

Western Townships Utilities Authority

**Financial Report
with Supplemental Information
September 30, 2014**

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, 2014 and 2013 and the related notes to the financial statements, which collectively comprise Western Townships Utilities Authority's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2014 and 2013 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

Emphasis of Matter

As discussed in Note 11 to the basic financial statements, during the year ended September 30, 2014, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

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 a required part of the basic financial statements.

The schedule of operating expenditures - budget and actual is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of operating expenditures - budget and actual is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Plante & Moran, PLLC

January 14, 2015

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 revenues, 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).

	2010	2011	2012	2013	2014
Total costs charged to townships:					
Operating expenses - Net of unrestricted interest earnings and SAW grant revenue	\$ 12,070,773	\$ 11,913,656	\$ 12,221,503	\$ 12,120,169	\$ 12,687,670
Total flow (thousands of gallons)*	5,474,557	5,768,036	5,512,508	5,154,879	5,677,317
Cost per thousand gallons	\$ 2.205	\$ 2.065	\$ 2.217	\$ 2.351	\$ 2.235

* 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 (DWSD) 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 DWSD as Wayne County maintains the RVIS sewage transportation system. Both Wayne County and DWSD change the billing methodology in 2014 to a monthly fixed charge based on historical flows. Wayne County billings are based on a five year average (recalculated yearly) of the amount of water purchased by the Authority's townships from Detroit, adjusted for water-only and sewer-only customers. This adjusted water number is then further adjusted by the percentage of WTUA's actual metered flow that is sent to the RVIS system. Wayne County pays DWSD based upon a five year average (recalculated every 3 years) of actual sewage flow.

Condensed Financial Information

The following table presents condensed information about the Authority's financial position compared to the prior 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 decrease in restricted assets primarily relates to spent funds from a settlement agreement related to the expansion at Lower Rouge to correct issues with the odor control duct.

Western Townships Utilities Authority

Management's Discussion and Analysis (Continued)

The following table presents condensed information about the Authority's statement of net position compared to the prior years:

	September 30			Change (2013 to 2014)	
	2012*	2013	2014	Amount	Percent
Assets					
Current assets	\$ 3,386,685	\$ 3,814,076	\$ 3,035,843	\$ (778,233)	(20.4)
Restricted assets	1,836,525	2,281,160	1,783,025	(498,135)	(21.8)
Capital assets	154,359,114	149,880,940	147,707,301	(2,173,639)	(1.5)
Total assets	<u>159,582,324</u>	<u>155,976,176</u>	<u>152,526,169</u>	<u>(3,450,007)</u>	(2.2)
Deferred Outflow					
Deferred charge on refunding	-	1,734,315	1,423,360	(310,955)	(17.9)
Liabilities					
Current liabilities	3,182,685	3,535,187	2,756,954	(778,233)	(22.0)
Other liabilities	1,175,991	1,103,477	1,034,869	(68,608)	(6.2)
Long-term liabilities	75,546,246	69,660,330	60,438,581	(9,221,749)	(13.2)
Total liabilities	<u>79,904,922</u>	<u>74,298,994</u>	<u>64,230,404</u>	<u>(10,068,590)</u>	(13.6)
Net Position					
Net investment in capital assets	78,812,868	82,561,191	88,937,487	6,376,296	7.7
Restricted	660,534	571,417	502,749	(68,668)	(12.0)
Unrestricted	204,000	278,889	278,889	-	-
Total net position	<u>\$ 79,677,402</u>	<u>\$ 83,411,497</u>	<u>\$ 89,719,125</u>	<u>\$ 6,307,628</u>	7.6

*Note - 2012 balances have not been updated to reflect accounting change for GASB Statement No. 65.

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 (2013 to 2014)	
	2012*	2013	2014	Amount	Percent
Earned revenue from townships	\$ 12,221,503	\$ 12,120,169	\$ 12,687,670	\$ 567,501	4.7
SAW grant revenue	-	-	136,339	136,339	100.0
Interest on operating cash and other revenue	1,113	839	-	(839)	(100.0)
Total revenue	12,222,616	12,121,008	12,824,009	703,001	5.8
Sewage treatment charges	9,742,174	9,633,530	10,329,913	696,383	7.2
Operation and maintenance	1,389,228	1,460,697	1,469,030	8,333	0.6
Administrative	413,267	378,472	407,913	29,441	7.8
Sewage capacity rental	677,947	648,309	617,153	(31,156)	(4.8)
Total operating expenses	12,222,616	12,121,008	12,824,009	703,001	5.8
Other nonoperating income	3,220,549	3,739,347	4,541,595	802,248	21.5
Net income - Before capital contributions	3,220,549	3,739,347	4,541,595	802,248	21.5
Capital contributions from townships	311,248	376,275	1,766,033	1,389,758	369.3
Change in net position	\$ 3,531,797	\$ 4,115,622	\$ 6,307,628	\$ 2,192,006	53.3

*Note - 2012 balances have not been updated to reflect accounting change for GASB Statement No. 65.

