

Western Townships Utilities Authority

**Financial Report
with Supplemental Information
September 30, 2006**

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, 2006 and 2005 and for the years then ended, as listed in the table of contents. These financial statements are the responsibility of Western Townships Utilities Authority's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2006 and 2005 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 audits were 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 audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

December 8, 2006

Western Townships Utilities Authority

Management's Discussion and Analysis

Using this Annual Report

Western Townships Utilities Authority (WTUA or the "Authority") is a joint venture of three townships located in western Wayne County: Canton, Northville, and Plymouth Townships. The primary role of the Authority is to operate a sewage transportation system for these communities. This annual report consists of a series of financial statements, footnotes, and supplemental information. The statement of net assets and the statement of revenue, expenses, and changes in net assets provide information about the financial activities of the Authority. This is followed by the statement of cash flows, which presents detailed information about the changes in the Authority's cash position during the year. The next section includes the notes to the financial statements, which disclose the Authority's significant accounting policies and additional information related to certain amounts included on the statement of net assets. The final component of the annual report is the supplemental information, which is provided for the purpose of additional analysis.

Financial Overview

In analyzing the Authority's financial position, it is important to recognize the mission of the Authority. All debt of the Authority is backed by the full faith and credit of its three member townships. From a financial perspective, the Authority's core objective is to manage the long-term costs of sewage disposal for its three member townships. In essence, the Authority acts as a conduit for its three members. The amounts to be charged to its members will, by definition, be equal to the Authority's costs of providing sewage transportation and treatment. The key financial statistics for the Authority, therefore, relate to measurements of the ability to reduce total costs to its members (as opposed to the ability to accumulate financial resources).

	Year Ended September 30				
	2002	2003	2004	2005	2006
Total costs charged to townships:					
Operating expenses - Net of unrestricted interest earnings	\$ 9,839,616	\$ 9,823,486	\$ 10,840,820	\$ 10,144,959	\$ 10,071,697
Total flow (thousands of gallons)*	5,839,753	5,380,039	5,478,451	5,476,001	5,737,867
Cost per thousand gallons	\$ 1.685	\$ 1.826	\$ 1.979	\$ 1.853	\$ 1.755

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

Western Townships Utilities Authority

Management's Discussion and Analysis (Continued)

WTUA currently transports the sewage to two treatment plants, the Ypsilanti Community Utilities Authority (YCUA) and the City of Detroit through the Wayne County/RVIS system. YCUA bills the Authority based upon actual sewage flow. A lookback is calculated by YCUA at the end of their fiscal year and charged or credited to the communities based upon their share of the sewage flow. Payments are made to Wayne County for sewage that is treated by the City of Detroit as Wayne County maintains the RVIS sewage transportation system. The Wayne County bill is based upon a percentage of the water purchased by the Authority's townships from Detroit, adjusted for water-only and sewer-only customers. A quarterly bill is also paid to Wayne County which covers fixed and excess flow charges. Wayne County pays the City of Detroit for actual sewage flow. The City of Detroit also calculates a lookback at the end of its fiscal year, which is charged back or credited to the County, which is then allocated to the communities in the quarterly charges.

Condensed Financial Information

The following table presents condensed information about the Authority's financial position compared to the prior year. The decrease in restricted assets and increase in capital assets is mainly due to the YCUA construction in process. As discussed above, the Authority charges its members only as cash or working capital is required.

TABLE I	September 30			Change (2005 to 2006)	
	2004	2005	2006	Amount	Percent
Assets					
Current assets	\$ 3,355,688	\$ 2,991,043	\$ 2,939,564	\$ (51,479)	(1.7)
Restricted assets	27,513,286	9,653,665	2,997,556	(6,656,109)	(68.9)
Capital assets	<u>130,560,430</u>	<u>143,857,874</u>	<u>149,436,387</u>	<u>5,578,513</u>	3.9
Total assets	<u>161,429,404</u>	<u>156,502,582</u>	<u>155,373,507</u>	<u>(1,129,075)</u>	(0.7)
Liabilities					
Current liabilities	3,155,688	2,787,043	2,735,564	(51,479)	(1.8)
Other liabilities	10,807,876	9,800,475	7,273,477	(2,526,998)	(25.8)
Long-term liabilities	<u>117,466,415</u>	<u>112,961,740</u>	<u>107,782,065</u>	<u>(5,179,675)</u>	(4.6)
Total liabilities	<u>131,429,979</u>	<u>125,549,258</u>	<u>117,791,106</u>	<u>(7,758,152)</u>	(6.2)
Net Assets					
Invested in capital assets - Net of debt	16,796,624	26,827,191	36,459,647	9,632,456	35.9
Restricted assets	13,002,801	3,922,133	918,754	(3,003,379)	(76.6)
Unrestricted	<u>200,000</u>	<u>204,000</u>	<u>204,000</u>	-	-
Total net assets	<u>\$29,999,425</u>	<u>\$30,953,324</u>	<u>\$37,582,401</u>	<u>\$6,629,077</u>	21.4

