Total revenue	12,824,009	14,379,036	14,901,203	522,167	3.6
Sewage treatment charges	10,329,913	11,542,688	11,792,971	250,283	2.2
Operation and maintenance	1,469,030	1,638,555	1,598,661	(39,894)	(2.4)
Administrative	407,913	613,062	494,527	(118,535)	(19.3)
Sewage capacity rental	617,153	584,731	550,811	(33,920)	(5.8)
Total operating expenses	12,824,009	14,379,036	14,436,970	57,934	0.4
Other nonoperating income	4,541,595	4,371,992	4,219,256	(152,736)	(3.5)
Net income - Before capital contributions	4,541,595	4,371,992	4,683,489	311,497	7.1
Capital contributions from townships	1,766,033	1,819,329	314,510	(1,504,819)	(82.7)
Change in net position	\$ 6,307,628	\$ 6,191,321	\$ 4,997,999	\$ (1,193,322)	(19.3)

Sewage treatment charges increased 2.2 percent this year. The total volume of sewage flow treated increased 3.1 percent this year. The savings to the townships in sewage treatment charges were offset by the payments made to YCUA contributing to the UAAL for pension, as agreed to in the fourth amendment to the YCUA contract signed in 2015. The revenue and expenditure report shows \$464,233 in excess revenue from operations. This amount represents two years of payments for YCUA's UAAL for pension. The language in the amendment made the payments retrospective to when the amendment was signed, so for YCUA's fiscal year 2015, WTUA made a payment of \$232,116 in September 2016 when the lookback was completed for fiscal year 2015. For fiscal year 2016, the payments were incorporated into their rates, as they were in fiscal year 2015. The preliminary YCUA lookback for their fiscal year 2016 includes the annual amount. In September 2016, YCUA began invoicing WTUA monthly on a separate invoice.

Administrative costs were down this year. Outside engineering services decreased approximately \$153,000. An outside engineering company was contracted to do a study to review our capacity needs in 2015, creating a high expense that we did not see in 2016. Office expense increased approximately \$42,000, mostly due to an increase in outside services needed for the Lower Rouge expansion litigation and data discovery, and also due to computer expenses because of the costs associated with the purchase of a new server. Both the increase in computer expense and outside service expense were offset by a decrease in our insurance cost.

Capital contributions are for the current capital projects, which are all funded from township contributions with the exception of some of the current Lower Rouge expansion costs, which are being funded from the odor control duct settlement funds.

# **Western Townships Utilities Authority**

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

### **Budgetary Highlights**

During the year, the Authority did not make any amendments to the operating budget. Operating costs came in at 90.3 percent of the budget.

### **Capital Asset and Debt Administration**

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

EQ basin and pump stations	\$ 166,951
Pipe lining project	<u>314,510</u>
Total capital project additions	<u>\$ 481,461</u>

The Lower Rouge equalization basin expansion project increases the storage capacity at the Lower Rouge facility by 5.5 million gallons and has a new pump station with three new pumps. Construction started in early 2008 and final completion was expected in mid-2010. The project is 99 percent complete, with a few remaining issues. These issues were largely resolved in late 2015 and operations of the new facility began. There are still some final punch list items to complete and the project is now in litigation.

The Authority's total investment in capital assets is over \$210 million (before considering depreciation).

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

WTUA's contract with Wayne County expired in August 2011. Negotiations have been underway for some time for a contract extension or a new contract. WTUA is expected to make a decision as to whether or not we will be leaving the Wayne County system by February 2017.

Sewage treatment charges represent approximately 81 percent of the Authority's operating budget for the next fiscal year. YCUA has increased its rates for the next fiscal year by approximately 3.6 percent when compared with the estimated lookback rate for the current year. Both Wayne County and GLWA are now using a fixed monthly charge and it is hard to quantify the exact percentage increase with this methodology change in billing. With this methodology change, should the Authority change its flow pattern between the two sewage treatment facilities, it would not affect the cost from Wayne County until a subsequent time period, as costs are fixed until July 1, 2017 when a new fixed amount will be calculated based on the previous five-year average. The Authority's operating budget for the year ending September 30, 2017 forecasts an 8.5 percent increase in the monthly fixed charge due to an increase from GLWA of approximately 7.5 percent, as well as anticipated cost increase for the Wayne County add-on charges. With the new pump station at Lower Rouge in operation, it is expected that the allocation of the flows between the Wayne County/RVIS System and YCUA will change with more flow being sent to YCUA.