Sewage treatment charges increased 7.2 percent this year. The total volume of sewage flow treated increased 10.13 percent this year. There was not a corresponding increase in water purchased by the communities so it appears the increased sewage flow is weather related. There was record snowfall this past winter and the summer was cooler than normal with precipitation. 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, 2013 through August 31, 2014, after estimating the lookback, there was approximately a 7 percent decrease in the rates charged to WTUA. The Wayne County/RVIS system rate year corresponds with DWSD's rate year. This rate includes both DWSD's and Wayne County's costs in the rate calculation, the majority of the cost being the DWSD portion. For the rate year July 1, 2013 through June 30, 2014, there was an increase in rates of 1 percent.

Administrative costs were up this year. Legal fees increased approximately \$18,000 and outside engineering services increased approximately \$64,000. An outside engineering company was hired to do a study to review our capacity needs. This study will continue into the next fiscal year. These increases were partially offset with decreases in office expense and a \$74,990 refund from the insurance company.

Western Townships Utilities Authority

Management's Discussion and Analysis (Continued)

The increase in other operating income is mainly due to a decrease in interest expense.

Capital contributions are for the current capital projects which are all funded from Township contributions with the exception of some of the current Lower Rouge expansion costs, which are being funded from the Odor Control Duct settlement funds.

Budgetary Highlights

During the year, the Authority made no budget amendments to the operating budget. Operating costs came in at 84.9 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	\$ 363,063
Roof Replacements	332,963
Pipe Lining project	1,417,582
Other	<u>13,283</u>
Total capital project additions	<u>\$ 2,126,891</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 and two items have held up the operation of the new basin. These two issues were addressed during the year and additional items came up when the trial operations of the pumps started this past summer. We anticipate that these new issues 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.

During the year, the roofs were replaced at both the Middle Rouge and Lower Rouge facilities. The CIPP lining project on 4,250 feet of interceptor line which is approximately 50 years old was completed 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 \$205 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. YCUA has notified WTUA that it has additional capacity available for purchase. This option is also being considered.

Western Townships Utilities Authority

Management's Discussion and Analysis (Continued)

Sewage treatment charges represent approximately 77 percent of the Authority's operating budget for the next fiscal year. YCUA has a rate increase for the next year of approximately 8.21 percent when compared with the estimated lookback rate for the current year. Both Wayne County and DWSD changed their billing methodology for the fiscal year July 1, 2014 to June 30, 2015. Both are now using a fixed monthly charge and it is hard to quantify the exact percentage increase with this methodology change. With this methodology change, should the Authority change its flow pattern between the two sewage treatment facilities, it would not affect the cost from Wayne County until a subsequent time period as costs are fixed until July 1, 2015 when a new fixed amount will be calculated based on the previous five year average. At the time WTUA's budget was adopted, the City of Detroit was in bankruptcy proceedings and it was not known the effect it would have on future rate increases. The Authority's operating budget for the year ending September 30, 2015 forecasts a 25 percent increase in the monthly fixed charged for the last 3 months of the fiscal year due to this uncertainty with DWSD, which is a majority of the Wayne County costs, as well as anticipated cost increase from Wayne County for pension, OPEB and capital improvements. As part of the bankruptcy plan, the City of Detroit and the 3 surrounding counties entered a memorandum of understanding for the creation of the Great Lakes Water Authority (GLWA) to lease and operate the DWSD system on September 9, 2014. The first board meeting of GLWA took place in December 2014 and it is expected that GLWA will take over operations of the DWSD system on July 1, 2015 if an operating and lease agreement is executed between GLWA and DWSD. Once the new pump station at Lower Rouge is in operation, it is expected that the allocation of the flows between the Wayne County/RVIS system and YCUA will change with more flow being sent to YCUA.