Western Townships Utilities Authority

Management's Discussion and Analysis (Continued)

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

TABLE 2	September 30			Change (2005 to 2006)	
	2004	2005	2006	Amount	Percent
Earned revenue from townships	\$ 10,840,820	\$ 10,144,959	\$ 10,071,697	\$ (73,262)	(0.7)
Interest on operating cash and other revenue	6,060	27,634	43,930	16,296	59.0
Total revenue	10,846,880	10,172,593	10,115,627	(56,966)	(0.6)
Sewage treatment charges	7,929,408	7,475,196	7,344,926	(130,270)	(1.7)
Operation and maintenance	1,142,813	1,087,709	1,242,678	154,969	14.2
Administrative and other	640,682	520,517	486,108	(34,409)	(6.6)
Sewage capacity rental	1,125,477	1,085,171	1,041,915	(43,256)	(4.0)
Total operating expenses	10,838,380	10,168,593	10,115,627	(52,966)	(0.5)
Other nonoperating income	1,090,015	169,809	3,138,117	2,968,308	1,748.0
Net income - Before capital contributions	1,098,515	173,809	3,138,117	2,964,308	1,705.5
Contributions from townships	336,496	780,090	3,490,960	2,710,870	347.5
Change in net assets	<u>\$ 1,435,011</u>	<u>\$ 953,899</u>	<u>\$ 6,629,077</u>	<u>\$ 5,675,178</u>	594.9

The decrease in sewage treatment charges was mainly due to a decrease in payments to Wayne County. Rates for YCUA decreased 2.1 percent and increased 0.7 percent for Wayne County. Overall the volume billing for YCUA increased 6.9 percent and Wayne County decreased 13.3 percent during the current fiscal year. Although the actual sewage flow volume increased 1.4 percent to Wayne County, the amount actually paid decreased as the computation for payment is based upon adjusted water usage which dropped during the year. This difference will be reflected in future year computations of the quarterly charges to Wayne County. Operations and maintenance costs were up mainly due to an increase in utilities. There were some increases in corrective maintenance from the previous year. Administrative expenses are down due to a decrease in the hours of the construction management observer who was overseeing the YCUA expansion project, which is almost complete. Nonoperating income is up mainly due to an increase in the required principal payments on the long-term debt. The contributions from townships increased due to an increase in capital projects during the year to upgrade the pumping facilities as well as additional funds billed to the Townships for the YCUA expansion.

Budgetary Highlights

During the year, the Authority made no amendments to its budget. Costs came in at 86 percent of the 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:

YCUA expansion (includes \$2,203,087 of capitalized interest)	\$ 7,562,533
Middle Rouge interceptor repairs	447,532
Lower Rouge equalization basin expansion - Design phase	396,095
Lower Rouge pump replacements	402,420
Middle Rouge screw pump replacement	178,511
Pump stations instrumentation upgrade	93,614
Other	<u>166,787</u>
Total capital project additions	<u>\$ 9,247,492</u>

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 2003. The expansion of the main plant was put in operation during 2006. The remaining construction primarily involves completion of the punch list. The expanded YCUA plant will have capacity sufficient to handle the majority of the Authority's anticipated member township sewage flows through the year 2025. WTUA's share of this expansion is currently estimated at approximately \$76 million. The townships have utilized current funds of approximately \$23 million and the Authority issued \$51,325,000 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.

