

# **Western Townships Utilities Authority**

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**Financial Report  
with Supplemental Information  
September 30, 2003**

# 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 as of September 30, 2003 and 2002 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 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 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 opinion.

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, 2003 and 2002 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 Western Townships Utilities 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 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 supplemental information has been subjected to the auditing procedures applied in the audit 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*

December 12, 2003

# 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. 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).

The following table shows the trend in total operating costs compared to flow volumes:

	Year Ended September 30	
	2002	2003
Total costs charged to townships (operating expenses - Net of unrestricted interest earnings)	\$ 9,839,616	\$ 9,823,486
Total flow (thousands of gallons)*	5,696,920	5,510,952
Cost per thousand gallons	\$ 1.727	\$ 1.783

\* For the purpose of this calculation, flow volumes are measured as the metered quantity of sewage transported to Ypsilanti Community Utilities Authority (YCUA) plus an estimated quantity of sewage sent to Wayne County (which is measured as a percentage of the water purchased by the Authority's communities from Detroit, adjusted for water-only and sewer-only customers).

## Western Townships Utilities Authority

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

#### Condensed Financial Information

The following table presents condensed information about the Authority's financial position compared to the prior year. The increase in restricted assets and long-term debt is a result of the \$51,325,000 bond issue in November 2002 for the YCUA expansion. The capital assets and liability payable from restricted assets increase is due mainly to the YCUA construction in process. The increase in net assets is mainly a result of Canton Township contributing cash for a portion of their share of the YCUA expansion. As discussed above, the Authority charges its members only as cash or working capital is required.

	September 30		Change	
	2003	2002	Amount	Percent
Current assets:	\$ 3,376,392	\$ 4,307,272	\$ (930,880)	(21.6)
Due from YCUA	-	37,738	(37,738)	(100.0)
Restricted assets	54,893,637	3,989,377	50,904,260	1,276.0
Capital assets	98,105,035	73,859,509	24,245,526	32.8
Total assets	156,375,064	82,193,896	74,181,168	90.3
Current liabilities:	3,984,892	4,925,272	(940,380)	(19.1)
Liabilities payable from restricted assets	5,599,991	224,813	5,375,178	2,391.0
Long-term debt	118,225,767	68,073,655	50,152,112	73.7
Total liabilities	127,810,650	73,223,740	54,586,910	74.5
Net assets:				
Invested in capital assets - Net of debt	8,556,347	4,985,854	3,570,493	71.6
Restricted assets	19,816,567	3,802,302	16,014,265	421.2
Unrestricted	191,500	182,000	9,500	5.2
Total net assets	\$ 28,564,414	\$ 8,970,156	\$ 19,594,258	218.4

## Western Townships Utilities Authority

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

#### Condensed Financial Information (Continued)

The following table presents condensed information about the Authority's revenues and expenses compared to the prior year.

TABLE 2

	Year Ended September 30		Change	
	2003	2002	Amount	Percent
Earned revenue from townships	\$ 9,823,486	\$ 9,839,616	\$ (16,130)	(0.2)
Interest on operating cash	13,351	24,072	(10,721)	(44.5)
<b>Total revenue</b>	<b>9,836,837</b>	<b>9,863,688</b>	<b>(26,851)</b>	<b>(0.3)</b>
Sewage treatment charges	6,705,725	6,781,165	(75,440)	(1.1)
Operation and maintenance	1,326,666	1,290,306	36,360	2.8
Administrative and other	630,796	581,950	48,846	8.4
Sewage capacity rental	1,164,150	1,198,767	(34,617)	(2.9)
<b>Total operating expenses</b>	<b>9,827,337</b>	<b>9,852,188</b>	<b>(24,851)</b>	<b>(0.3)</b>
Other nonoperating income (expense)	739,608	(793,072)	1,532,680	(193.3)
<b>Net income (loss) - Before capital contributions</b>	<b>749,108</b>	<b>(781,572)</b>	<b>1,530,680</b>	<b>(195.8)</b>
Contributions from townships	18,845,150	4,882,637	13,962,513	286.0
<b>Change in net assets</b>	<b>\$ 19,594,258</b>	<b>\$ 4,101,065</b>	<b>\$ 15,493,193</b>	<b>377.8</b>

