

Western Townships Utilities Authority

**Financial Report
with Supplemental Information
September 30, 2013**

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 Western Townships Utilities Authority (the "Authority") as of and for the years ended September 30, 2013 and 2012 and the related notes to the financial statements, which collectively comprise Western Township 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.

Opinions

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Western Townships Utilities Authority as of September 30, 2013 and 2012 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 opinions 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 required parts 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 16, 2014

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).

	2009	2010	2011	2012	2013
Total costs charged to townships:					
Operating expenses - Net of unrestricted interest earnings	\$ 11,875,314	\$ 12,070,773	\$ 11,913,656	\$ 12,221,503	\$ 12,120,169
Total flow (thousands of gallons)*	5,792,600	5,474,557	5,768,036	5,512,508	5,154,879
Cost per thousand gallons	\$ 2.050	\$ 2.205	\$ 2.065	\$ 2.217	\$ 2.351

* For the purpose of this calculation, flow volumes are 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 City of Detroit 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 the City of Detroit as Wayne County maintains the RVIS sewage transportation system. Wayne County billings are based on 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. A quarterly bill is also paid to Wayne County that covers fixed and excess flow charges. Wayne County pays the City of Detroit based upon actual sewage flow as well as a monthly fixed charge.

Condensed Financial Information

The following table presents condensed information about the Authority's financial position compared to the prior two years. The increase in net position is due to a decrease in the long-term liabilities due to principal payments which was partially offset by the decrease in capital assets due to depreciation. The increase in restricted assets primarily relates to unspent funds from a settlement agreement related to the expansion at Lower Rouge. These funds will be used to correct the issues with the odor control duct. The increase in the unrestricted assets of the Authority is due to an increase in the working capital of the Authority. During the year the restricted balance for emergency replacement repairs was decreased and the amount of the decrease was designated as working capital.

	September 30			Change (2012 to 2013)	
	2011	2012	2013	Amount	Percent
Assets					
Current assets	\$ 2,760,444	\$ 3,386,685	\$ 3,814,076	\$ 427,391	12.6
Restricted assets	1,856,143	1,836,525	2,281,160	444,635	24.2
Capital assets	158,266,435	154,359,114	149,880,940	(4,478,174)	(2.9)
Total assets	162,883,022	159,582,324	155,976,176	(3,606,148)	(2.3)
Liabilities					
Current liabilities	2,556,444	3,182,685	3,535,187	352,502	11.1
Other liabilities	1,173,642	1,175,991	1,103,477	(72,514)	(6.2)
Long-term liabilities	83,007,331	75,546,246	67,447,807	(8,098,439)	(10.7)
Total liabilities	86,737,417	79,904,922	72,086,471	(7,818,451)	(9.8)
Net Position					
Net investment in capital assets	75,259,104	78,812,868	83,039,399	4,226,531	5.4
Restricted	682,501	660,534	571,417	(89,117)	(13.5)
Unrestricted	204,000	204,000	278,889	74,889	36.7
Total net position	<u>\$ 76,145,605</u>	<u>\$ 79,677,402</u>	<u>\$ 83,889,705</u>	<u>\$ 4,212,303</u>	5.3

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 (2012 to 2013)	
	2011	2012	2013	Amount	Percent
Earned revenue from townships	\$ 11,913,656	\$ 12,221,503	\$ 12,120,169	\$ (101,334)	(0.8)
Interest on operating cash and other revenue	728	1,113	839	(274)	(24.6)
Total revenue	11,914,384	12,222,616	12,121,008	(101,608)	(0.8)
Sewage treatment charges	9,272,098	9,742,174	9,633,530	(108,644)	(1.1)
Operation and maintenance	1,480,241	1,389,228	1,460,697	71,469	5.1
Administrative	456,076	413,267	378,472	(34,795)	(8.4)
Sewage capacity rental	705,969	677,947	648,309	(29,638)	(4.4)
Total operating expenses	11,914,384	12,222,616	12,121,008	(101,608)	(0.8)
Other nonoperating income	2,377,760	3,220,549	3,836,028	615,479	19.1
Net income - Before capital contributions	2,377,760	3,220,549	3,836,028	615,479	19.1
Capital contributions from townships	717,197	311,248	376,275	65,027	20.9
Change in net position	<u>\$ 3,094,957</u>	<u>\$ 3,531,797</u>	<u>\$ 4,212,303</u>	<u>\$ 680,506</u>	19.3