The Middle Rouge interceptor repairs involve the lining of a portion of the interceptor in Northville Township, which will extend the life of the existing lines for 50 or more years. The Lower Rouge equalization basin expansion project is in the design phase. This project will increase the storage capacity by 5.5 mg. The Lower Rouge pump replacement consisted of the replacement of two of the four major pumps which pump the sewage to YCUA. The remaining two pumps will be replaced in 2008 in conjunction with the Lower Rouge equalization basin expansion. The Middle Rouge screw pump replacement consists of replacing two of the six pumps at the lift station. The new pumps are expected to be in operation in January 2007. Two additional pumps will be replaced later in 2007 with the remaining two old pumps replaced in 2008. The upgrade to the instrumentation control panels at the Middle Rouge facility is complete. The Lower Rouge panels were installed in October 2006. As a result, the Authority's total investment in capital assets increased to over \$173 million (before considering depreciation).

Western Townships Utilities Authority

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

The original goal when WTUA was organized was to be able to sell its capacity in the Wayne County/Detroit system once the expansion at YCUA was completed. Due to the growth in Canton Township being greater than previously planned, the Township of Canton will retain its capacity in the Wayne County/Detroit sewage treatment system after the completion of the current YCUA expansion. Northville Township and Plymouth Township have also decided to keep part of their capacity in the Wayne County RVIS system. WTUA is currently in the process of the design phase for additional storage capacity for the Lower Rouge facility. Construction is expected to start in 2007 and be completed in 2009. Current estimated cost for this expansion is \$25-\$30 million. The costs for the equalization basin will be paid by Canton Township which will be bonding funds to pay for this expansion. Additional expansion of the YCUA sewage treatment facility is also being explored.

Sewage treatment charges represent approximately 74 percent of the Authority's operating budget for the next fiscal year. The Authority's operating budget for the year ending September 30, 2007 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	
	2006	2005
Assets		
Current assets:		
Cash (Note 4)	\$ 134,160	\$ 134,375
Due from members	1,372,454	1,376,656
Unbilled receivable:		
Debt service	1,389,717	1,448,406
Capital improvement	9,885	1,184
Prepaid expenses	33,348	30,422
Total current assets	<u>2,939,564</u>	<u>2,991,043</u>
Noncurrent assets:		
Restricted assets:		
Cash and investments (Note 4)	2,994,846	9,634,579
Accrued interest receivable	2,710	19,086
Capital assets - Net (Note 5):		
Nondepreciable	2,796,126	64,189,719
Depreciable	146,640,261	79,668,155
Total noncurrent assets	<u>152,433,943</u>	<u>153,511,539</u>
Total assets	<u>155,373,507</u>	<u>156,502,582</u>
Liabilities		
Current liabilities:		
Accounts payable	987,301	1,038,229
Construction and retainers payable	350,728	233,730
Billing lookback - Due to members (Note 6)	7,818	66,678
Accrued interest payable	1,389,717	1,448,406
Total current liabilities	<u>2,735,564</u>	<u>2,787,043</u>
Noncurrent liabilities:		
Accrued payables - Capital projects	15,000	15,000
Long-term debt due within one year (Note 7)	5,179,675	4,504,675
Current liabilities payable from restricted assets:		
Construction retainers payable	738,316	3,494,470
Construction contracts payable	1,340,486	1,786,330
Long-term debt - Due in more than one year (Note 7)	107,782,065	112,961,740
Total noncurrent liabilities	<u>115,055,542</u>	<u>122,762,215</u>
Total liabilities	<u>117,791,106</u>	<u>125,549,258</u>
Net Assets		
Invested in capital assets - Net of related debt	36,459,647	26,827,191
Restricted for capital purposes	918,754	3,922,133
Unrestricted	204,000	204,000
Total net assets	<u>\$ 37,582,401</u>	<u>\$ 30,953,324</u>