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, 2014	September 30, 2013
Assets		
Current assets:		
Cash and cash equivalents (Note 3)	\$ 912,484	\$ 1,338,653
Receivables:		
Due from members	1,251,517	1,125,805
Other	31,451	185,974
Provision for YCUA lookback	170,000	440,000
Prepaid expenses and other assets	59,297	35,438
Unbilled debt service receivable	611,094	688,206
Total current assets	<u>3,035,843</u>	<u>3,814,076</u>
Noncurrent assets:		
Restricted assets (Notes 3 and 4)	1,783,025	2,281,160
Capital assets (Note 5)		
Assets not subject to depreciation	30,028,462	29,853,300
Assets subject to depreciation	117,678,839	120,027,640
Total noncurrent assets	<u>149,490,326</u>	<u>152,162,100</u>
Total assets	<u>152,526,169</u>	<u>155,976,176</u>
Deferred Outflows of Resources - Deferred charges on refundings	<u>1,423,360</u>	<u>1,734,315</u>
Liabilities		
Current liabilities:		
Accounts payable	1,599,981	1,122,299
Accrued payables, payroll, and compensated absences	47,487	46,575
Construction payable and construction retainers payable from current assets	328,392	165,708
Billing lookback - Due to members	-	163,161
Provision for future lookback to members	170,000	440,000
Accrued interest payable	611,094	688,206
Prebilled capital improvement	-	909,238
Total current liabilities	<u>2,756,954</u>	<u>3,535,187</u>
Noncurrent liabilities:		
Construction retainers payable from restricted assets	1,034,869	1,103,477
Long-term debt - Due within one year (Note 6)	9,321,749	9,221,748
Long-term debt - Due in more than one year (Note 6)	51,116,832	60,438,582
Total noncurrent liabilities	<u>61,473,450</u>	<u>70,763,807</u>
Total liabilities	<u>64,230,404</u>	<u>74,298,994</u>
Equity		
Net Position		
Net investment in capital assets	88,937,487	82,561,191
Restricted	502,749	571,417
Unrestricted	278,889	278,889
Total net position	<u>\$ 89,719,125</u>	<u>\$ 83,411,497</u>

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

Western Townships Utilities Authority

Statement of Revenues, Expenses, and Changes in Net Position

	Year Ended	
	September 30, 2014	September 30, 2013
Operating Revenue		
Earned revenue from townships	\$ 12,687,670	\$ 12,120,169
Interest earned on operating cash	-	839
SAW grant revenue	136,339	-
Total operating revenue	<u>12,824,009</u>	<u>12,121,008</u>
Operating Expenses		
Sewage treatment charges	10,329,913	9,633,530
Operating and maintenance	1,469,030	1,460,697
Administrative	407,913	378,472
Sewage capacity rental	617,153	648,309
Total operating expenses	<u>12,824,009</u>	<u>12,121,008</u>
Operating Income	<u>-</u>	<u>-</u>
Nonoperating Revenue (Expenses)		
Interest earnings on restricted assets	740	7,244
Debt billings to townships	10,862,079	10,808,086
Debt issuance cost	-	(166,765)
Interest expense	(2,521,488)	(3,129,356)
Depreciation	(4,300,530)	(4,248,184)
Amortization	500,794	468,322
Total nonoperating revenue	<u>4,541,595</u>	<u>3,739,347</u>
Income - Before capital contributions	<u>4,541,595</u>	<u>3,739,347</u>
Capital Contributions from Townships	<u>1,766,033</u>	<u>376,275</u>
Change in Net Position	<u>6,307,628</u>	<u>4,115,622</u>
Net Position - Beginning of year, as restated (Note 11)	<u>83,411,497</u>	<u>79,295,875</u>
Net Position - End of year	<u>\$ 89,719,125</u>	<u>\$ 83,411,497</u>