Sewage treatment charges decreased 1.1 percent this year. The total volume of sewage flow treated decreased 6.49 percent this year. There does not appear to be any specific factor to attribute this decrease in flow as it appears to be a combination of factors. We are aware that one of our communities has lined some of their interceptors and we are seeing a much larger decrease in flow from that community. Total adjusted water usage by the communities (water as sewer) decreased 19 percent. The majority of the rainfall this past year was during the summer months when trees and grasses are actively growing and they absorb the water thereby less enters the sewage system as inflow and infiltration. The rate years for both YCUA and the Wayne County/RVIS system are different from WTUA's fiscal year. In YCUA's rate year, which runs from September 1, 2012 through August 31, 2013, after estimating the lookback, there was approximately a 6 percent increase in the rates charged to WTUA. The Wayne County/RVIS system rate year corresponds with DWSD's rate year. For the rate year July 1, 2012 through June 30, 2013, there was an increase in rates of 9.8 percent. This rate increase is attributable to both DWSD's and Wayne County's costs in the rate calculation, the majority of the increase being the DWSD portion.

Operations and maintenance costs have increased due to an increase in the contractor's fees for maintenance of the facilities, an increase in the preventive maintenance as the electrical switchgear at the Lower Rouge facility was serviced this year and an increase in the amount of corrective maintenance costs incurred this year.

Western Townships Utilities Authority

Management's Discussion and Analysis (Continued)

Administrative costs were down this year. Decreases in costs were seen in both the health care costs and legal costs. Health care costs decreased due to a change to a high deductible medical plan and one employee choosing the opt out provision. Legal costs decreased as there were fewer negotiations on the Wayne County contract and fewer discussions with YCUA on additional capacity this year than last year. These decreases were partially offset with increases in computer and equipment costs during the year and an increase in insurance costs from the prior year. In the prior year, a large refund from the insurance company was received.

The increase in other operating income is due to a decrease in interest expense as well as an increase in the amortization of bond premium.

Capital contributions are for the current capital projects which are all funded from Township contributions with the exception of the odor control duct replacement, which is being funded from the OCD settlement funds.

Budgetary Highlights

During the year, the Authority made no budget amendments to the operating budget. Budget amendments were made to debt service due to the bond refunding during the year. Operating costs came in at 80.7 percent of the budget.

Capital Asset and Debt Administration

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

Lower Rouge equalization basin expansion	\$ 372,713
Parking lot improvements	110,060
Pipe Lining project	145,667
Other	<u>39,190</u>

Total capital project additions \$ 667,630

The Lower Rouge equalization basin expansion project increases the storage capacity at the Lower Rouge facility by 5.5 million gallons and has added 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 two items holding up the operation of the new basin. This project had been in litigation and a settlement was obtained during the year providing funds to the Authority to replace the odor control duct. The project to fix the odor control duct started during the year and was completed subsequent to year end. The other issue holding up completion took some positive steps toward resolution subsequent to year end. We anticipate that this issue will be resolved within the next year. There are also some final punch list items to complete; however, operations of the new facility will probably start before those items are completed.

Western Townships Utilities Authority

Management's Discussion and Analysis (Continued)

During the year, the parking lot was replaced at our Middle Rouge facility. The Authority also started a CIPP lining project on 4,250 feet of interceptor line which is approximately 50 years old. This project was completed subsequent to year end and will extend the life of the interceptor as well as reduce the amount of inflow and infiltration into these interceptor lines.