Western Townships Utilities Authority

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended September 30	
	2006	2005
Operating Revenue		
Earned revenue from townships	\$ 10,071,697	\$ 10,144,959
Interest earned on operating cash and other revenue	43,930	27,634
Total operating revenue	<u>10,115,627</u>	<u>10,172,593</u>
Operating Expenses		
Sewage treatment charges	7,344,926	7,475,196
Operation and maintenance	1,242,678	1,087,709
Administrative and other	486,108	520,517
Sewage capacity rental	1,041,915	1,085,171
Total operating expenses	<u>10,115,627</u>	<u>10,168,593</u>
Operating Income	<u>-</u>	<u>4,000</u>
Nonoperating Revenue (Expenses)		
Interest earnings on restricted assets	66,860	143,006
Debt billings to townships	10,442,561	7,206,375
Interest expense	(3,382,000)	(3,548,500)
Depreciation	(3,668,979)	(3,310,747)
Amortization	(320,325)	(320,325)
Total nonoperating revenue	<u>3,138,117</u>	<u>169,809</u>
Net Income - Before capital contributions	<u>3,138,117</u>	<u>173,809</u>
Capital Contributions from Townships	<u>3,490,960</u>	<u>780,090</u>
Increase in Net Assets	<u>6,629,077</u>	<u>953,899</u>
Net Assets - Beginning of year	<u>30,953,324</u>	<u>29,999,425</u>
Net Assets - End of year	<u><u>\$ 37,582,401</u></u>	<u><u>\$ 30,953,324</u></u>

Western Townships Utilities Authority

Statement of Cash Flows

	Year Ended September 30	
	2006	2005
Cash Flows from Operating Activities		
Cash received from townships	\$ 10,017,039	\$ 10,536,730
Cash payments to suppliers for goods and services	(9,882,058)	(10,149,168)
Cash payments to employees for services	(287,423)	(317,843)
Net cash (used in) provided by operating activities	(152,442)	69,719
Cash Flows from Capital and Related Financing Activities		
Collection of debt billings to townships	10,501,250	7,219,125
Principal and interest paid on long-term debt	(10,501,250)	(7,219,125)
Capital contributions from members	3,482,259	798,406
Payments for the acquisition or construction of capital assets	(10,129,405)	(18,917,258)
Net cash used in capital and related financing activities	(6,647,146)	(18,118,852)
Cash Flows from Investing Activities - Interest received on investments	159,640	354,613
Net Decrease in Cash and Cash Equivalents	(6,639,948)	(17,694,520)
Cash and Cash Equivalents - Beginning of year	9,768,954	27,463,474
Cash and Cash Equivalents - End of year	<u>\$ 3,129,006</u>	<u>\$ 9,768,954</u>
Balance Sheet Classification of Cash and Cash Equivalents		
Unrestricted cash	\$ 134,160	\$ 134,375
Restricted cash and investments	2,994,846	9,634,579
Total cash and cash equivalents	<u>\$ 3,129,006</u>	<u>\$ 9,768,954</u>
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating income	\$ -	\$ 4,000
Less interest and other income included in operating revenue	(43,930)	(27,634)
Adjustments to reconcile operating income to net cash from operating activities - Changes in assets and liabilities:		
Decrease in due from members - Monthly billings	4,202	469,941
Increase in prepaid expenses	(2,926)	(2,187)
Decrease in accounts payable	(50,928)	(296,231)
Decrease increase in due to members - Billing lookback	(58,860)	(78,170)
Net cash (used in) provided by operating activities	<u>\$ (152,442)</u>	<u>\$ 69,719</u>

There were no noncash transactions during the years ended September 30, 2006 or 2005.

Western Townships Utilities Authority

Notes to Financial Statements September 30, 2006 and 2005

Note 1 - Nature of Entity

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

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

Note 2 - Summary of Significant Accounting Policies

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity - The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. In accordance with these guidelines, there are no component units to be included in these financial statements.

Basis of Accounting - The accrual basis of accounting is used by the Authority. The Authority follows all pronouncements of the Governmental Accounting Standards Board and those of the Financial Accounting Standards Board issued prior to November 30, 1989. The Authority has elected not to follow private sector standards issued after November 30, 1989.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Operating Revenue - Operating revenue represents billings to member townships based on the Authority's operating expenses. Therefore, the Authority has shown depreciation expense as a nonoperating expense for the purpose of the statement of revenue, expenses, and changes in net assets.

Western Townships Utilities Authority

Notes to Financial Statements September 30, 2006 and 2005

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 - Generally, purchases for capital outlay exceeding \$5,000 are capitalized. All capital assets are recorded at cost or, if donated, at their estimated fair value on the date donated. Depreciation on such capital assets is charged as an expense against the operations of the Authority.

Capital assets are depreciated using the straight-line method over the following useful lives:

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

Reclassifications - Certain items in the September 30, 2005 financial statements have been reclassified to conform with classifications used in 2006. These classifications had no effect on September 30, 2005 net assets, changes in net assets, or cash flows as previously reported.