Sewage treatment charges were down, mainly due to dry weather conditions resulting in less flow. Administrative and other costs were up for two reasons. Insurance costs nearly doubled from the previous year. The Authority also hired a construction management observer to oversee the construction at the YCUA plant to protect the Authority's interest in the project, resulting in increased salaries. The contributions from townships increased due to Canton Township funding a portion of their share of the YCUA expansion costs with cash.

#### Budgetary Highlights

During the year, the Authority made very few amendments to its budget. Costs came in slightly under budget.

# Western Townships Utilities Authority

## Management's Discussion and Analysis (Continued)

### Capital Asset and Debt Administration

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

Emergency wet weather system	\$ 92,145
YCUA expansion (includes \$1,398,688 of capitalized interest)	25,740,357
Middle Rouge interceptor repairs	236,827
GIS orthomapping	18,325
Effluent discharge pipe	30,026
Plymouth flow by-pass design	5,000
Pump stations instrumentation upgrade	<u>672</u>
Total capital project additions	<u>\$26,123,352</u>

The emergency wet weather system represents the final costs of a storage and disinfection system at the lower Rouge pump station. The YCUA wastewater treatment plant expansion consists of two components; expansion of the main sewage treatment plant and construction of the UV disinfection system. The UV disinfection system was completed and operations were started during the year. The expansion of the main plant is well under way and on schedule with a completion in 2006. The middle Rouge sewer repair involved the lining of a portion of the interceptor in Plymouth and Northville Townships, which will extend the life of the existing lines for 50 or more years. As a result, the Authority's total investment in capital assets increased to over \$114 million (before considering depreciation).

The expanded YCUA plant will have capacity sufficient to handle the Authority's anticipated member township sewage flows through the year 2025. WTUA's share of this expansion is currently estimated at approximately \$73 million. The townships have utilized current funds of approximately \$22 million, and the Authority issued \$51,350,000 in bonds in November 2002. In connection with this new financing, the Authority received a credit rating of AA from Standard and Poor's, exemplifying the strong financial position of our member communities.

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

There was a substantial increase in long-term debt in the 2002/2003 fiscal year, due to the debt obligation for the YCUA plant expansion which was issued on November 1, 2002 for \$51,325,000.

The YCUA sewage treatment plant expansion project discussed above will have a significant positive impact on the future cost of sewage disposal to the three member townships in the long term. Current estimates are that this increase is expected to be less than the increases that would have resulted from long-term participation in the Wayne County/Detroit sewage treatment system.

## **Western Townships Utilities Authority**

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

Sewage treatment charges represent approximately 72 percent of the Authority's budget for the next fiscal year. The Authority's budget for the year ending September 30, 2004 forecasts a moderate increase in sewage flow volume and rates.

#### **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	
	2003	2002
<b>Assets</b>		
Cash (Note 4)	\$ 52,959	\$ 1,332,469
Due from members	1,773,154	1,955,183
Billing lookback - Due from members (Note 6)	77,026	-
Unbilled receivable:		
Debt service	1,469,157	909,875
Capital improvement	672	74,713
Prepaid expenses	3,424	35,032
Due from YCUA	-	37,738
Restricted assets:		
Cash and investments (Note 4)	54,797,157	3,989,377
Accrued interest receivable	96,480	-
Capital assets - Net (Note 5)	<u>98,105,035</u>	<u>73,859,509</u>
Total assets	156,375,064	82,193,896
<b>Liabilities</b>		
Accounts payable	1,715,735	1,407,811
Billing lookback - Due to members (Note 6)	-	643,436
Accrued interest payable	1,469,157	909,875
Advances from townships for YCUA rental capacity	-	1,164,150
Long-term debt due within one year	800,000	800,000
Current liabilities payable from restricted assets:		
Construction retainers payable	2,067,558	96,362
Construction contracts payable	3,532,433	128,451
Long-term debt - Due in more than one year (Note 7)	<u>118,225,767</u>	<u>68,073,655</u>
Total liabilities	<u>127,810,650</u>	<u>73,223,740</u>
<b>Net Assets</b>		
Invested in capital assets - Net of related debt	8,556,347	4,985,854
Restricted for capital purposes	19,816,567	3,802,302
Unrestricted	<u>191,500</u>	<u>182,000</u>
Total net assets	<u><b>\$ 28,564,414</b></u>	<u><b>\$ 8,970,156</b></u>