# **Western Townships Utilities Authority**

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

### **Contacting the Authority's Management**

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, 2016	September 30, 2015
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (Note 3)	\$ 126,682	\$ 540,364
Receivables:		
Due from members	1,464,625	1,204,590
Other	46,989	78,597
Provision for YCUA lookback	-	40,000
Prepaid expenses and other assets	69,703	15,835
Unbilled debt service receivable	422,982	518,494
Total current assets	2,130,981	2,397,880
Noncurrent assets:		
Restricted assets (Notes 3 and 4)	1,569,624	1,732,737
Capital assets (Note 5):		
Assets not subject to depreciation	3,558,142	3,807,414
Assets subject to depreciation	140,317,641	144,595,210
Total noncurrent assets	145,445,407	150,135,361
Total assets	147,576,388	152,533,241
<b>Deferred Outflows of Resources</b> - Deferred charges on refundings	801,450	1,112,406
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	1,350,521	1,062,740
Accrued payables, payroll, and compensated absences	55,192	52,375
Construction payable and construction retainers payable from current assets	23,397	200,664
Billing lookback - Due to members	-	158,263
Accrued interest payable	422,982	518,494
Prebilled capital improvement	-	126,455
Total current liabilities	1,852,092	2,118,991
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)	2,766,085	3,230,320
Construction retainers payable from restricted assets	1,039,014	1,036,939
Long-term debt - Due within one year (Note 6)	10,261,749	9,536,749
Long-term debt - Due in more than one year (Note 6)	31,318,334	41,580,083
Total noncurrent liabilities	45,617,301	55,616,210
Total liabilities	47,469,393	57,735,201
<b>Net Position</b>		
Net investment in capital assets	100,123,414	95,127,179
Restricted	506,142	504,378
Unrestricted	278,889	278,889
Total net position	\$ 100,908,445	\$ 95,910,446

The Notes to Financial Statements are an  
Integral Part of this Statement.

# Western Townships Utilities Authority

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

	Year Ended	
	September 30, 2016	September 30, 2015
<b>Operating Revenue</b>		
Earned revenue from townships	\$ 14,713,565	\$ 14,143,851
SAW grant revenue	109,411	115,827
Other operating revenue	78,227	119,358
Total operating revenue	14,901,203	14,379,036
<b>Operating Expenses</b>		
Sewage treatment charges	11,792,971	11,542,688
Operating and maintenance	1,598,661	1,638,555
Administrative	494,527	613,062
Sewage capacity rental	550,811	584,731
Total operating expenses	14,436,970	14,379,036
<b>Operating Income</b>	464,233	-
<b>Nonoperating Revenue (Expenses)</b>		
Interest earnings on restricted assets	1,764	1,629
Debt billings to townships	10,512,438	10,676,575
Interest expense	(1,787,438)	(2,166,574)
Depreciation	(5,008,302)	(4,640,432)
Amortization	500,794	500,794
Total nonoperating revenue	4,219,256	4,371,992
<b>Income - Before capital contributions</b>	4,683,489	4,371,992
<b>Capital Contributions from Townships</b>	314,510	1,819,329
<b>Change in Net Position</b>	4,997,999	6,191,321
<b>Net Position - Beginning of year</b>	95,910,446	89,719,125
<b>Net Position - End of year</b>	<b>\$ 100,908,445</b>	<b>\$ 95,910,446</b>



# Western Townships Utilities Authority

## Statement of Cash Flows

	Year Ended	
	September 30, 2016	September 30, 2015
<b>Cash Flows from Operating Activities</b>		
Cash received from townships and other receipts	\$ 14,525,616	\$ 14,059,209
Cash payments to suppliers for goods and services	(13,901,886)	(14,460,625)
Cash payments for employee services	(298,354)	(277,302)
Net cash provided by (used in) operating activities	325,376	(678,718)
<b>Cash Flows from Capital and Related Financing Activities</b>		
Payments on YCUA contracts payable	(464,235)	-
Collection of debt billings to townships	10,607,950	10,769,175
Capital contributions from members	216,952	840,966
Payments for the acquisition or construction of capital assets	(656,653)	(586,285)
Principal and interest paid on capital debt	(10,607,949)	(10,769,175)
Net cash (used in) provided by capital and related financing activities	(903,935)	254,681
<b>Cash Flows from Investing Activities - Interest received on investments</b>	1,764	1,629
<b>Net Decrease in Cash and Cash Equivalents</b>	(576,795)	(422,408)
<b>Cash and Cash Equivalents - Beginning of year</b>	2,273,101	2,695,509
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 1,696,306</b>	<b>\$ 2,273,101</b>
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>		
Unrestricted cash	\$ 126,682	\$ 540,364
Restricted cash	1,569,624	1,732,737
Total cash and cash equivalents	<b>\$ 1,696,306</b>	<b>\$ 2,273,101</b>
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>		
Operating income	\$ 464,233	\$ -
Changes in assets and liabilities:		
Due from members - Monthly billings	(288,932)	(260,944)
Accounts receivable - Nonmembers	31,608	(47,146)
Provision for YCUA lookback	40,000	130,000
Prepaid expenses	(53,868)	43,462
Accounts payable	287,781	(537,241)
Accrued payable and payroll	2,817	4,888
Due to members - Billing lookback	(158,263)	(11,737)
Net cash provided by (used in) operating activities	<b>\$ 325,376</b>	<b>\$ (678,718)</b>