The Authority's total investment in capital assets is over \$203 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. Current negotiations seem to be leaning toward a contract extension until the impact to flows from the short-term corrective action plan implemented by Wayne County can be analyzed. This may result in a reallocation of capacity among the member communities in the RVIS system. YCUA has notified WTUA that it has additional capacity available for purchase. This option is also being considered.

Sewage treatment charges represent approximately 79 percent of the Authority's operating budget for the next fiscal year. YCUA has a rate decrease for the next year of approximately one percent when compared with the estimated lookback rate for the current year. The Wayne County/RVIS system has a one percent increase in rates for next year. The Authority's operating budget for the year ending September 30, 2014 forecasts a 27 percent increase in the billable volume to the Wayne County/RVIS system and a 7.8 percent increase in the volume of sewage flow to YCUA. These increases may seem high, but the flow was extremely low this past year and we utilize a five-year average and a growth factor when projecting our flow for budgeting purposes. More of the flow was allocated to the Wayne County/RVIS system, as at the time the budget was adopted we were not sure when we would be able to operate the new pumps at our Lower Rouge facility. Subsequent to the budget being adopted, substantial progress has been made on the issues related to the Lower Rouge expansion and the operation of the new pump station. The allocation of the flows between the Wayne County/RVIS system and YCUA is expected to change once the new pump station is operating.

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, 2013	September 30, 2012
	<u>2013</u>	<u>2012</u>
Assets		
Current assets:		
Cash and cash equivalents (Note 3)	\$ 1,338,653	\$ 145,252
Receivables:		
Due from members	1,125,805	1,159,483
Other	185,974	55
Provision for YCUA lookback	440,000	1,170,000
Prepaid expenses and other assets	35,438	40,282
Unbilled capital improvement receivable	-	15,000
Unbilled debt service receivable	688,206	856,613
	<u>3,814,076</u>	<u>3,386,685</u>
Total current assets		
Noncurrent assets:		
Restricted assets (Notes 3 and 4)	2,281,160	1,836,525
Capital assets (Note 5):		
Assets not subject to depreciation	29,853,300	30,216,540
Assets subject to depreciation	120,027,640	124,142,574
	<u>152,162,100</u>	<u>156,195,639</u>
Total noncurrent assets		
Total assets		
	<u>155,976,176</u>	<u>159,582,324</u>
Liabilities		
Current liabilities:		
Accounts payable	1,122,299	1,065,313
Accrued payables, payroll, and compensated absences	46,575	43,463
Construction payable	165,708	47,297
Billing lookback - Due to members	163,161	-
Provision for future lookback to members	440,000	1,170,000
Accrued interest payable	688,206	856,612
Prebilled capital improvement	909,238	-
	<u>3,535,187</u>	<u>3,182,685</u>
Total current liabilities		
Noncurrent liabilities:		
Construction retainers payable from restricted assets	1,103,477	1,175,991
Long-term debt - Due within one year (Note 6)	8,839,343	7,756,085
Long-term debt - Due in more than one year (Note 6)	58,608,464	67,790,161
	<u>68,551,284</u>	<u>76,722,237</u>
Total noncurrent liabilities		
Total liabilities		
	<u>72,086,471</u>	<u>79,904,922</u>
Equity		
Net Position		
Net investment in capital assets	83,039,399	78,812,868
Restricted	571,417	660,534
Unrestricted	278,889	204,000
	<u>83,889,705</u>	<u>79,677,402</u>
Total net position		
	<u>\$ 83,889,705</u>	<u>\$ 79,677,402</u>