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

## Western Townships Utilities Authority

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

	Year Ended September 30	
	2003	2002
<b>Operating Revenue</b>		
Earned revenue from townships	\$ 9,823,486	\$ 9,839,616
Interest earned on operating cash	13,351	24,072
Total operating revenue	9,836,837	9,863,688
<b>Operating Expenses</b>		
Sewage treatment charges	6,705,725	6,781,165
Operation and maintenance	1,326,666	1,290,306
Administrative and other	630,796	581,950
Sewage capacity rental	1,164,150	1,198,767
Total operating expenses	9,827,337	9,852,188
<b>Operating Income</b>	9,500	11,500
<b>Nonoperating Revenue (Expenses)</b>		
Interest earnings on restricted assets	224,300	217,489
Debt billings to townships	6,337,954	6,293,252
Arbitrage refund from the IRS for the 1989 series bonds	-	303,960
Solid waste expenses	-	(3,306)
Interest expense	(3,615,499)	(5,533,601)
Depreciation	(1,877,827)	(1,797,258)
Amortization	(329,320)	(273,608)
Total nonoperating revenue (expenses)	739,608	(793,072)
<b>Net Income (Loss) - Before capital contributions</b>	749,108	(781,572)
<b>Capital Contributions from Townships</b>	18,845,150	4,882,637
<b>Change in Net Assets</b>	19,594,258	4,101,065
<b>Net Assets - Beginning of year</b>	8,970,156	4,869,091
<b>Net Assets - End of year</b>	<b>\$ 28,564,414</b>	<b>\$ 8,970,156</b>

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

# Western Townships Utilities Authority

## Statement of Cash Flows

	Year Ended September 30	
	2003	2002
<b>Cash Flows from Operating Activities</b>		
Cash received from townships	\$ 8,120,903	\$ 10,698,408
Cash payments to suppliers for goods and services	(9,346,811)	(9,165,625)
Cash payments to employees for services	(350,205)	(305,397)
Net cash provided by (used in) operating activities	(1,576,113)	1,227,386
<b>Cash Flows from Capital and Related Financing Activities</b>		
Collection of debt billings to townships	5,778,672	5,383,377
Principal and interest paid on long-term debt	(5,936,250)	(9,177,515)
Proceeds from issuance of debt	50,969,328	75,244,089
Payments related to issuance of debt	(188,958)	(1,038,940)
Payments for refunding of 1991 debt issue	-	(73,865,000)
Payments for defeasance of 1991 debt issue	-	(10,613,227)
Cash received from refund of arbitrage	-	303,960
Capital contributions from members	18,919,191	4,879,331
Collection from YCUA	37,738	-
Payments for the acquisition or construction of capital assets	(19,140,276)	(4,291,143)
Net cash provided by (used in) capital and related financing activities	50,439,445	(13,175,068)
<b>Cash Flows from Investing Activities</b> - Interest received on investments	664,938	241,561
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	49,528,270	(11,706,121)
<b>Cash and Cash Equivalents</b> - Beginning of year	5,321,846	17,027,967
<b>Cash and Cash Equivalents</b> - End of year	<u>\$ 54,850,116</u>	<u>\$ 5,321,846</u>
<b>Reconciliation of Operating Income to Cash Flows from Operating Activities</b>		
Operating income	\$ 9,500	\$ 11,500
Less interest included in operating revenue	(13,351)	(24,072)
Adjustments to reconcile operating income to net cash from operating activities - Changes in assets and liabilities:		
Decrease in due from members - Monthly billings	182,029	1,715,865
Increase in due from members - Billing lookback	(77,026)	-
(Increase) decrease in prepaid expenses	31,608	(2,222)
Increase in accounts payable	98,713	418,005
Decrease in advances from townships - YCUA rental capacity	(1,164,150)	(34,617)
Decrease in due to members - Billing lookback	(643,436)	(857,073)
Net cash provided by (used in) operating activities	<u>\$ (1,576,113)</u>	<u>\$ 1,227,386</u>
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>		
Unrestricted cash	\$ 52,959	\$ 1,332,469
Restricted cash and investments	54,797,157	3,989,377
Total cash and cash equivalents	<u>\$ 54,850,116</u>	<u>\$ 5,321,846</u>