# **Western Townships Utilities Authority**

## **Notes to Financial Statements September 30, 2016 and 2015**

### **Note 1 - Summary of 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. The following is a summary of the significant accounting policies:

**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 accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the 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.



# Western Townships Utilities Authority

## Notes to Financial Statements September 30, 2016 and 2015

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Restricted Assets** - The Authority has funds set aside to pay retainages associated with various construction contracts and, as such, these amounts have been classified as restricted assets. The settlement proceeds related to the Lower Rouge expansion odor control duct are classified as restricted. When an expense is incurred that allows the use of restricted assets, those assets are applied before utilizing any unrestricted assets. The board has also set aside cash for emergency replacement of critical assets. These also are classified as restricted 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:

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

### 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, 2016 and 2015.



# Western Townships Utilities Authority

## Notes to Financial Statements September 30, 2016 and 2015

### 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 investment policies 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 year end 2016 and 2015, the Authority had \$2,073,935 and \$2,554,214, 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.

### Note 4 - Restricted Assets

Restricted assets are restricted for the following purposes:

	2016	2015
Cash and investments:		
Capital replacement reserve	\$ 502,741	\$ 502,411
Debt service	3,401	1,967
Payment of construction retainages	1,039,014	1,036,939
Construction funds	24,468	191,420
Total	<u>\$ 1,569,624</u>	<u>\$ 1,732,737</u>

# Western Townships Utilities Authority

## Notes to Financial Statements September 30, 2016 and 2015

### Note 5 - Capital Assets

Capital asset activity for the year ended September 30, 2016 was as follows:

	Balance October 1, 2015	Reclassifications	Additions	Disposals	Balance September 30, 2016
Capital assets not being depreciated:					
Land	\$ 3,549,602	\$ -	\$ -	\$ -	\$ 3,549,602
Construction in progress	257,812	(257,812)	8,540	-	8,540
Subtotal	3,807,414	(257,812)	8,540	-	3,558,142
Capital assets being depreciated:					
Land restoration costs	2,412,243	-	-	-	2,412,243
Sewage transmission lines	45,722,870	257,812	305,969	-	46,286,651
Equalization basin and pump station	67,167,871	-	166,952	-	67,334,823
Equity in YCUA	91,209,998	-	-	-	91,209,998
Furniture and equipment	101,282	-	-	-	101,282
Subtotal	206,614,264	257,812	472,921	-	207,344,997
Accumulated depreciation:					
Land restoration costs	(2,412,243)	-	-	-	(2,412,243)
Sewage transmission lines	(15,548,578)	-	(788,276)	-	(16,336,854)
Equalization basin and pump station	(22,323,746)	-	(1,935,530)	-	(24,259,276)
Equity in YCUA	(21,648,669)	-	(2,279,371)	-	(23,928,040)
Furniture and equipment	(85,818)	-	(5,125)	-	(90,943)
Subtotal	(62,019,054)	-	(5,008,302)	-	(67,027,356)
Net capital assets being depreciated	144,595,210	257,812	(4,535,381)	-	140,317,641
Net capital assets	\$ 148,402,624	\$ -	\$ (4,526,841)	\$ -	\$ 143,875,783

# Western Townships Utilities Authority

## Notes to Financial Statements September 30, 2016 and 2015

### Note 5 - Capital Assets (Continued)

Capital asset activity for the year ended September 30, 2015 was as follows:

	Balance October 1, 2014	Reclassifications	Additions	Disposals	Balance September 30, 2015
Capital assets not being depreciated:					
Land	\$ 2,136,913	\$ -	\$ 1,412,689	\$ -	\$ 3,549,602
Construction in progress	27,891,549	(27,945,536)	311,799	-	257,812
Subtotal	30,028,462	(27,945,536)	1,724,488	-	3,807,414
Capital assets being depreciated:					
Land restoration costs	2,412,243	-	-	-	2,412,243
Sewage transmission lines	45,657,527	-	65,343	-	45,722,870
Equalization basin and pump station	39,138,848	27,945,536	83,487	-	67,167,871
Equity in YCUA	87,747,559	-	3,462,439	-	91,209,998
Furniture and equipment	101,282	-	-	-	101,282
Subtotal	175,057,459	27,945,536	3,611,269	-	206,614,264
Accumulated depreciation:					
Land restoration costs	(2,412,243)	-	-	-	(2,412,243)
Sewage transmission lines	(14,773,428)	-	(775,150)	-	(15,548,578)
Equalization basin and pump station	(20,699,679)	-	(1,624,067)	-	(22,323,746)
Equity in YCUA	(19,412,579)	-	(2,236,090)	-	(21,648,669)
Furniture and equipment	(80,691)	-	(5,127)	-	(85,818)
Subtotal	(57,378,620)	-	(4,640,434)	-	(62,019,054)
Net capital assets being depreciated	117,678,839	27,945,536	(1,029,165)	-	144,595,210
Net capital assets	\$ 147,707,301	\$ -	\$ 695,323	\$ -	\$ 148,402,624

**Construction Commitments** - The Authority has two ongoing construction projects at year end: the Lower Rouge equalization basin expansion, which is 99 percent complete, and repairs to interceptors. The Lower Rouge equalization basin expansion project is to increase the storage capacity at the Lower Rouge facility. The total commitment for the project is \$26,190,612. At year end, the Authority had spent \$26,125,995, leaving an unspent commitment of \$64,617. The repairs to interceptors project had a total project commitment of \$189,075 and total expenditures of \$8,540. Unspent commitments totaled \$180,535 at year end.



# Western Townships Utilities Authority

## Notes to Financial Statements September 30, 2016 and 2015

### Note 6 - Long-term Debt

Long-term debt activity for the year ended September 30, 2016 can be summarized as follows:

	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)	3.00% - 5.00%	2019	\$ 20,265,000	\$ -	\$ (6,015,000)	\$ 14,250,000	\$ 6,290,000
2012 General Obligation Bond (used to refund 2002 bonds)	3.00% - 5.00%	2023	26,655,000	-	(2,710,000)	23,945,000	3,160,000
Less:							
Unamortized premium on 2009 issue			1,371,782	-	(422,087)	949,695	422,086
Unamortized premium on 2012 issue			2,825,050	-	(389,662)	2,435,388	389,663
Total long-term debt			<u>\$ 51,116,832</u>	<u>\$ -</u>	<u>\$ (9,536,749)</u>	<u>\$ 41,580,083</u>	<u>\$ 10,261,749</u>

Long-term debt activity for the year ended September 30, 2015 can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2009 General Obligation Bond (used to refund 2001 bonds)	3.00% - 5.00%	2019	\$ 26,020,000	\$ -	\$ (5,755,000)	\$ 20,265,000	\$ 6,015,000
2012 General Obligation Bonds (used to refund 2002 Bonds)	3.00% - 5.00%	2023	29,410,000	-	(2,755,000)	26,655,000	2,710,000
Less:							
Unamortized premium on 2009 issue			1,793,869	-	(422,087)	1,371,782	422,087
Unamortized premium on 2012 issue			3,214,712	-	(389,662)	2,825,050	389,662
Total long-term debt			<u>\$ 60,438,581</u>	<u>\$ -</u>	<u>\$ (9,321,749)</u>	<u>\$ 51,116,832</u>	<u>\$ 9,536,749</u>

## Western Townships Utilities Authority

### Notes to Financial Statements September 30, 2016 and 2015

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

**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
2017	\$ 9,450,000	\$ 1,487,275	\$ 10,937,275
2018	9,650,000	1,057,000	10,707,000
2019	4,530,000	744,362	5,274,362
2020	3,565,000	586,050	4,151,050
2021	3,525,000	444,250	3,969,250
2022-2023	7,475,000	385,875	7,860,875
Total	\$ 38,195,000	\$ 4,704,812	\$ 42,899,812

**Interest** - For the year ended September 30, 2016, interest incurred by the Authority totaled \$1,787,438. For the year ended September 30, 2015, interest incurred by the Authority totaled \$2,166,574.

