

# **Western Townships Utilities Authority**

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**Financial Report  
with Supplemental Information  
September 30, 2011**

# Western Townships Utilities Authority

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## Independent Auditor's Report

To the Commissioners  
Western Townships Utilities Authority

We have audited the accompanying basic financial statements of Western Townships Utilities Authority (the "Authority") as of September 30, 2011 and 2010 and for the years then ended, as listed in the table of contents. These financial statements are the responsibility of Western Townships Utilities Authority's management. Our responsibility is to express opinions on these financial statements based on our audits.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of September 30, 2011 and 2010 and the changes in financial position, including cash flows, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Authority. We did not examine this data and, accordingly, do not express an opinion thereon.

The accompanying supplemental information, as identified in the table of contents, is not a required part of the basic financial statements. The supplemental information is presented for the purpose of additional analysis. Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The supplemental information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

January 12, 2012

# Western Townships Utilities Authority

## Management's Discussion and Analysis

### Using this Annual Report

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 assets and the statement of revenue, expenses, and changes in net assets 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 assets. 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).

	2007	2008	2009	2010	2011
Total costs charged to townships:					
Operating expenses - Net of unrestricted interest earnings	\$ 11,292,702	\$ 12,024,037	\$ 11,875,314	\$ 12,070,773	\$ 11,913,656
Total flow (thousands of gallons)*	5,855,172	5,854,103	5,792,600	5,474,557	5,768,036
Cost per thousand gallons	\$ 1.929	\$ 2.054	\$ 2.050	\$ 2.205	\$ 2.065

\* 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 assets is due to a decrease in the long-term liabilities due to principal payments and to the Lower Rouge expansion that started in 2008. The decrease in restricted assets relates to the wind-down of the Lower Rouge expansion project. Costs for this project are being paid for by Canton Township. Canton Township issued bonds to pay for this project. As discussed above, the Authority charges its members only as cash or working capital is required.

	September 30			Change (2010 to 2011)	
	2009	2010	2011	Amount	Percent
<b>Assets</b>					
Current assets	\$ 4,273,145	\$ 3,000,073	\$ 2,760,444	\$ (239,629)	(8.0)
Restricted assets	1,872,918	2,287,365	1,856,143	(431,222)	(18.9)
Capital assets	<u>164,706,098</u>	<u>161,760,291</u>	<u>158,266,435</u>	<u>(3,493,856)</u>	(2.2)
Total assets	<u>170,852,161</u>	<u>167,047,729</u>	<u>162,883,022</u>	<u>(4,164,707)</u>	(2.5)
<b>Liabilities</b>					
Current liabilities	4,069,145	2,796,073	2,556,444	(239,629)	(8.6)
Other liabilities	1,222,071	1,217,593	1,173,642	(43,951)	(3.6)
Long-term liabilities	<u>96,422,715</u>	<u>89,983,415</u>	<u>83,007,331</u>	<u>(6,976,084)</u>	(7.8)
Total liabilities	<u>101,713,931</u>	<u>93,997,081</u>	<u>86,737,417</u>	<u>(7,259,664)</u>	(7.7)
<b>Net Assets</b>					
Invested in capital assets - Net of debt	68,283,383	71,776,876	75,259,104	3,482,228	4.9
Restricted	650,847	1,069,772	682,501	(387,271)	(36.2)
Unrestricted	<u>204,000</u>	<u>204,000</u>	<u>204,000</u>	-	-
Total net assets	<u>\$ 69,138,230</u>	<u>\$ 73,050,648</u>	<u>\$ 76,145,605</u>	<u>\$ 3,094,957</u>	4.2

# 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 (2010 to 2011)	
	2009	2010	2011	Amount	Percent
Earned revenue from townships	\$ 11,875,314	\$ 12,070,773	\$ 11,913,656	\$ (157,117)	(1.3)
Interest on operating cash and other revenue	7,114	498	728	230	46.2
Total revenue	11,882,428	12,071,271	11,914,384	(156,887)	(1.3)
Sewage treatment charges	8,817,876	9,407,420	9,272,098	(135,322)	(1.4)
Operation and maintenance	1,433,534	1,379,981	1,480,241	100,260	7.3
Administrative	873,665	551,425	456,076	(95,349)	(17.3)
Sewage capacity rental	757,353	732,445	705,969	(26,476)	(3.6)
Total operating expenses	11,882,428	12,071,271	11,914,384	(156,887)	(1.3)
Other nonoperating income	1,813,469	2,148,961	2,377,760	228,799	10.6
Net income - Before capital contributions	1,813,469	2,148,961	2,377,760	228,799	10.6
Contributions from townships	14,012,877	1,763,457	717,197	(1,046,260)	(59.3)
Change in net assets	<u>\$ 15,826,346</u>	<u>\$ 3,912,418</u>	<u>\$ 3,094,957</u>	<u>\$ (817,461)</u>	(20.9)