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

## Western Townships Utilities Authority

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### Notes to Financial Statements September 30, 2003 and 2002

#### Note 1 - Nature of Entity

Western Townships Utilities Authority (the "Authority") is a joint venture of the Charter Townships of Canton, Northville, and Plymouth and was created pursuant to Act 233, Michigan Public Acts of 1955. Its allowed purpose is to acquire and operate a sewage disposal system, a solid waste management system, and/or a water supply system. The Authority currently operates a sewage transportation system for these communities.

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

#### 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, 2003 and 2002

### 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 and capital projects 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** - Certain assets are restricted by the Authority's bond ordinance. When an expense is incurred that allows the use of restricted assets, those assets are applied before utilizing any unrestricted assets.

**Capital Assets** - 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
Furniture and equipment	7 years
Utility system:	
Equalization basin and pump station	40 years
Sewage transmission lines	60 years

Other accounting policies are disclosed in other notes to the financial statements.

## Western Townships Utilities Authority

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Notes to Financial Statements  
September 30, 2003 and 2002

### 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 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; 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. During the current year, the budget was amended after year end. 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 significant budget overruns at September 30, 2003 and 2002.

### Note 4 - Deposits and Investments

Michigan Compiled Laws, Section 129.91, 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 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 with in 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 funds. The investment policy adopted by the Board in accordance with Public Act 20 of 1943 (as amended) 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.

## Western Townships Utilities Authority

### Notes to Financial Statements September 30, 2003 and 2002

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

The Authority's cash and investments are included on the statement of net assets under the following classifications:

	2003	2002
Cash	\$ 52,959	\$ 1,332,469
Restricted assets	54,797,157	3,989,377
Total	<u>\$ 54,850,116</u>	<u>\$ 5,321,846</u>

The above amounts are classified by Governmental Accounting Standards Board Statement No. 3 in the following categories:

	2003	2002
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 8,063,588	\$ 1,909,169
Investments in securities, mutual funds, and similar vehicles	46,786,528	3,412,677
Total	<u>\$ 54,850,116</u>	<u>\$ 5,321,846</u>

The Authority's deposits and investments are comprised of the following:

	2003		2002	
	Deposits	Investments	Deposits	Investments
Unrestricted	\$ 658	\$ 52,301	\$ 1,332,469	\$ -
Restricted for construction purposes:				
YCUA WWTP Design account	-	-	-	35,480
YCUA WWTP Construction account	-	-	-	3,256,667
YCUA Construction Account Trust	8,041,975	44,089,946	-	-
Asset held at Wayne County	-	23	-	22
Restricted for solid waste purposes	20,955	-	-	24,146
Restricted for retainages	-	2,067,558	-	96,362
Restricted for capital replacement and improvement	-	576,700	576,700	-
Total	<u>\$ 8,063,588</u>	<u>\$ 46,786,528</u>	<u>\$ 1,909,169</u>	<u>\$ 3,412,677</u>

# Western Townships Utilities Authority

## Notes to Financial Statements September 30, 2003 and 2002

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

#### Deposits

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$8,063,701 and \$1,041,049 at September 30, 2003 and 2002, respectively. Of those amounts, approximately \$400,000 and \$100,000 was covered by federal depository insurance at September 30, 2003 and 2002, respectively. The remainder was uninsured and uncollateralized.