Western Townships Utilities Authority

Statement of Revenues, Expenses, and Changes in Net Position

	Year Ended	
	September 30, 2013	September 30, 2012
Operating Revenue		
Earned revenue from townships	\$ 12,120,169	\$ 12,221,503
Interest earned on operating cash	839	1,113
Total operating revenue	<u>12,121,008</u>	<u>12,222,616</u>
Operating Expenses		
Sewage treatment charges	9,633,530	9,742,174
Operating and maintenance	1,460,697	1,389,228
Administrative	378,472	413,267
Sewage capacity rental	648,309	677,947
Total operating expenses	<u>12,121,008</u>	<u>12,222,616</u>
Operating Income	<u>-</u>	<u>-</u>
Nonoperating Revenue (Expenses)		
Interest earnings on restricted assets	7,244	2,885
Debt billings to townships	10,808,086	10,868,385
Interest expense	(3,129,356)	(3,488,237)
Depreciation	(4,248,184)	(4,226,562)
Amortization	398,238	56,085
Gain on sale of assets	-	7,993
Total nonoperating revenue	<u>3,836,028</u>	<u>3,220,549</u>
Income - Before capital contributions	<u>3,836,028</u>	<u>3,220,549</u>
Capital Contributions from Townships	<u>376,275</u>	<u>311,248</u>
Change in Net Position	<u>4,212,303</u>	<u>3,531,797</u>
Net Position - Beginning of year	<u>79,677,402</u>	<u>76,145,605</u>
Net Position - End of year	<u><u>\$ 83,889,705</u></u>	<u><u>\$ 79,677,402</u></u>

Western Townships Utilities Authority

Statement of Cash Flows

	Year Ended	
	September 30, 2013	September 30, 2012
Cash Flows from Operating Activities		
Cash received from townships and other receipts	\$ 11,546,545	\$ 12,984,854
Cash payments to suppliers for goods and services	(11,250,759)	(12,813,377)
Cash payments for employee services	(261,226)	(285,258)
Net cash provided by (used in) operating activities	34,560	(113,781)
Cash Flows from Capital and Related Financing Activities		
Collection of debt billings to townships	10,976,492	10,930,172
Capital contributions from members	1,340,975	329,667
Proceeds from sales of capital assets	-	7,993
Payments for the acquisition or construction of capital assets	(522,510)	(304,666)
Principal and interest paid on capital debt	(10,997,762)	(10,955,025)
Proceeds from LR expansion settlement	875,500	-
Proceeds from sale of bonds	36,166,565	-
Payments for refunding of bonds	(36,000,000)	-
Payments of bond issuance costs	(166,765)	-
Net cash provided by capital and related financing activities	1,672,495	8,141
Cash Flows from Investment Activities - Interest received on investments	8,371	4,079
Net Increase (Decrease) in Cash and Cash Equivalents	1,715,426	(101,561)
Cash and Cash Equivalents - Beginning of year	1,904,387	2,005,948
Cash and Cash Equivalents - End of year	\$ 3,619,813	\$ 1,904,387
Balance Sheet Classification of Cash and Cash Equivalents		
Unrestricted cash	\$ 1,338,653	\$ 145,252
Restricted cash	2,281,160	1,759,135
Total cash and cash equivalents	\$ 3,619,813	\$ 1,904,387
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating income	\$ -	\$ -
Less interest included in operating revenue	(839)	(1,113)
Changes in assets and liabilities:		
Increase in due from members - Monthly billings	(6,785)	(12,391)
(Increase) decrease in accounts receivable - Non-members	(185,919)	17,195
Decrease (increase) in provision for YCUA lookback	730,000	(820,000)
Decrease in prepaid expenses	4,844	5,417
Increase (decrease) in accounts payable	56,986	(83,754)
(Decrease) increase in provision for future lookback to members	(730,000)	820,000
Increase in accrued payable and payroll	3,112	5,123
Increase (decrease) in due to members - Billing lookback	163,161	(44,258)
Net cash provided by (used in) operating activities	\$ 34,560	\$ (113,781)

Western Townships Utilities Authority

Notes to Financial Statements September 30, 2013 and 2012

Note I - Summary of Significant Accounting Policies

Nature of Entity - The Western Townships Utilities Authority (the "Authority" or WTUA) 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 rules 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.

Investments - Investments are recorded at fair value, based on quoted market prices.

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.