Western Townships Utilities Authority

Statement of Cash Flows

	Year Ended	
	September 30, 2014	September 30, 2013
Cash Flows from Operating Activities		
Cash received from townships and other receipts	\$ 12,563,917	\$ 11,546,545
Cash payments to suppliers for goods and services	(11,645,695)	(11,250,759)
Cash payments for employee services	(267,605)	(261,226)
Net cash provided by operating activities	<u>650,617</u>	<u>34,560</u>
Cash Flows from Capital and Related Financing Activities		
Collection of debt billings to townships	10,939,191	10,976,492
Capital contributions from members	526,563	1,340,975
Payments for the acquisition or construction of capital assets	(2,032,815)	(522,510)
Principal and interest paid on capital debt	(11,008,600)	(10,997,762)
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 (used in) provided by capital and related financing activities	<u>(1,575,661)</u>	<u>1,672,495</u>
Cash Flows from Investing Activities - Interest received on investments	<u>740</u>	<u>8,371</u>
Net (Decrease) Increase in Cash and Cash Equivalents	<u>(924,304)</u>	<u>1,715,426</u>
Cash and Cash Equivalents - Beginning of year	<u>3,619,813</u>	<u>1,904,387</u>
Cash and Cash Equivalents - End of year	<u>\$ 2,695,509</u>	<u>\$ 3,619,813</u>
Balance Sheet Classification of Cash and Cash Equivalents		
Unrestricted cash	\$ 912,484	\$ 1,338,653
Restricted cash	<u>1,783,025</u>	<u>2,281,160</u>
Total cash and cash equivalents	<u>\$ 2,695,509</u>	<u>\$ 3,619,813</u>
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating income	\$ -	\$ -
Less interest included in operating revenue	-	(839)
Changes in assets and liabilities:		
Decrease (increase) in due from members - Monthly billings	204,520	(6,785)
Decrease (increase) in accounts receivable - Non-members	154,523	(185,919)
Decrease in provision for YCUA lookback	270,000	730,000
(Increase) decrease in prepaid expenses	(23,859)	4,844
Increase in accounts payable	477,682	56,986
Decrease in provision for future lookback to members	(270,000)	(730,000)
Increase in accrued payable and payroll	912	3,112
(Decrease) increase in due to members - Billing lookback	(163,161)	163,161
Net cash provided by operating activities	<u>\$ 650,617</u>	<u>\$ 34,560</u>

Western Townships Utilities Authority

Notes to Financial Statements September 30, 2014 and 2013

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 revenues, 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, 2014 and 2013

Note 1 - Summary of Significant Accounting Policies (Continued)

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

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

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, 2014 and 2013.

Western Townships Utilities Authority

Notes to Financial Statements September 30, 2014 and 2013

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.

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

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

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. At year end 2014 and 2013, the Authority had \$2,264,781 and \$3,125,422, 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:

	2014	2013
Cash and investments:		
Capital replacement reserve	\$ 502,261	\$ 501,978
Debt service	488	69,440
Payment of construction retainages	1,034,869	1,103,477
Construction funds	245,407	606,265
Total	<u>\$ 1,783,025</u>	<u>\$ 2,281,160</u>

Western Townships Utilities Authority

Notes to Financial Statements September 30, 2014 and 2013

Note 5 - Capital Assets

Capital asset activity for the year ended September 30, 2014 was as follows:

	Balance October 1, 2013	Reclassifications	Additions	Disposals	Balance September 30, 2014
Capital assets not being depreciated:					
Land	\$ 2,136,913	\$ -	\$ -	\$ -	\$ 2,136,913
Construction in progress	27,716,387	(187,901)	363,063	-	27,891,549
Subtotal	<u>29,853,300</u>	<u>(187,901)</u>	<u>363,063</u>	<u>-</u>	<u>30,028,462</u>
Capital assets being depreciated:					
Land restoration costs	2,412,243	-	-	-	2,412,243
Sewage transmission lines	44,068,044	171,901	1,417,582	-	45,657,527
Equalization basin and pump station	38,918,025	16,000	332,963	(128,140)	39,138,848
Equity in YCUA	87,747,559	-	-	-	87,747,559
Furniture and equipment	87,999	-	13,283	-	101,282
Subtotal	<u>173,233,870</u>	<u>187,901</u>	<u>1,763,828</u>	<u>(128,140)</u>	<u>175,057,459</u>
Accumulated depreciation:					
Land restoration costs	(2,412,243)	-	-	-	(2,412,243)
Sewage transmission lines	(14,014,790)	-	(758,638)	-	(14,773,428)
Equalization basin and pump station	(19,482,533)	-	(1,345,286)	128,140	(20,699,679)
Equity in YCUA	(17,219,769)	-	(2,192,810)	-	(19,412,579)
Furniture and equipment	(76,895)	-	(3,796)	-	(80,691)
Subtotal	<u>(53,206,230)</u>	<u>-</u>	<u>(4,300,530)</u>	<u>128,140</u>	<u>(57,378,620)</u>
Net capital assets being depreciated	<u>120,027,640</u>	<u>187,901</u>	<u>(2,536,702)</u>	<u>-</u>	<u>117,678,839</u>
Net capital assets	<u>\$ 149,880,940</u>	<u>\$ -</u>	<u>\$ (2,173,639)</u>	<u>\$ -</u>	<u>\$ 147,707,301</u>