Sewage treatment charges decreased 1.4 percent this year. Part of this decrease relates to the adjustment of the YCUA lookback that was estimated last year. The final computation was much more favorable than expected resulting in a credit instead of a charge. The total volume of sewage flow treated increased by 5.4 percent this year. 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, 2010 through August 31, 2011, there was a slight decrease 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, 2010 through June 30, 2011, there was an increase in rates of 8.9 percent. More flow was sent to the YCUA sewage treatment plant this year than last year and less was sent to the Wayne County/RVIS system. In the previous fiscal year, construction at the Lower Rouge facility resulted in reduced pumping capacity to the YCUA sewage treatment plant. Operations and maintenance costs were up due to an increase in preventive maintenance and corrective maintenance costs. Electrical usage was up due to more flow being sent to YCUA this fiscal year which requires additional pumping. Administrative costs were down due to a decrease in the amount of fees associated with the arbitration with YCUA in the previous year. Insurance costs were also down this year due to a refund from the insurance company. The increase in other operating income is due to a decrease in interest expense.

# Western Townships Utilities Authority

## Management's Discussion and Analysis (Continued)

### Budgetary Highlights

During the year, the Authority made no budget amendments. Costs came in at 82.4 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	\$ 699,923
Truck purchase	17,274
Other	<u>584</u>
Total capital project additions	<u>\$ 717,781</u>

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 is currently in litigation. It is expected that these items will be resolved in the next year.

As a result, the Authority's total investment in capital assets increased to 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 are currently underway for a contract extension or a new contract. Wayne County may reallocate 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 78 percent of the Authority's operating budget for the next fiscal year. Both YCUA and the Wayne County/RVIS treatment systems have 12 - 15 percent increases in their rates for next year. The Authority's operating budget for the year ending September 30, 2012 forecasts a comparable volume of sewage flow.

### 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 Assets

	September 30	
	2011	2010
<b>Assets</b>		
Current assets:		
Cash (Note 4)	\$ 248,584	\$ 111,080
Accounts receivable:		
Due from members	1,162,645	1,501,162
Other	17,250	2,616
Provision for YCUA lookback	350,000	-
Unbilled receivable:		
Debt service	918,400	975,300
Capital improvement	17,866	-
Future lookback	-	350,000
Prepaid expenses	45,699	59,915
Total current assets	<u>2,760,444</u>	<u>3,000,073</u>
Noncurrent assets:		
Restricted assets:		
Cash and investments (Notes 4 and 5)	1,757,364	1,811,941
Accounts receivable - Due from other governmental units (Note 5)	98,779	475,424
Capital assets - Net (Note 6):		
Nondepreciable	29,941,179	29,241,256
Depreciable	128,325,256	132,519,035
Total noncurrent assets	<u>160,122,578</u>	<u>164,047,656</u>
Total assets	<u>162,883,022</u>	<u>167,047,729</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	1,149,067	1,246,299
Accrued payables, payroll, and compensated absences	38,340	44,111
Construction payable	56,379	141,090
Billing lookback - Due to members	44,258	39,273
Provision for future lookback to members	350,000	-
Provision for YCUA lookback	-	350,000
Accrued interest payable	918,400	975,300
Total current liabilities	<u>2,556,444</u>	<u>2,796,073</u>
Noncurrent liabilities:		
Construction retainers payable from restricted assets	1,173,642	1,217,593
Long-term debt - Due within one year (Note 7)	7,461,085	6,976,085
Long-term debt - Due in more than one year (Note 7)	75,546,246	83,007,330
Total noncurrent liabilities	<u>84,180,973</u>	<u>91,201,008</u>
Total liabilities	<u>86,737,417</u>	<u>93,997,081</u>
<b>Net Assets</b>		
Invested in capital assets - Net of related debt	75,259,104	71,776,876
Restricted for capital purposes	682,501	1,069,772
Unrestricted	204,000	204,000
Total net assets	<u>\$ 76,145,605</u>	<u>\$ 73,050,648</u>