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

Western Townships Utilities Authority

Notes to Financial Statements September 30, 2006 and 2005

Note 3 - Stewardship, Compliance, and Accountability

Budgetary Information - An annual budget is adopted on the modified accrual basis of accounting, which is a comprehensive basis of accounting used for governmental fund-type operations; it differs from accounting principles generally accepted in the United States of America for proprietary fund-type operations such as Western Townships Utilities Authority. The annual budget is prepared by the Authority's accountant and is adopted by the Authority's board of commissioners; 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, 2006 and 2005.

Note 4 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Authority is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Authority has designated two banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized the Authority to deposit and invest in all investments allowed by the state statutory authority as listed above. The Authority's deposits and investment policies are in accordance with statutory authority.

Western Townships Utilities Authority

Notes to Financial Statements September 30, 2006 and 2005

Note 4 - Deposits and Investments (Continued)

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

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. At year end, the Authority had \$288,279 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Credit Risk

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

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Bank investment pool:			
Fifth Third	\$ 129,643	AAAm	S&P
National City	752,000	Not rated	N/A
LaSalle	1,917,633	Aaa	Moody's
Municipal bond	340,000	Aaa	Moody's

Concentration of credit risk:

The Authority places no limit on the amount it may invest in any one issuer. Approximately 11 percent of the Authority's investments (\$340,000) are in demand notes (delinquent tax anticipation notes) of Emmett County, Michigan; these investments were called in October 2006 at par.

Western Townships Utilities Authority

Notes to Financial Statements September 30, 2006 and 2005

Note 5 - Capital Assets

Capital asset activity for the year ended September 30, 2006 was as follows:

	2005	Increase	Decrease	2006
Capital assets not being depreciated:				
Land	\$ 2,136,913	\$ -	\$ -	\$ 2,136,913
Construction in progress:				
Equity in YCUA sewage plant	61,458,917	-	(61,458,917)	-
Other capital projects	593,889	614,006	(548,682)	659,213
Subtotal	<u>64,189,719</u>	<u>614,006</u>	<u>(62,007,599)</u>	<u>2,796,126</u>
Capital assets being depreciated:				
Land restoration costs	2,412,243	-	-	2,412,243
Utility system:				
Sewage transmission lines	43,089,302	523,612	(72,500)	43,540,414
Equalization basin and pump station	37,133,012	1,075,275	(743,335)	37,464,952
Equity in YCUA	18,858,871	69,021,450	-	87,880,321
Furniture and equipment	96,476	20,748	-	117,224
Subtotal	<u>101,589,904</u>	<u>70,641,085</u>	<u>(815,835)</u>	<u>171,415,154</u>
Less accumulated depreciation for:				
Land restoration costs	(1,889,590)	(160,816)	-	(2,050,406)
Utility system:				
Sewage transmission lines	(8,140,643)	(743,748)	72,500	(8,811,891)
Equalization basin and pump station	(11,332,771)	(1,416,733)	743,335	(12,006,169)
Equity in YCUA	(508,549)	(1,334,241)	-	(1,842,790)
Furniture and equipment	(50,196)	(13,441)	-	(63,637)
Subtotal	<u>(21,921,749)</u>	<u>(3,668,979)</u>	<u>815,835</u>	<u>(24,774,893)</u>
Net capital assets being depreciated	<u>79,668,155</u>	<u>66,972,106</u>	<u>-</u>	<u>146,640,261</u>
Total capital assets - Net of depreciation	<u>\$ 143,857,874</u>	<u>\$ 67,586,112</u>	<u>\$ (62,007,599)</u>	<u>\$ 149,436,387</u>

Western Townships Utilities Authority

Notes to Financial Statements September 30, 2006 and 2005

Note 5 - Capital Assets (Continued)

Construction Commitments - The Authority has several active construction projects at year end, including the expansion of the YCUA plant, upgrades to the Middle Rouge facility, interceptor repairs, and the expansion of the Lower Rouge equalization basin. 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. The upgrades to the Middle Rouge facility include the replacement of malfunctioning screw pumps. At year end, the Authority's commitments with contractors are as follows:

	Total Commitment	Spent to Date	Remaining Commitment
YCUA plant expansion	\$ 76,100,725	\$ 75,757,245	\$ 343,480
Lower Rouge equalization basin expansion	1,134,652	396,095	738,557
Middle Rouge pump replacements	855,064	178,511	676,553
Middle Rouge interceptor repairs	438,400	-	438,400
Total	<u>\$ 78,528,841</u>	<u>\$ 76,331,851</u>	<u>\$ 2,196,990</u>

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 YCUA plant expansion are being financed through cash contributions from the townships of approximately \$23,000,000 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. The costs for the remaining projects are being financed through cash contributions from the townships.