Western Townships Utilities Authority

Notes to Financial Statements September 30, 2013 and 2012

Note I - Summary of Significant Accounting Policies (Continued)

Unbilled Receivable - Unbilled receivable represents amounts that have not been billed to the townships for debt service, capital projects, and future lookbacks as of the end of the year. The Authority has accrued interest payable in an amount equal to the unbilled receivable for debt service.

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. There is also a receivable related to the YCUA expansion that is restricted. 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 estimated fair value 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)	40 years
Furniture and equipment	5 to 7 years

Accounting and Reporting Change - During the year, the Authority adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measures of net position, formerly net assets. The statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Since the Authority has no deferred outflows or inflows until the adoption of GASB Statement No. 65 (see below), the only impact of the adoption of GASB Statement No. 63 on the Authority is a change in terminology from "net assets" to "net position."

Western Townships Utilities Authority

Notes to Financial Statements September 30, 2013 and 2012

Note 1 - Summary of Significant Accounting Policies (Continued)

Upcoming Accounting Pronouncements - In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented for financial statements for periods beginning after December 15, 2012. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. Statement No. 65 will be implemented for the Authority as of the fiscal year ending September 30, 2014.

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, 2013 and 2012.

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 mature 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.

Western Townships Utilities Authority

Notes to Financial Statements September 30, 2013 and 2012

Note 3 - Deposits and Investments (Continued)

The Authority has designated two 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 2013 and 2012, the Authority had \$3,125,422 and \$1,183,406, 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 it deposits funds with 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

The restricted assets are restricted for the following purposes:

	2013	2012
Cash and investments:		
Capital replacement reserve	\$ 501,978	\$ 576,700
Debt service	69,440	6,444
Payment of construction retainages	1,103,477	1,175,991
Construction funds	606,265	-
Total cash and investments	2,281,160	1,759,135
Accounts receivable - YCUA expansion	-	77,390
Total	\$ 2,281,160	\$ 1,836,525

Western Townships Utilities Authority

Notes to Financial Statements September 30, 2013 and 2012

Note 5 - Capital Assets

Capital asset activity for the year ended September 30, 2013 was as follows:

	Balance October 1, 2012	Additions	Disposals	Balance September 30, 2013
Capital assets not being depreciated:				
Land	\$ 2,136,913	\$ -	\$ -	\$ 2,136,913
Construction in progress	28,079,627	534,380	(897,620)	27,716,387
Subtotal	<u>30,216,540</u>	<u>534,380</u>	<u>(897,620)</u>	<u>29,853,300</u>
Capital assets being depreciated:				
Land restoration costs	2,412,243	-	-	2,412,243
Sewage transmission lines	44,068,044	-	-	44,068,044
Equalization basin and pump station	38,845,775	133,250	(61,000)	38,918,025
Equity in YCUA	87,747,559	-	-	87,747,559
Furniture and equipment	87,999	-	-	87,999
Subtotal	<u>173,161,620</u>	<u>133,250</u>	<u>(61,000)</u>	<u>173,233,870</u>
Accumulated depreciation:				
Land restoration costs	(2,412,243)	-	-	(2,412,243)
Sewage transmission lines	(13,269,398)	(745,392)	-	(14,014,790)
Equalization basin and pump station	(18,237,501)	(1,306,032)	61,000	(19,482,533)
Equity in YCUA	(15,026,959)	(2,192,810)	-	(17,219,769)
Furniture and equipment	(72,945)	(3,950)	-	(76,895)
Subtotal	<u>(49,019,046)</u>	<u>(4,248,184)</u>	<u>61,000</u>	<u>(53,206,230)</u>
Net capital assets being depreciated	<u>124,142,574</u>	<u>(4,114,934)</u>	<u>-</u>	<u>120,027,640</u>
Net capital assets	<u>\$ 154,359,114</u>	<u>\$ (3,580,554)</u>	<u>\$ (897,620)</u>	<u>\$ 149,880,940</u>

Included in the \$897,620 of construction in progress disposals for the year ended September 30, 2013 is an \$875,500 decrease in the cost of the Lower Rouge Expansion project, which is equal to the amount of settlement proceeds received to replace the odor control duct.