#### Investments

At September 30, 2003, the Authority's investment balances were categorized as follows:

U.S. government securities, held by counterparty's trust department, in the Authority's name	\$ 10,015,900
Mutual funds (not subject to categorization)	<u>36,770,628</u>
Total	<u>\$ 46,786,528</u>

At September 30, 2002, the Authority's investments consisted entirely of bank investment pools.

The bank investment pools and mutual funds consist of bank trust funds, which are held by the Trust Department of the bank and are regulated by the Michigan Banking Act. The fair value of the position in the bank investment pool and the money market mutual funds is the same as the value of the pool shares. The bank investment pools and the money market mutual funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. The Authority believes that the investments in the funds comply with the investment authority noted above.

The Authority's investment in U.S. government securities at September 30, 2003 consists of securities issued by the Federal Home Loan Bank. These investments are usually not backed by the full faith and credit of the U.S. government, but are generally considered to offer modest credit risks. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.

# Western Townships Utilities Authority

## Notes to Financial Statements September 30, 2003 and 2002

### Note 5 - Capital Assets

Capital asset activity for the year ended September 30, 2003 was as follows:

	2002*	Increase	Decrease	2003
Capital assets not being depreciated:				
Land	\$ 2,136,913	\$ -	\$ -	\$ 2,136,913
Construction in progress:				
Equity in YCUA sewage plant	3,694,146	25,740,357	(2,367,100)	27,067,403
Storage and disinfection building	1,000,652	92,145	(1,092,797)	-
Other capital projects	-	23,997	-	23,997
Subtotal	6,831,711	25,856,499	(3,459,897)	29,228,313
Capital assets being depreciated:				
Land restoration costs	2,412,243	-	-	2,412,243
Utility system:				
Sewage transmission lines	42,589,898	266,853	-	42,856,751
Equalization basin and pump station	35,913,003	1,092,797	-	37,005,800
Equity in YCUA	1,078,792	2,367,100	-	3,445,892
Furniture and office equipment	55,898	-	(14,822)	41,076
Subtotal	82,049,834	3,726,750	(14,822)	85,761,762
Less accumulated depreciation for:				
Land restoration costs	(1,407,142)	(160,816)	-	(1,567,958)
Utility system:				
Sewage transmission lines	(5,752,585)	(714,277)	-	(6,466,862)
Equalization basin and pump station	(7,718,948)	(946,059)	-	(8,665,007)
Equity in YCUA	(87,578)	(56,559)	-	(144,137)
Furniture and office equipment	(55,783)	(115)	14,822	(41,076)
Subtotal	(15,022,036)	(1,877,826)	14,822	(16,885,040)
Net capital assets being depreciated	67,027,798	1,848,924	-	68,876,722
Total capital assets - Net of depreciation	\$ 73,859,509	\$ 27,705,423	\$ (3,459,897)	\$ 98,105,035

\* Based on review of project histories, certain amounts have been reclassified from prior year. The total amount of capital assets has not changed from prior year.

## Western Townships Utilities Authority

Notes to Financial Statements  
September 30, 2003 and 2002

### Note 5 - Capital Assets (Continued)

**Construction Commitments** - The Authority has one active construction project at year end, the expansion of the YCUA plant. The purpose of the YCUA plant expansion is to improve and expand the YCUA wastewater treatment facilities and to provide transportation and treatment of wastewater for the Charter Townships of Canton, Northville, and Plymouth. At year end, the Authority's commitments with contractors are as follows:

	Total Commitment	Spent to Date	Remaining Commitment
YCUA Plant Expansion	\$ 73,026,821	\$ 24,706,989	\$ 48,319,832

In addition to the above costs, engineering and design costs for the YCUA plant expansion have been incurred in the amount of \$3,328,826. This phase of the project was complete as of September 30, 2002.