Western Townships Utilities Authority

Notes to Financial Statements September 30, 2006 and 2005

Note 6 - Due to Members - Billing Lookback

At September 30, 2006 and 2005, the amount due to member townships is as follows:

	<u>2006</u>	<u>2005</u>
Operating activities:		
Monthly billings	\$ 10,079,326	\$ 10,211,637
Actual operating expenses - Net of interest earnings and planned working capital addition	<u>(10,071,697)</u>	<u>(10,144,959)</u>
Total operating activities	<u>7,629</u>	<u>66,678</u>
Debt activities:		
Debt invoiced to townships for 2001 bond issue	7,434,500	4,457,500
Debt invoiced to townships for 2002 bond issue	3,066,750	2,761,625
Semiannual principal and interest payments on debt	<u>(10,501,250)</u>	<u>(7,219,125)</u>
Total debt activities	<u>-</u>	<u>-</u>
Capital activities:		
Billed as part of the monthly invoices	3,491,149	801,214
Capital asset acquisitions with capital contributions	<u>(3,490,960)</u>	<u>(801,214)</u>
Total capital activities	<u>189</u>	<u>-</u>
Total billing lookback to townships	<u>\$ 7,818</u>	<u>\$ 66,678</u>

In addition, approximately \$2,400,000 and \$9,100,000 as of September 30, 2006 and 2005, respectively, was being held in trust related to the YCUA expansion project.

Western Townships Utilities Authority

Notes to Financial Statements September 30, 2006 and 2005

Note 7 - Long-term Debt

Long-term debt activity for the year ended September 30, 2006 was as follows:

	Beginning Balance	Current Year Reductions	Ending Balance	Due Within One Year
2001 General Obligation Bond, with interest rates from 3.5% to 5.25%, maturing through 2019 (used to fund WTUA collection system)	\$ 71,025,000	\$ (4,000,000)	\$ 67,025,000	\$ 4,000,000
2002 General Obligation Bond, with interest rates from 3.00% to 5.00%, maturing through 2023 (used to fund the YCUA plant expansion)	50,825,000	(825,000)	50,000,000	1,500,000
Less:				
Deferred amount on 2001 refunding	(3,782,935)	285,505	(3,497,430)	(285,505)
Unamortized bond issue costs on 2002 issue	(161,630)	9,370	(152,260)	(9,370)
Unamortized discount on 2002 issue	(439,020)	25,450	(413,570)	(25,450)
Total long-term debt	<u>\$ 117,466,415</u>	<u>\$ (4,504,675)</u>	<u>\$ 112,961,740</u>	<u>\$ 5,179,675</u>

Debt Service Requirements

The annual principal and interest requirements to service all debt outstanding as of September 30, 2006 are as follows:

Years Ending September 30	Principal	Interest	Total
2007	\$ 5,500,000	\$ 5,423,875	\$ 10,923,875
2008	5,500,000	5,146,375	10,646,375
2009	6,500,000	4,835,750	11,335,750
2010	6,550,000	4,498,187	11,048,187
2011	7,000,000	4,157,500	11,157,500
2012-2016	43,300,000	14,826,875	58,126,875
2017-2021	34,175,000	4,832,126	39,007,126
2022-2023	8,500,000	415,625	8,915,625
Total	<u>\$ 117,025,000</u>	<u>\$ 44,136,313</u>	<u>\$ 161,161,313</u>

Western Townships Utilities Authority

Notes to Financial Statements September 30, 2006 and 2005

Note 7 - Long-term Debt (Continued)

Interest

For the year ended September 30, 2006, interest incurred by the Authority (net of interest earned on bond proceeds of \$32,474) totaled \$5,585,087, of which \$2,203,087 was capitalized. For the year ended September 30, 2005, interest incurred by the Authority (net of interest earned on bond proceeds of \$153,047) totaled \$5,653,328, of which \$2,104,828 was capitalized.