Western Townships Utilities Authority

Notes to Financial Statements September 30, 2014 and 2013

Note 5 - Capital Assets (Continued)

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, 2014 and 2013

Note 5 - Capital Assets (Continued)

Construction Commitments - The Authority has two ongoing construction projects at year end: the Lower Rouge equalization basin expansion which is 99 percent complete, and the Middle Rouge and Lower Rouge roof repairs which are completed except for the punch list. 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 \$26,094,134, leaving an unspent commitment of \$46,478. The Middle Rouge/Lower Rouge roof replacement had a total project commitment of \$349,300 and total expenditures of \$348,964. Unspent commitments totaled \$336 at year end.

Note 6 - Long-term Debt

Long-term debt activity for the year ended September 30, 2014 can be summarized as follows:

	Interest Rate Ranges	Principal Maturing Through	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2009 General Obligation Bond (used to refund 2001 bonds)	3.00% - 5.00%	2019	\$ 31,635,000	\$ -	\$ (5,615,000)	\$ 26,020,000	\$ 5,755,000
2012 General Obligation Bond (used to refund 2002 bonds)	3.00% - 5.00%	2023	32,205,000	-	(2,795,000)	29,410,000	2,755,000
Less:							
Unamortized premium on 2009 issue			2,215,956	-	(422,087)	1,793,869	422,086
Unamortized premium on 2012 issue			3,604,374	-	(389,662)	3,214,712	389,663
Total long-term debt			<u>\$ 69,660,330</u>	<u>\$ -</u>	<u>\$ (9,221,749)</u>	<u>\$ 60,438,581</u>	<u>\$ 9,321,749</u>

Western Townships Utilities Authority

Notes to Financial Statements September 30, 2014 and 2013

Note 6 - Long-term Debt (Continued)

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

	Interest Rate Ranges	Principal Maturity Ranges	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 Bonds (used to refund 2002 Bonds)	3.00% - 5.00%	2023	-	32,205,000	-	32,205,000	2,795,000
Less:							
Unamortized discount on 2002 issue			(260,867)	-	260,867	-	-
Unamortized premium on 2009 issue			2,638,043	-	(422,087)	2,215,956	422,086
Unamortized premium on 2012 issue			-	3,961,564	(357,190)	3,604,374	389,662
Total long-term debt			<u>\$ 77,712,176</u>	<u>\$ 36,166,564</u>	<u>\$ (44,218,410)</u>	<u>\$ 69,660,330</u>	<u>\$ 9,221,748</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, 2014 and 2013

Note 6 - Long-term Debt (Continued)

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

Years Ending September 30	Principal	Interest	Total
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	4,530,000	744,362	5,274,362
2020-2023	14,565,000	1,416,175	15,981,175
Total	\$ 55,430,000	\$ 8,846,937	\$ 64,276,937

Interest - For the year ended September 30, 2014, interest incurred by the Authority totaled \$2,521,488. For the year ended September 30, 2013, interest incurred by the Authority totaled \$3,129,356.

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, 2014 and 2013

Note 7 - Leases (Continued)

Annual payment requirements for the above are as follows:

<u>Years Ending September 30</u>	<u>Amount</u>
2015	\$ 584,731
2016	550,811
2017	515,371
2018	479,913
2019	442,154
2020-2024	1,642,286
2025-2029	1,211,561
2030-2034	1,003,324
2035-2039	753,333
2040-2044	475,564
2045-2049	419,251
2050-2054	443,439
2055-2059	467,626
2060-2064	491,814
2065-2069	516,001
2070-2074	540,189
2075-2079	564,376
2080-2084	588,564
2085-2089	612,751
2090-2094	636,939
2095-2099	661,126
Total	<u>\$ 13,601,124</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 (MMRMA) State Pool for claims relating to property loss and torts. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Western Townships Utilities Authority