Western Townships Utilities Authority

Notes to Financial Statements September 30, 2013 and 2012

Note 5 - Capital Assets (Continued)

Capital asset activity for the year ended September 30, 2012 was as follows:

	Balance October 1, 2011	Additions	Disposals	Balance September 30, 2012
Capital assets not being depreciated:				
Land	\$ 2,136,913	\$ -	\$ -	\$ 2,136,913
Construction in progress	27,804,266	275,361	-	28,079,627
Subtotal	<u>29,941,179</u>	<u>275,361</u>	<u>-</u>	<u>30,216,540</u>
Capital assets being depreciated:				
Land restoration costs	2,412,243	-	-	2,412,243
Sewage transmission lines	44,068,044	-	-	44,068,044
Equalization basin and pump station	38,841,895	43,880	(40,000)	38,845,775
Equity in YCUA	87,747,559	-	-	87,747,559
Furniture and equipment	132,197	-	(44,198)	87,999
Subtotal	<u>173,201,938</u>	<u>43,880</u>	<u>(84,198)</u>	<u>173,161,620</u>
Accumulated depreciation:				
Land restoration costs	(2,412,243)	-	-	(2,412,243)
Sewage transmission lines	(12,524,006)	(745,392)	-	(13,269,398)
Equalization basin and pump station	(16,994,573)	(1,282,928)	40,000	(18,237,501)
Equity in YCUA	(12,834,149)	(2,192,810)	-	(15,026,959)
Furniture and equipment	(111,711)	(5,432)	44,198	(72,945)
Subtotal	<u>(44,876,682)</u>	<u>(4,226,562)</u>	<u>84,198</u>	<u>(49,019,046)</u>
Net capital assets being depreciated	<u>128,325,256</u>	<u>(4,182,682)</u>	<u>-</u>	<u>124,142,574</u>
Net capital assets	<u>\$ 158,266,435</u>	<u>\$ (3,907,321)</u>	<u>\$ -</u>	<u>\$ 154,359,114</u>

Construction Commitments - The Authority has three on-going construction projects at year end: the Lower Rouge equalization basin expansion which is 99 percent complete, the MRVI Interceptor repair which started prior to year end, and the Middle Rouge and Lower Rouge roof repairs which are through the design phase. 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 \$26,889,006. At year end, the Authority had spent \$26,361,707, leaving an unspent commitment of \$527,298. The MRVI Interceptor repair project had a total project commitment of \$1,602,515 and total expenditures of \$171,902. Unspent commitments totaled \$1,430,614 at year end. The Middle Rouge/Lower Rouge roof replacement had a total project commitment of \$29,900 and total expenditures of \$16,000. Unspent commitments totaled \$13,900 at year end.

Western Townships Utilities Authority

Notes to Financial Statements September 30, 2013 and 2012

Note 6 - Long-term Debt

Long-term debt activity for the year ended September 30, 2013 can be summarized as follows:

	Interest Rate Ranges	Principal Maturing Through	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2002 General Obligation Bond (used to fund YCUA plant expansion)	3.00% - 5.00%	2023	\$ 38,500,000	\$ -	\$ (38,500,000)	\$ -	\$ -
2009 General Obligation Bond (used to refund 2001 bonds)	3.00% - 5.00%	2019	36,835,000	-	(5,200,000)	31,635,000	5,615,000
2012 General Obligation Bond (used to refund 2002 bonds)	3.00% - 5.00%	2023	-	32,205,000	-	32,205,000	2,795,000
Less:							
Unamortized bond issue costs on 2002 issue			(96,041)	-	96,041	-	-
Unamortized discount on 2002 issue			(260,867)	-	260,867	-	-
Unamortized bond issue costs on 2009 issue			(2,069,889)	-	331,182	(1,738,707)	(331,182)
Unamortized premium on 2009 issue			2,638,043	-	(422,087)	2,215,956	422,086
Unamortized bond issue costs and deferred charge on defeasance on 2012 issue			-	(520,771)	46,955	(473,816)	(51,223)
Unamortized premium on 2012 issue			-	3,961,564	(357,190)	3,604,374	389,662
Total long-term debt			<u>\$ 75,546,246</u>	<u>\$ 35,645,793</u>	<u>\$ (43,744,232)</u>	<u>\$ 67,447,807</u>	<u>\$ 8,839,343</u>