# Western Townships Utilities Authority

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

	Year Ended September 30	
	2011	2010
<b>Operating Revenue</b>		
Earned revenue from townships	\$ 11,913,656	\$ 12,070,773
Interest earned on operating cash and other revenue	728	498
Total operating revenue	<u>11,914,384</u>	<u>12,071,271</u>
<b>Operating Expenses</b>		
Sewage treatment charges	9,272,098	9,407,420
Operation and maintenance	1,480,241	1,379,981
Administrative	456,076	551,425
Sewage capacity rental	705,969	732,445
Total operating expenses	<u>11,914,384</u>	<u>12,071,271</u>
<b>Operating Income</b>	<u>-</u>	<u>-</u>
<b>Nonoperating Revenue (Expenses)</b>		
Interest earnings on restricted assets	5,401	8,932
Debt billings to townships	10,258,412	10,850,771
Interest expense	(3,730,500)	(4,444,000)
Depreciation	(4,211,637)	(4,291,459)
Amortization	56,084	24,717
Total nonoperating revenue	<u>2,377,760</u>	<u>2,148,961</u>
<b>Net Income - Before capital contributions</b>	<u>2,377,760</u>	<u>2,148,961</u>
<b>Capital Contributions from Townships</b>	<u>717,197</u>	<u>1,763,457</u>
<b>Increase in Net Assets</b>	<u>3,094,957</u>	<u>3,912,418</u>
<b>Net Assets - Beginning of year</b>	<u>73,050,648</u>	<u>69,138,230</u>
<b>Net Assets - End of year</b>	<u><b>\$ 76,145,605</b></u>	<u><b>\$ 73,050,648</b></u>

# Western Townships Utilities Authority

## Statement of Cash Flows

	Year Ended September 30	
	2011	2010
<b>Cash Flows from Operating Activities</b>		
Cash received from townships and other receipts	\$ 12,890,685	\$ 10,792,485
Cash payments to suppliers for goods and services	(12,438,109)	(10,665,993)
Cash payments for employee services	(279,696)	(279,773)
Net cash provided by (used in) operating activities	<u>172,880</u>	<u>(153,281)</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Proceeds from sale of bonds	-	50,529,129
Payments for refunding of bonds	-	(49,975,000)
Payments of bond issuance costs	-	(418,962)
Collection of debt billings to townships	10,315,312	11,042,628
Principal and interest paid on long-term debt	(10,707,400)	(11,185,607)
Capital contributions from members	765,991	2,563,983
Payments for the acquisition or construction of capital assets	(469,429)	(2,614,089)
Net cash used in capital and related activities	(95,526)	(57,918)
<b>Cash Flows from Investing Activities</b> - Interest received on investments	<u>5,573</u>	<u>9,430</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	82,927	(201,769)
<b>Cash and Cash Equivalents</b> - Beginning of year	<u>1,923,021</u>	<u>2,124,790</u>
<b>Cash and Cash Equivalents</b> - End of year	<u><b>\$ 2,005,948</b></u>	<u><b>\$ 1,923,021</b></u>
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>		
Unrestricted cash	\$ 248,584	\$ 111,080
Restricted cash and investments	<u>1,757,364</u>	<u>1,811,941</u>
Total cash and cash equivalents	<u><b>\$ 2,005,948</b></u>	<u><b>\$ 1,923,021</b></u>
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>		
Operating income	\$ -	\$ -
Less interest included in operating revenue	(541)	(498)
Adjustments to reconcile operating income to net cash from operating activities - Changes in assets and liabilities:		
Decrease (increase) in due from members - Monthly billings	271,857	(245,466)
Increase in accounts receivable - Non-members	(14,634)	(2,575)
Decrease (increase) in future lookback	350,000	(350,000)
(Increase) decrease in provision for YCUA lookback	(350,000)	730,000
Decrease in prepaid expenses	14,216	284
Decrease in due from members - Billing lookback	-	7,904
(Decrease) increase in accounts payable	(97,232)	34,589
(Decrease) increase in accrued payable and payroll	(5,771)	13,208
Increase (decrease) in provision for future lookback to members	350,000	(730,000)
(Decrease) increase in provision for YCUA lookback	(350,000)	350,000
Increase in due to members - Billing lookback	<u>4,985</u>	<u>39,273</u>
Net cash provided by (used in) operating activities	<u><b>\$ 172,880</b></u>	<u><b>\$ (153,281)</b></u>

There were no noncash transactions during the years ended September 30, 2011 and 2010.