Notes to Financial Statements September 30, 2014 and 2013

Note 8 - Risk Management (Continued)

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

Note 9 - Defined Contribution Pension Plan

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

In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by the personnel policies manual, the Authority contributes 15 percent of employees' gross earnings, and employees contribute 5 percent of earnings. Employees are 100 percent vested after a period of five years. In accordance with these requirements, for the fiscal years ended September 30, 2014 and 2013, the Authority contributed approximately \$28,800 and \$27,700, 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 would 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 has been resolved. The pumps were pulled by the manufacturer, modifications were made, and the pumps were reinstalled and tested. The pump trial operation began in 2014, however there were issues with the SCADA programming. The correction to the SCADA programming is in process. There are additional punch list items to be completed. We anticipate that the remaining issues will be resolved in 2015.

Note 11 - Change in Accounting

During the current year, the Authority adopted GASB Statement Number 65, *Items Previously Reported as Assets and Liabilities*. The objective of this Statement is to establish standards that reclassify certain items that were previously reported as assets and liabilities and instead to classify them as deferred inflows of resources, deferred outflows of resources, or as outflows of resources.

Western Townships Utilities Authority

Notes to Financial Statements September 30, 2014 and 2013

Note 11 - Change in Accounting (Continued)

As a result of implementing this statement, the following assets and liabilities have been reclassified as of September 30, 2013, as indicated:

Item	Amount	Prior Reporting Classification/Treatment	New Classification After Adoption of GASB Statement No. 65
Deferred amounts on debt refundings	\$ 1,734,315	Adjustment to the bonds payable liability	Deferred outflow of resources
Bond issuance costs	478,208	Contra-liability	Outflow of resources (an expense)

The financial statements for the year ended September 30, 2013 and 2012 have been restated in order to conform with GASB Statement Number 65.

The effect of this change was to expense bond issuance costs rather than capitalizing them and reporting as a contra-liability.

The effect of these changes are as follows:

	September 30, 2013	September 30, 2012
Net Position, as previously reported	\$ 83,889,705	\$ 79,677,402
Capitalized bond issuance cost expensed under GASB Statement No. 65	<u>(478,208)</u>	<u>(381,527)</u>
Net Position, as restated	<u>\$ 83,411,497</u>	<u>\$ 79,295,875</u>

Supplemental Information

Western Townships Utilities Authority

Schedule of Operating Expenditures Budget and Actual Year Ended September 30, 2014

	Original Budget (unaudited)	Final Budget (unaudited)	Actual	Variance Favorable (Unfavorable)
Sewage Treatment Charges	<u>\$ 11,940,471</u>	<u>\$ 11,940,471</u>	<u>\$ 10,329,913</u>	<u>\$ 1,610,558</u>
Operation and Maintenance Costs	<u>\$ 1,993,723</u>	<u>\$ 1,993,723</u>	<u>\$ 1,469,030</u>	<u>\$ 524,693</u>
Administrative Costs	<u>\$ 558,983</u>	<u>\$ 558,983</u>	<u>\$ 407,913</u>	<u>\$ 151,070</u>
Sewage Capacity Rental Costs	<u>\$ 617,153</u>	<u>\$ 617,153</u>	<u>\$ 617,153</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

Limited Tax General Obligation Bonds

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

Interest Rate (Percent)	Date of Maturity January 1	Principal Debt Outstanding September 30		Annual Interest Payable
		2013	2014	
4.00	2014	\$ 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>\$ 26,020,000</u>	<u>\$ 4,140,912</u>

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

Interest Rate (Percent)	Date of Maturity January 1	Principal Debt Outstanding September 30		Annual Interest Payable
		2013	2014	
3.00	2014	\$ 2,795,000	\$ -	\$ 1,206,825
3.00	2015	2,755,000	2,755,000	1,123,575
3.00	2016	2,710,000	2,710,000	1,041,600
3.00	2017	3,160,000	3,160,000	953,550
4.00	2018	3,125,000	3,125,000	843,650
4.00	2019	3,095,000	3,095,000	719,250
4.00	2020	3,565,000	3,565,000	586,050
4.00	2021	3,525,000	3,525,000	444,250
5.00	2022	3,495,000	3,495,000	286,375
5.00	2023	3,980,000	3,980,000	99,500
	Total 2012 Issue	<u>\$ 32,205,000</u>	<u>\$ 29,410,000</u>	<u>\$ 7,304,625</u>