Western Townships Utilities Authority

Notes to Financial Statements September 30, 2013 and 2012

Note 6 - Long-term Debt (Continued)

Long-term debt activity for the year ended September 30, 2012 can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Reductions	Ending Balance	Due Within One Year
2002 General Obligation Bond (used to fund YCUA plant expansion)	3.00% - 5.00%	2023	\$ 41,000,000	\$ (2,500,000)	\$ 38,500,000	\$ 2,500,000
2009 General Obligation Bond (used to refund 2001 bonds)	3.00% - 5.00%	2019	41,740,000	(4,905,000)	36,835,000	5,200,000
Less:						
Unamortized bond issue costs on 2002 issue			(105,410)	9,369	(96,041)	(9,370)
Unamortized discount on 2002 issue			(286,317)	25,450	(260,867)	(25,450)
Unamortized bond issue costs on 2009 issue			(2,401,071)	331,182	(2,069,889)	(331,182)
Unamortized premium on 2009 issue			3,060,129	(422,086)	2,638,043	422,087
Total long-term debt			<u>\$ 83,007,331</u>	<u>\$ (7,461,085)</u>	<u>\$ 75,546,246</u>	<u>\$ 7,756,085</u>

Bond Refunding - On November 1, 2012, the Authority issued Sewage Disposal Refunding Bonds, Series 2012, which is a Limited Tax General Obligation Bond, in the amount of \$32,205,000. The bonds bear interest at rates of 3.00 percent to 5.00 percent and mature through 2023. The proceeds of the bonds were used to refund the remaining balance of the Series 2002 bond after the Authority made a principal payment of \$2,500,000 on December 28, 2012. The net proceeds of \$35,994,467 (after payment of \$172,098 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent and the Series 2002 bonds were refunded on January 1, 2013. The refunding reduced total debt service payments over the next 10 years by \$5,223,458, which represents an economic gain of \$4,666,591.

Western Townships Utilities Authority

Notes to Financial Statements September 30, 2013 and 2012

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, 2013, are as follows:

Years Ending September 30	Principal	Interest	Total
2014	\$ 8,410,000	\$ 2,598,600	\$ 11,008,600
2015	8,510,000	2,259,175	10,769,175
2016	8,725,000	1,882,950	10,607,950
2017	9,450,000	1,487,275	10,937,275
2018	9,650,000	1,057,000	10,707,000
2019-2023	<u>19,095,000</u>	<u>2,160,537</u>	<u>21,255,537</u>
Total	<u>\$ 63,840,000</u>	<u>\$ 11,445,537</u>	<u>\$ 75,285,537</u>

Interest - For the year ended September 30, 2013, interest incurred by the Authority totaled \$3,129,356. For the year ended September 30, 2012, interest incurred by the Authority totaled \$3,488,237.

Classification - Long-term debt that is due within one year has been classified as a non-current 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, 2013 and 2012

Note 7 - Leases (Continued)

Annual payment requirements for the above are as follows:

<u>Years Ending September 30</u>	<u>Amount</u>
2014	\$ 617,153
2015	584,731
2016	550,811
2017	515,371
2018	479,913
2019-2023	1,815,663
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>\$ 14,218,277</u>

Note 8 - 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 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.

Western Townships Utilities Authority

Notes to Financial Statements September 30, 2013 and 2012

Note 8 - Risk Management (Continued)

The Michigan Municipal League 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 9 - Defined Contribution Pension Plan

The Authority provides pension benefits to all of its full-time employees through a defined contribution plan. 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, 2013 and 2012, the Authority contributed approximately \$27,700 and \$26,000, respectively.