The majority of the costs associated with the plant expansion are being financed through cash contributions from the townships of approximately \$22,000,000 and \$51,325,000 in Sewage Disposal System Bonds (Limited Tax General Obligation), Series 2002. The townships have entered into a contract with the Authority whereby the townships have agreed to pay the principal and interest on the bonds as they become due.

## Western Townships Utilities Authority

### Notes to Financial Statements September 30, 2003 and 2002

#### Note 6 - Due to (from) Members - Billing Lookback

At September 30, 2003 and 2002, the amount due to member townships is as follows:

	<u>2003</u>	<u>2002</u>
Operating activities:		
Monthly billings	\$ 9,750,873	\$ 10,102,537
Actual operating expenses - Net of interest earnings and planned working capital addition	<u>(9,823,486)</u>	<u>(9,839,616)</u>
Total operating activities	(72,613)	262,921
Debt activities:		
Debt invoiced to townships for 2001 bond issue	4,384,608	3,562,875
Debt invoiced to townships for 2002 bond issue	1,355,172	-
Debt invoiced to townships in prior year	38,892	-
Semiannual principal and interest payments on debt	(5,936,250)	(3,562,875)
Contribution for October 2001 defeasance	-	1,039,689
Proceeds from 2001 bond issue	-	75,324,432
Proceeds from 2002 bond issue	50,811,750	-
Accrued interest received from 2002 bond issue	157,578	-
Transfer to escrow agent	-	(75,949,446)
Transfer to Construction Account Trust - Net of accrued interest and issuance costs of \$157,578 and \$188,958, respectively	(50,622,792)	-
Costs of issuance	(188,958)	(283,971)
Contribution for August 2002 defeasance	-	911,516
Transfer to escrow agent	<u>-</u>	<u>(911,516)</u>
Total debt activities	-	130,704
Capital activities:		
Billed as part of the monthly invoices	369,869	1,583,077
Capital contribution from Canton	18,470,869	-
Transfer to Construction Account Trust	(18,470,869)	-
Special billings for capital items	-	3,511,917
Cash paid for capital asset acquisitions	(396,646)	(1,401,519)
Construction account funding	<u>-</u>	<u>(3,511,917)</u>
Total capital activities	(26,777)	181,558
Non-budgeted increase in working capital	<u>22,364</u>	<u>68,253</u>
Total billing lookback (from) to townships	<u>\$ (77,026)</u>	<u>\$ 643,436</u>

In addition, approximately \$54,200,000 and \$3,300,000 as of September 30, 2003 and 2002, respectively, was being held in trust related to the YCUA expansion project.

# Western Townships Utilities Authority

## Notes to Financial Statements September 30, 2003 and 2002

### Note 7 - Long-term Debt

Long-term debt activity for the year ended September 30, 2003 was as follows:

	Beginning Balance	Current Year Additions	Current Year Reductions	Ending Balance
2001 General Obligation Bond with interest rates from 3.5% to 5.25%, maturing through 2019 (used to fund the WTUA collection system)	\$ 73,525,000	\$ -	\$ (800,000)	\$ 72,725,000
2002 General Obligation Bond with interest rates from 3.00% to 5.00%, maturing through 2023 (used to fund the YCUA plant expansion)	-	51,325,000	-	51,325,000
Less:				
Deferred amount on 2001 refunding	(4,651,345)	-	297,401	(4,353,944)
Unamortized bond issue costs on 2002 issue	-	(188,958)	8,589	(180,369)
Unamortized discount on 2002 issue	-	(513,250)	23,330	(489,920)
Total long-term debt	68,873,655	50,622,792	(470,680)	119,025,767
Less current portion	(800,000)	800,000	(800,000)	(800,000)
Long-term debt - Net of current portion	\$ 68,073,655	\$ 51,422,792	\$ (1,270,680)	\$ 118,225,767

### Debt Service Requirements

The annual principal and interest requirements to service all debt outstanding as of September 30, 2003 are as follows:

Years Ending September 30	Principal	Interest	Total
2004	\$ 800,000	\$ 5,860,625	\$ 6,660,625
2005	1,400,000	5,819,125	7,219,125
2006	4,825,000	5,676,250	10,501,250
2007	5,500,000	5,423,875	10,923,875
2008	5,500,000	5,146,375	10,646,375
2009-2013	35,650,000	20,705,438	56,355,438
2014-2018	48,500,000	10,404,375	58,904,375
2019-2023	21,875,000	2,456,253	24,331,253
Total	\$ 124,050,000	\$ 61,492,316	\$ 185,542,316

# Western Townships Utilities Authority

## Notes to Financial Statements September 30, 2003 and 2002

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

#### Interest

For the year ended September 30, 2003, interest expense for the Authority (net of interest earned on bond proceeds of \$523,767) totaled \$5,014,187, of which \$1,398,688 was capitalized. For the year ended September 30, 2002, interest expense for the Authority (net of accretion of interest on capital appreciation bonds of \$769,748) totaled \$4,763,852.

#### Defeased Debt

At October 1, 2001, the Authority's 1991 General Obligation Bonds consisted of the following amounts:

Noncapital appreciation bonds	\$ 73,865,000
Capital appreciation bonds	<u>6,846,646</u>
Total	<u>\$ 80,711,646</u>

On October 1, 2001, the Authority issued \$74,350,000 in sewage disposal system refunding bonds with an average interest rate of 4.8 percent; the proceeds were used to advance refund \$73,865,000 of noncapital appreciation bonds outstanding with an average interest rate of 6.6 percent. The net proceeds of \$74,909,711 (after payment of \$1,038,940 in underwriting fees, insurance, and other issuance costs) plus an additional \$1,039,689 of cash contributions from the townships were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent and were used to pay off the entire amount of the noncapital appreciation bonds outstanding prior to September 30, 2002. The advance refunding reduced total debt service payments over the next 17 years by approximately \$13,000,000, which represents an economic gain of approximately \$8,000,000.

On August 1, 2002, the Authority defeased the remaining capital appreciation bonds, which had an imputed average interest rate of 6.7 percent. In order to defease the bonds, the Authority used \$10,613,227 (\$4,008,059 of cash contributions from the Townships and \$6,605,168 in accounts under the Indenture Trust for the Series 1991 Bonds) to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to be used to pay the debt service on each scheduled payment date through January 1, 2005. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the liability section of the balance sheet.

## Western Townships Utilities Authority

### Notes to Financial Statements September 30, 2003 and 2002

#### 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, 2033.

Annual payment requirements for the above are as follows:

<u>Years Ending September 30</u>	<u>Amount</u>
2004	\$ 1,125,477
2005	1,085,171
2006	1,041,915
2007	995,711
2008	780,672
2009-2013	3,522,023
2014-2018	2,747,979
2019-2023	1,815,663
2024-2028	1,253,349
2029-2033	<u>1,048,311</u>
Total	<u>\$ 15,416,271</u>

The Authority may renew this lease for two additional successive 33-year periods.

#### 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 participates in the Michigan Municipal Risk Management Authority State Pool for claims relating to property loss, torts, and employee injuries. 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.

## Western Townships Utilities Authority

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Notes to Financial Statements  
September 30, 2003 and 2002

### 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, 2003 and 2002, the Authority contributed approximately \$31,400 and \$32,100, respectively.

## Supplemental Information

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## Western Townships Utilities Authority