Note 8 - Lease Commitment

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

Western Townships Utilities Authority

Notes to Financial Statements September 30, 2006 and 2005

Note 8 - Lease Commitment (Continued)

Annual payment requirements for the above are as follows:

<u>Years Ending September 30</u>	<u>Amount</u>
2007	\$ 995,711
2008	780,672
2009	757,353
2010	732,445
2011	705,969
2012-2016	3,078,951
2017-2021	2,205,951
2022-2026	1,380,714
2027-2031	1,133,276
2032-2036	908,338
2037-2041	641,647
2042-2046	418,378
2047-2051	428,926
2052-2056	453,114
2057-2061	477,301
2062-2066	501,489
2067-2071	525,676
2072-2076	549,864
2077-2081	574,051
2082-2086	598,239
2087-2091	622,426
2092-2096	646,614
2097-2099	399,578
Total	<u>\$ 19,516,683</u>

Western Townships Utilities Authority

Notes to Financial Statements September 30, 2006 and 2005

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.

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, 2006 and 2005, the Authority contributed approximately \$23,500 and \$24,400, respectively.

Supplemental Information

Western Townships Utilities Authority

Schedule of Operating Expenditures Budget and Actual Year Ended September 30, 2006

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Sewage Treatment Charges	<u>\$ 8,546,950</u>	<u>\$ 8,546,950</u>	<u>\$ 7,344,926</u>	<u>\$ 1,202,024</u>
Operation and Maintenance Costs	<u>\$ 1,510,288</u>	<u>\$ 1,510,288</u>	<u>\$ 1,242,678</u>	<u>\$ 267,610</u>
Administrative Costs				
Salaries	\$ 206,301	\$ 206,301	\$ 195,732	\$ 10,569
Benefits	104,500	104,500	91,831	12,669
Office expenses	57,500	57,500	27,090	30,410
Insurance	105,000	105,000	79,785	25,215
Bank and bond service fees	6,000	6,000	3,090	2,910
Consultants:				
Legal	55,000	55,000	57,146	(2,146)
Financial	39,500	39,500	18,260	21,240
Indirect engineering	<u>34,000</u>	<u>34,000</u>	<u>13,174</u>	<u>20,826</u>
Total administrative costs	<u>\$ 607,801</u>	<u>\$ 607,801</u>	<u>\$ 486,108</u>	<u>\$ 121,693</u>
Sewage Capacity Rental Costs	<u>\$ 1,041,915</u>	<u>\$ 1,041,915</u>	<u>\$ 1,041,915</u>	<u>\$ -</u>

The above schedule represents operating expenditures for the year based on the modified accrual basis of accounting, to be consistent with the basis of accounting used in the preparation of the budget.

Western Townships Utilities Authority

Schedule of Indebtedness September 30, 2006

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		
		2006	2005	
5.25	2006	\$ -	\$ 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	67,025,000	71,025,000	25,212,375

Western Townships Utilities Authority

Schedule of Indebtedness (Continued) September 30, 2006

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		Annual Interest Payable
		September 30		
		2006	2005	
3.00	2006	\$ -	\$ 825,000	\$ 2,241,750
4.00	2007	1,500,000	1,500,000	2,199,375
5.00	2008	1,500,000	1,500,000	2,131,875
5.00	2009	2,000,000	2,000,000	2,044,375
5.00	2010	2,000,000	2,000,000	1,944,375
4.00	2011	2,000,000	2,000,000	1,854,375
4.00	2012	2,500,000	2,500,000	1,764,375
5.00	2013	2,500,000	2,500,000	1,651,875
4.00	2014	3,000,000	3,000,000	1,529,375
4.25	2015	3,000,000	3,000,000	1,405,625
4.25	2016	3,000,000	3,000,000	1,278,125
4.25	2017	3,500,000	3,500,000	1,140,000
4.25	2018	3,500,000	3,500,000	991,250
4.375	2019	3,500,000	3,500,000	840,313
4.50	2020	4,000,000	4,000,000	673,750
4.50	2021	4,000,000	4,000,000	493,750
4.75	2022	4,000,000	4,000,000	308,750
4.75	2023	4,500,000	4,500,000	106,875
	Total 2002 Issue	<u>50,000,000</u>	<u>50,825,000</u>	<u>24,600,188</u>
	Total Limited Tax General Obligation Bonds	<u>\$ 117,025,000</u>	<u>\$ 121,850,000</u>	<u>\$ 49,812,563</u>