Note 10 - 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 will not accept the project from the contractor until issues related to the odor control duct and vibration of the pumps are resolved. The issue with the odor control duct was litigated and an agreement was reached during the year with the construction contractor, various insurance carriers, and the company that designed the facilities. Removal and replacement of the odor control duct started during the year and was completed subsequent to year end. Subsequent to year end, the pumps were also pulled by the manufacturer, modifications were made, and the pumps were reinstalled and tested. Data collected during the testing is being analyzed. There are additional punch list items to be completed. We anticipate that the remaining issues will be resolved early in 2014.

Supplemental Information

Western Townships Utilities Authority

Schedule of Operating Expenditures Budget and Actual Year Ended September 30, 2013

	Original Budget (unaudited)	Final Budget (unaudited)	Actual	Variance Favorable (Unfavorable)
Sewage Treatment Charges	<u>\$ 11,862,150</u>	<u>\$ 11,862,150</u>	<u>\$ 9,633,530</u>	<u>\$ 2,228,620</u>
Operation and Maintenance Costs	<u>\$ 1,976,038</u>	<u>\$ 1,976,038</u>	<u>\$ 1,460,697</u>	<u>\$ 515,341</u>
Administrative Costs	<u>\$ 537,130</u>	<u>\$ 537,130</u>	<u>\$ 378,472</u>	<u>\$ 158,658</u>
Sewage Capacity Rental Costs	<u>\$ 648,309</u>	<u>\$ 648,309</u>	<u>\$ 648,309</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, 2013 and 2012

Limited Tax General Obligation Bonds

2002 Bond Issue (original principal \$51,325,000)

Interest Rate (Percent)	Date of Maturity January 1	Principal Debt Outstanding September 30		Annual Interest Payable
		2013	2012	
5.00	2013	\$ -	\$ 2,500,000	\$ 857,188
4.00	2014*	-	-	-
4.25	2015*	-	-	-
4.25	2016*	-	-	-
4.25	2017*	-	-	-
4.25	2018*	-	-	-
4.375	2019*	-	-	-
4.50	2020*	-	-	-
4.50	2021*	-	-	-
4.75	2022*	-	-	-
4.75	2023*	-	-	-
Total 2002 Issue		<u>\$ -</u>	<u>\$ 2,500,000</u>	<u>\$ 857,188</u>

* Debt was defeased on November 1, 2013 through a current refunding that resulted in an early call of the bonds on January 1, 2013. See Note 6 to the financial statements.

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

Interest Rate (Percent)	Date of Maturity January 1	Principal Debt Outstanding September 30		Annual Interest Payable
		2013	2012	
4.00	2013	\$ -	\$ 5,200,000	\$ 1,608,075
4.00	2014	5,615,000	5,615,000	1,391,775
5.00	2015	5,755,000	5,755,000	1,135,600
5.00	2016	6,015,000	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>\$ 31,635,000</u>	<u>\$ 36,835,000</u>	<u>\$ 5,748,987</u>

Western Townships Utilities Authority

Schedule of Indebtedness (Continued) September 30, 2013 and 2012

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

Interest Rate (Percent)	Date of Maturity January 1	Principal Debt Outstanding September 30, 2013	Annual Interest Payable
3.00	2013	\$ -	\$ 832,500
3.00	2014	2,795,000	1,206,825
3.00	2015	2,755,000	1,123,575
3.00	2016	2,710,000	1,041,600
3.00	2017	3,160,000	953,550
4.00	2018	3,125,000	843,650
4.00	2019	3,095,000	719,250
4.00	2020	3,565,000	586,050
4.00	2021	3,525,000	444,250
5.00	2022	3,495,000	286,375
5.00	2023	3,980,000	99,500
	Total 2012 Issue	<u>\$ 32,205,000</u>	<u>\$ 8,137,125</u>