# Western Townships Utilities Authority

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## Notes to Financial Statements September 30, 2011 and 2010

### Note 1 - Nature of Entity

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

### Note 2 - Summary of Significant Accounting Policies

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. The Authority follows all pronouncements of the Governmental Accounting Standards Board and those of the Financial Accounting Standards Board issued prior to November 30, 1989. The Authority has elected not to follow private sector standards issued after November 30, 1989.

**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 assets.

# Western Townships Utilities Authority

## Notes to Financial Statements September 30, 2011 and 2010

### Note 2 - Summary of Significant Accounting Policies (Continued)

**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.

**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 for the YCUA expansion and to pay retainages associated with various construction contracts and, as such, these amounts have been classified as restricted assets. 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	10-40 years
Sewage transmission lines	60 years
Equity in Ypsilanti Community Utilities Authority (YCUA)	40 years
Furniture and equipment	5-7 years

# Western Townships Utilities Authority

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## Notes to Financial Statements September 30, 2011 and 2010

### Note 2 - Summary of Significant Accounting Policies (Continued)

**Upcoming Accounting Pronouncements** - GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, was issued in December 2010. This statement incorporates into GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989 that is included in FASB Statements and Interpretations, APB Opinions, and Accounting Research Bulletins of the AICPA Committee on Accounting Procedure. The Authority is currently evaluating the impact this standard will have on the financial statements when adopted during the Authority's 2012-2013 fiscal year.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, was issued by the GASB in June 2011 and will be effective for the Authority's 2012-2013 fiscal year. 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 measure of net position, formerly net assets. This 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. Once implemented, this statement will impact the format and reporting of the balance sheet.

### Note 3 - 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 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, 2011 and 2010.

# Western Townships Utilities Authority

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## Notes to Financial Statements September 30, 2011 and 2010

### Note 4 - 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 Authority 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 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 the Authority to deposit and invest in all investments allowed by the 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 two types of risk, which are examined in more detail below:

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

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. At September 30, 2011, the Authority had \$923,642 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. At September 30, 2010, the Authority had \$914,082 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized.

# Western Townships Utilities Authority

## Notes to Financial Statements September 30, 2011 and 2010

### Note 4 - Deposits and Investments (Continued)

#### Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Authority's investment policy does not further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	2011 Fair Value	2010 Fair Value	Rating	Rating Organization
Bank investment pool:				
U.S. Bank	\$ -	\$ 16,531	Aaa	Moody's
JPMorgan Chase	688,205	1,165,685	Aaa	Moody's

### Note 5 - Restricted Assets

As of September 30, 2011 and 2010, restricted assets are restricted for the following:

	2011	2010
Cash and investments:		
Capital replacement reserve	\$ 576,700	\$ 576,700
Debt service	7,022	1,116
YCUA expansion	-	16,531
Payment of construction retainages	1,173,642	1,217,594
Total cash and investments	1,757,364	1,811,941
Accounts receivable - YCUA expansion	98,779	475,424
Total	<u>\$ 1,856,143</u>	<u>\$ 2,287,365</u>

# Western Townships Utilities Authority

## Notes to Financial Statements September 30, 2011 and 2010

### Note 6 - Capital Assets

Capital asset activity for the year ended September 30, 2011 was as follows:

	2010	Increase	Decrease	2011
Capital assets not being depreciated:				
Land	\$ 2,136,913	\$ -	\$ -	\$ 2,136,913
Construction in progress - Capital projects	<u>27,104,343</u>	<u>699,923</u>	<u>-</u>	<u>27,804,266</u>
Subtotal	<u>29,241,256</u>	<u>699,923</u>	<u>-</u>	<u>29,941,179</u>
Capital assets being depreciated:				
Land restoration costs	2,412,243	-	-	2,412,243
Utility system:				
Sewage transmission lines	44,068,044	-	-	44,068,044
Equalization basin and pump station	38,841,895	-	-	38,841,895
Equity in YCUA	87,746,975	584	-	87,747,559
Furniture and equipment	<u>115,811</u>	<u>17,274</u>	<u>(888)</u>	<u>132,197</u>
Subtotal	<u>173,184,968</u>	<u>17,858</u>	<u>(888)</u>	<u>173,201,938</u>
Less accumulated depreciation for:				
Land restoration costs	(2,412,243)	-	-	(2,412,243)
Utility system:				
Sewage transmission lines	(11,778,614)	(745,392)	-	(12,524,006)
Equalization basin and pump station	(15,725,839)	(1,268,734)	-	(16,994,573)
Equity in YCUA	(10,641,339)	(2,192,810)	-	(12,834,149)
Furniture and equipment	<u>(107,898)</u>	<u>(4,701)</u>	<u>888</u>	<u>(111,711)</u>
Subtotal	<u>(40,665,933)</u>	<u>(4,211,637)</u>	<u>888</u>	<u>(44,876,682)</u>
Net capital assets being depreciated	<u>132,519,035</u>	<u>(4,193,779)</u>	<u>-</u>	<u>128,325,256</u>
Total capital assets - Net of depreciation	<u>\$ 161,760,291</u>	<u>\$ (3,493,856)</u>	<u>\$ -</u>	<u>\$ 158,266,435</u>

# Western Townships Utilities Authority

## Notes to Financial Statements September 30, 2011 and 2010

### Note 6 - Capital Assets (Continued)

Capital asset activity for the year ended September 30, 2010 was as follows:

	2009	Increase	Decrease	2010
Capital assets not being depreciated:				
Land	\$ 2,136,913	\$ -	\$ -	\$ 2,136,913
Construction in progress - Capital projects	<u>26,550,380</u>	<u>1,748,438</u>	<u>(1,194,475)</u>	<u>27,104,343</u>
Subtotal	<u>28,687,293</u>	<u>1,748,438</u>	<u>(1,194,475)</u>	<u>29,241,256</u>
Capital assets being depreciated:				
Land restoration costs	2,412,243	-	-	2,412,243
Utility system:				
Sewage transmission lines	44,068,044	-	-	44,068,044
Equalization basin and pump station	38,013,669	1,209,494	(381,268)	38,841,895
Equity in YCUA	88,164,780	-	(417,805)	87,746,975
Furniture and equipment	<u>116,164</u>	<u>-</u>	<u>(353)</u>	<u>115,811</u>
Subtotal	<u>172,774,900</u>	<u>1,209,494</u>	<u>(799,426)</u>	<u>173,184,968</u>
Less accumulated depreciation for:				
Land restoration costs	(2,412,243)	-	-	(2,412,243)
Utility system:				
Sewage transmission lines	(11,033,222)	(745,392)	-	(11,778,614)
Equalization basin and pump station	(14,759,008)	(1,348,099)	381,268	(15,725,839)
Equity in YCUA	(8,448,546)	(2,192,793)	-	(10,641,339)
Furniture and equipment	<u>(103,076)</u>	<u>(5,175)</u>	<u>353</u>	<u>(107,898)</u>
Subtotal	<u>(36,756,095)</u>	<u>(4,291,459)</u>	<u>381,621</u>	<u>(40,665,933)</u>
Net capital assets being depreciated	<u>136,018,805</u>	<u>(3,081,965)</u>	<u>(417,805)</u>	<u>132,519,035</u>
Total capital assets - Net of depreciation	<u>\$ 164,706,098</u>	<u>\$ (1,333,527)</u>	<u>\$ (1,612,280)</u>	<u>\$ 161,760,291</u>

**Construction Commitments** - The Authority has two active construction projects at year end: the Lower Rouge equalization basin expansion and the SCADA modification project. 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 \$26,140,612. At year end, the Authority had spent \$26,053,174, leaving an unspent commitment of \$87,438. The SCADA modification project had no expenditures at the end of the fiscal year, but project commitments totaling \$43,880.