### Schedule of Operating Expenditures Budget and Actual Year Ended September 30, 2003

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
<b>Sewage Treatment Charges</b>	<b><u>\$ 6,506,333</u></b>	<b><u>\$6,711,500</u></b>	<b><u>\$ 6,705,725</u></b>	<b><u>\$ 5,775</u></b>
<b>Operation and Maintenance Costs</b>	<b><u>\$ 1,513,526</u></b>	<b><u>\$1,513,526</u></b>	<b><u>\$ 1,326,666</u></b>	<b><u>\$ 186,860</u></b>
<b>Administrative Costs</b>				
Salaries	\$ 230,922	\$ 288,136	\$ 257,406	\$ 30,730
Benefits	95,069	105,110	92,799	12,311
Office expenses	49,792	54,942	49,749	5,193
Insurance	90,000	91,000	90,607	393
Bank and bond service fees	15,000	8,850	6,789	2,061
Consultants:				
Legal	42,500	42,500	39,031	3,469
Financial	39,990	39,990	31,995	7,995
Indirect engineering	69,000	69,000	62,420	6,580
Total administrative costs	<b><u>\$ 632,273</u></b>	<b><u>\$ 699,528</u></b>	<b><u>\$ 630,796</u></b>	<b><u>\$ 68,732</u></b>
<b>Sewage Capacity Rental Costs</b>	<b><u>\$ 1,049,779</u></b>	<b><u>\$1,164,150</u></b>	<b><u>\$ 1,164,150</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 preparation of the budget.

## Western Townships Utilities Authority

### Schedule of Indebtedness September 30, 2003

#### Limited Tax General Obligation Bonds

2001 Bond Issue (original principal \$74,350,000)

Interest Rate (Percent)	Date of Maturity January 1	Principal Debt Outstanding		Annual Interest Payable
		September 30		
		2003	2002	
4.00	2003	\$ -	\$ 800,000	\$ 3,623,500
4.00	2004	800,000	800,000	3,591,500
4.00	2005	900,000	900,000	3,557,500
5.25	2006	4,000,000	4,000,000	3,434,500
5.25	2007	4,000,000	4,000,000	3,224,500
5.25	2008	4,000,000	4,000,000	3,014,500
5.25	2009	4,500,000	4,500,000	2,791,375
5.25	2010	4,550,000	4,550,000	2,553,812
5.25	2011	5,000,000	5,000,000	2,303,125
5.25	2012	5,100,000	5,100,000	2,038,000
5.25	2013	5,500,000	5,500,000	1,759,750
5.25	2014	6,000,000	6,000,000	1,457,875
5.25	2015	6,200,000	6,200,000	1,137,625
5.25	2016	6,500,000	6,500,000	804,250
4.75	2017	6,800,000	6,800,000	472,125
3.50	2018	7,000,000	7,000,000	188,125
3.50	2019	1,875,000	1,875,000	32,813
	Total 2001 Issue	72,725,000	73,525,000	35,984,875

## Western Townships Utilities Authority

### Schedule of Indebtedness (Continued) September 30, 2003

#### Limited Tax General Obligation Bonds (Continued)

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

Interest Rate (Percent)	Date of Maturity January 1	Principal Debt Outstanding September 30		Annual Interest Payable
		2003	2002	
n/a	2003	\$ -	\$ -	\$ 1,512,750
n/a	2004	-	-	2,269,125
3.00	2005	500,000	-	2,261,625
3.00	2006	825,000	-	2,241,750
4.00	2007	1,500,000	-	2,199,375
5.00	2008	1,500,000	-	2,131,875
5.00	2009	2,000,000	-	2,044,375
5.00	2010	2,000,000	-	1,944,375
4.00	2011	2,000,000	-	1,854,375
4.00	2012	2,500,000	-	1,764,375
5.00	2013	2,500,000	-	1,651,875
4.00	2014	3,000,000	-	1,529,375
4.25	2015	3,000,000	-	1,405,625
4.25	2016	3,000,000	-	1,278,125
4.25	2017	3,500,000	-	1,140,000
4.25	2018	3,500,000	-	991,250
4.375	2019	3,500,000	-	840,316
4.50	2020	4,000,000	-	673,750
4.50	2021	4,000,000	-	493,750
4.75	2022	4,000,000	-	308,750
4.75	2023	4,500,000	-	106,875
	Total 2002 Issue	<u>51,325,000</u>	<u>-</u>	<u>30,643,691</u>
	Total Limited Tax General Obligation Bonds	<u>\$ 124,050,000</u>	<u>\$ 73,525,000</u>	<u>\$ 66,628,566</u>