**Classification** - 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.

## Western Townships Utilities Authority

### Notes to Financial Statements September 30, 2016 and 2015

#### Note 7 - Leases (Continued)

Annual payment requirements for the above are as follows:

<u>Years Ending September 30</u>	<u>Amount</u>
2017	\$ 515,371
2018	479,913
2019	442,154
2020	403,883
2021	364,630
2022-2026	1,380,714
2027-2031	1,133,276
2032-2036	908,338
2037-2041	641,647
2042-2046	418,378
2047-2051	428,926
2052-2056	453,114
2057-2061	477,301
2062-2066	501,489
2067-2071	525,676
2072-2076	549,864
2077-2081	574,051
2082-2086	598,239
2087-2091	622,426
2092-2096	646,614
2097-2099	399,578
Total	<u>\$ 12,465,582</u>

#### Note 8 - Contracts Payable - YCUA

During the year ended September 30, 2015, the Authority amended its lease agreement with YCUA. In accordance with the agreement, the Authority will assume 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 as of August 31, 2015, and will make 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.



# **Western Townships Utilities Authority**

## **Notes to Financial Statements September 30, 2016 and 2015**

### **Note 9 - 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 MMRMA risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

### **Note 10 - Defined Contribution Pension Plan**

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, 2016 and 2015, the Authority contributed approximately \$31,000 and \$30,000, respectively.

### **Note 11 - Lower Rouge Expansion**

Construction of the expansion of the Lower Rouge facility began in 2008. The expansion included a new pump station and a 5.5 million gallon storage basin as well as modifications to the existing pump station. Completion was expected in 2010. WTUA would not accept the project from the contractor until issues related to the odor control duct and vibration of the pumps were resolved. The issue with the odor control duct has been resolved. The pumps were pulled by the manufacturer, modifications were made, and the pumps were reinstalled and tested. The project reached substantial completion in September 2015, with the pumps identified as defective work. There are additional punch list items to be corrected. We anticipate completion in 2017.

## **Supplemental Information**

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## **Western Townships Utilities Authority**

### **Schedule of Operating Expenditures Budget and Actual Year Ended September 30, 2016**

	Original Budget (Unaudited)	Final Budget (Unaudited)	Actual	Variance Favorable (Unfavorable)
Sewage Treatment Charges	<u>\$12,689,962</u>	<u>\$12,689,962</u>	<u>\$11,792,971</u>	<u>\$ 896,991</u>
Operation and Maintenance Costs	<u>\$ 2,177,165</u>	<u>\$ 2,177,165</u>	<u>\$ 1,598,661</u>	<u>\$ 578,504</u>
Administrative Costs	<u>\$ 563,420</u>	<u>\$ 563,420</u>	<u>\$ 494,527</u>	<u>\$ 68,893</u>
Sewage Capacity Rental Costs	<u>\$ 550,811</u>	<u>\$ 550,811</u>	<u>\$ 550,811</u>	<u>\$ -</u>

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

## Schedule of Indebtedness September 30, 2016 and 2015

### Limited Tax General Obligation Bonds

**2009 Bond Issue** (original principal \$46,660,000)

Interest Rate (Percent)	Date of Maturity January 1	Principal Debt Outstanding September 30		Annual Interest Payable
		2015	2016	
5.00	2016	\$ 6,015,000	\$ -	\$ 841,350
5.00	2017	6,290,000	6,290,000	533,725
5.00	2018	6,525,000	6,525,000	213,350
3.50	2019	1,435,000	1,435,000	25,112
Total 2009 Issue		<u>\$ 20,265,000</u>	<u>\$ 14,250,000</u>	<u>\$ 1,613,537</u>

**2012 Bond Issue** (original principal \$32,205,000)

Interest Rate (Percent)	Date of Maturity January 1	Principal Debt Outstanding September 30		Annual Interest Payable
		2015	2016	
3.00	2016	\$ 2,710,000	\$ -	\$ 1,041,600
3.00	2017	3,160,000	3,160,000	953,550
4.00	2018	3,125,000	3,125,000	843,650
4.00	2019	3,095,000	3,095,000	719,250
4.00	2020	3,565,000	3,565,000	586,050
4.00	2021	3,525,000	3,525,000	444,250
5.00	2022	3,495,000	3,495,000	286,375
5.00	2023	3,980,000	3,980,000	99,500
Total 2012 Issue		<u>\$ 26,655,000</u>	<u>\$ 23,945,000</u>	<u>\$ 4,974,225</u>