# Western Townships Utilities Authority

## Notes to Financial Statements September 30, 2011 and 2010

### Note 7 - Long-term Debt

Long-term debt activity for the year ended September 30, 2011 was as follows:

	Beginning Balance	Current Year Reductions	Ending Balance	Due Within One Year
2002 General Obligation Bond, with interest rates from 3.00% to 5.00%, maturing through 2023 (used to fund the YCUA plant expansion)	\$ 43,000,000	\$ (2,000,000)	\$ 41,000,000	\$ 2,500,000
2009 General Obligation Bond, with interest rates from 3.00% to 5.00%, maturing through 2019 (used to refund 2001 bonds)	46,660,000	(4,920,000)	41,740,000	4,905,000
Less:				
Unamortized bond issue costs on 2002 issue	(114,780)	9,370	(105,410)	(9,370)
Unamortized discount on 2002 issue	(311,768)	25,451	(286,317)	(25,450)
Unamortized bond issue costs on 2009 issue	(2,732,253)	331,182	(2,401,071)	(331,182)
Unamortized premium on 2009 issue	<u>3,482,216</u>	<u>(422,087)</u>	<u>3,060,129</u>	<u>422,087</u>
Total long-term debt	<u>\$ 89,983,415</u>	<u>\$ (6,976,084)</u>	<u>\$ 83,007,331</u>	<u>\$ 7,461,085</u>

Long-term debt activity for the year ended September 30, 2010 was as follows:

	Beginning Balance	Current Year Additions	Current Year Reductions	Ending Balance	Due Within One Year
2001 General Obligation Bond, with interest rates from 3.50% to 5.25%, maturing through 2019 (used to fund WTUA collection system)	\$ 54,525,000	\$ -	\$ (54,525,000)	\$ -	\$ -
2002 General Obligation Bond, with interest rates from 3.00% to 5.00%, maturing through 2023 (used to fund the YCUA plant expansion)	45,000,000	-	(2,000,000)	43,000,000	2,000,000
2009 General Obligation Bond, with interest rates from 3.00% to 5.00%, maturing through 2019 (used to refund 2001 bonds)	-	46,660,000	-	46,660,000	4,920,000
Less:					
Deferred amount on 2001 refunding	(2,640,917)	-	2,640,917	-	-
Unamortized bond issue costs on 2002 issue	(124,150)	-	9,370	(114,780)	(9,370)
Unamortized discount on 2002 issue	(337,218)	-	25,450	(311,768)	(25,450)
Unamortized bond issue costs on 2009 issue	-	(3,035,837)	303,584	(2,732,253)	(331,182)
Unamortized premium on 2009 issue	<u>-</u>	<u>3,869,129</u>	<u>(386,913)</u>	<u>3,482,216</u>	<u>422,087</u>
Total long-term debt	<u>\$ 96,422,715</u>	<u>\$ 47,493,292</u>	<u>\$ (53,932,592)</u>	<u>\$ 89,983,415</u>	<u>\$ 6,976,085</u>

# Western Townships Utilities Authority

## Notes to Financial Statements September 30, 2011 and 2010

### Note 7 - Long-term Debt (Continued)

#### Refunding

During 2010, the Authority issued \$46,660,000 in general obligation bonds with an average interest rate of 4.61 percent. The proceeds of these bonds were used to refund the remaining balance of the Series 2001 bonds after the Authority made a principal payment of \$4,550,000 on January 1, 2010. The remaining balance was \$49,975,000 and the average interest rate was 4.64 percent. The net proceeds of \$50,106,950 (after payment of \$418,962 in underwriting fees, insurance, and other issuance costs) plus an additional \$1,079,768 of Authority monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent and the Series 2001 bonds were refunded on January 1, 2010. The refunding reduced total debt service payments over the next nine years by \$4,041,025, which represents an economic gain of approximately \$3,505,698.

#### Debt Service Requirements

The annual principal and interest requirements to service all debt are as follows:

<u>Years Ending</u> <u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 7,405,000	\$ 3,550,025	\$ 10,955,025
2013	7,700,000	3,259,950	10,959,950
2014	8,615,000	2,921,150	11,536,150
2015	8,755,000	2,541,225	11,296,225
2016	9,015,000	2,119,475	11,134,475
2017-2021	32,750,000	4,911,250	37,661,250
2022-2023	8,500,000	415,625	8,915,625
Total	<u>\$ 82,740,000</u>	<u>\$ 19,718,700</u>	<u>\$ 102,458,700</u>

#### Interest

For the year ended September 30, 2011, interest incurred by the Authority totaled \$3,730,500. For the year ended September 30, 2010, interest incurred by the Authority totaled \$4,444,000.

# Western Townships Utilities Authority

## Notes to Financial Statements September 30, 2011 and 2010

### Note 7 - Long-term Debt (Continued)

#### Classification

Long-term debt that is due within one year has been classified as a non-current liability on the balance sheet 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 8 - Lease Commitment

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

Annual payment requirements for the above are as follows:

<u>Years Ending</u> <u>September 30</u>	<u>Amount</u>
2012	\$ 677,947
2013	648,309
2014	617,153
2015	584,731
2016	550,811
2017-2021	2,205,951
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>\$15,544,533</u>

# Western Townships Utilities Authority

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## Notes to Financial Statements September 30, 2011 and 2010

### **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 State Pool for claims relating to property loss and torts. Settled claims relating to the commercial insurance have not exceeded the amount of insurance in any of the past three years.

The Michigan Municipal Risk Management Authority State Pool 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 Retirement 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, 2011 and 2010, the Authority contributed approximately \$26,300 and \$26,200, 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 will not accept the project from the contractor until issues related to the odor control duct and vibration of the pumps are resolved. WTUA is currently in litigation with the construction contractor, various insurance carriers, and the company that designed the facilities. Corrections to the facilities are expected to occur in 2012.

## **Supplemental Information**

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# Western Townships Utilities Authority

## Schedule of Operating Expenditures Budget and Actual Year Ended September 30, 2011

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Sewage Treatment Charges</b>	<b><u>\$ 11,094,543</u></b>	<b><u>\$ 11,094,543</u></b>	<b><u>\$ 9,272,098</u></b>	<b><u>\$ 1,822,445</u></b>
<b>Operation and Maintenance Costs</b>	<b><u>\$ 1,994,426</u></b>	<b><u>\$ 1,994,426</u></b>	<b><u>\$ 1,480,241</u></b>	<b><u>\$ 514,185</u></b>
<b>Administrative Costs</b>	<b><u>\$ 666,409</u></b>	<b><u>\$ 666,409</u></b>	<b><u>\$ 456,076</u></b>	<b><u>\$ 210,333</u></b>
<b>Sewage Capacity Rental Costs</b>	<b><u>\$ 705,969</u></b>	<b><u>\$ 705,969</u></b>	<b><u>\$ 705,969</u></b>	<b><u>\$ -</u></b>

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, 2011 and 2010

### Limited Tax General Obligation Bonds

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

Interest Rate (Percent)	Date of Maturity January 1	Principal Debt Outstanding		Annual Interest Payable
		September 30		
		2011	2010	
4.00	2011	\$ -	\$ 2,000,000	\$ 1,854,375
4.00	2012	2,500,000	2,500,000	1,764,375
5.00	2013	2,500,000	2,500,000	1,651,875
4.00	2014	3,000,000	3,000,000	1,529,375
4.25	2015	3,000,000	3,000,000	1,405,625
4.25	2016	3,000,000	3,000,000	1,278,125
4.25	2017	3,500,000	3,500,000	1,140,000
4.25	2018	3,500,000	3,500,000	991,250
4.375	2019	3,500,000	3,500,000	840,313
4.50	2020	4,000,000	4,000,000	673,750
4.50	2021	4,000,000	4,000,000	493,750
4.75	2022	4,000,000	4,000,000	308,750
4.75	2023	4,500,000	4,500,000	106,875
	Total 2002 Issue	41,000,000	43,000,000	14,038,438

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

Interest Rate (Percent)	Date of Maturity January 1	Principal Debt Outstanding		Annual Interest Payable
		September 30		
		2011	2010	
3.00	2011	\$ -	\$ 4,920,000	\$ 1,933,025
3.00	2012	4,905,000	4,905,000	1,785,650
4.00	2013	5,200,000	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	41,740,000	46,660,000	9,467,662

Total Limited Tax General Obligation Bonds **\$ 82,740,000** **\$ 89,660,000** **\$ 23,506,100**