

# **Western Townships Utilities Authority**

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**Financial Report  
with Supplemental Information  
September 30, 2007**

# Western Townships Utilities Authority

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## Independent Auditor's Report

To the Commissioners  
Western Townships Utilities Authority

We have audited the accompanying basic financial statements of Western Townships Utilities Authority (the "Authority") as of September 30, 2007 and 2006 and for the years then ended, as listed in the table of contents. These financial statements are the responsibility of Western Townships Utilities Authority's management. Our responsibility is to express opinions on these financial statements based on our audits.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of September 30, 2007 and 2006 and the changes in financial position, including cash flows, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

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

*Plante & Moran, PLLC*

December 14, 2007

# 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).

	2003	2004	2005	2006	2007
Total costs charged to townships:					
Operating expenses - Net of unrestricted interest earnings	\$ 9,823,486	\$ 10,840,820	\$ 10,144,959	\$ 10,071,697	\$ 11,756,702
Total flow (thousands of gallons)*	5,380,039	5,478,451	5,476,001	5,737,867	5,855,172
Cost per thousand gallons	\$ 1.826	\$ 1.979	\$ 1.853	\$ 1.755	\$ 2.008

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

# Western Townships Utilities Authority

## Management's Discussion and Analysis (Continued)

WTUA currently transports the sewage to two treatment plants, the Ypsilanti Community Utilities Authority (YCUA) and the City of Detroit through the Wayne County/RVIS system. YCUA bills the Authority based upon actual sewage flow. A lookback is calculated by YCUA at the end of its fiscal year and charged or credited to the 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 that 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 is mainly due to the YCUA expansion that is complete except for final punch list items. As discussed above, the Authority charges its members only as cash or working capital is required.

TABLE I	September 30			Change (2006 to 2007)	
	2005	2006	2007	Amount	Percent
<b>Assets</b>					
Current assets	\$ 2,991,043	\$ 2,939,564	\$ 2,890,046	\$ (49,518)	(1.7)
Restricted assets	9,653,665	2,997,556	940,911	(2,056,645)	(68.6)
Capital assets	<u>143,857,874</u>	<u>149,436,387</u>	<u>148,358,789</u>	<u>(1,077,598)</u>	(0.7)
Total assets	<u>156,502,582</u>	<u>155,373,507</u>	<u>152,189,746</u>	<u>(3,183,761)</u>	(2.0)
<b>Liabilities</b>					
Current liabilities	2,787,043	2,735,564	2,686,046	(49,518)	(1.8)
Other liabilities	9,800,475	7,273,477	5,387,286	(1,886,191)	(25.9)
Long-term liabilities	<u>112,961,740</u>	<u>107,782,065</u>	<u>102,602,390</u>	<u>(5,179,675)</u>	(4.8)
Total liabilities	<u>125,549,258</u>	<u>117,791,106</u>	<u>110,675,722</u>	<u>(7,115,384)</u>	(6.0)
<b>Net Assets</b>					
Invested in capital assets - Net of debt	26,827,191	36,459,647	40,576,724	4,117,077	11.3
Restricted assets	3,922,133	918,754	733,300	(185,454)	(20.2)
Unrestricted	<u>204,000</u>	<u>204,000</u>	<u>204,000</u>	<u>-</u>	-
Total net assets	<u>\$30,953,324</u>	<u>\$37,582,401</u>	<u>\$41,514,024</u>	<u>\$ 3,931,623</u>	10.5

# 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	Year Ended September 30			Change (2006 to 2007)	
	2005	2006	2007	Amount	Percent
Earned revenue from townships	\$ 10,144,959	\$ 10,071,697	\$ 11,756,702	\$ 1,685,005	16.7
Interest on operating cash and other revenue	27,634	43,930	54,843	10,913	24.8
Total revenue	<u>10,172,593</u>	<u>10,115,627</u>	<u>11,811,545</u>	<u>1,695,918</u>	16.8
Sewage treatment charges	7,475,196	7,344,926	8,918,445	1,573,519	21.4
Operation and maintenance	1,087,709	1,242,678	1,434,018	191,340	15.4
Administrative and other	520,517	486,108	463,371	(22,737)	(4.7)
Sewage capacity rental	1,085,171	1,041,915	995,711	(46,204)	(4.4)
Total operating expenses	<u>10,168,593</u>	<u>10,115,627</u>	<u>11,811,545</u>	<u>1,695,918</u>	16.8
Other nonoperating income	<u>169,809</u>	<u>3,138,117</u>	<u>517,011</u>	<u>(2,621,106)</u>	(83.5)
Net income - Before capital contributions	173,809	3,138,117	517,011	(2,621,106)	(83.5)
Contributions from townships	<u>780,090</u>	<u>3,490,960</u>	<u>3,414,612</u>	<u>(76,348)</u>	(2.2)
Change in net assets	<u>\$ 953,899</u>	<u>\$ 6,629,077</u>	<u>\$ 3,931,623</u>	<u>\$ (2,697,454)</u>	(40.7)

The increase in sewage treatment charges was mainly due to an increase in rates to both Wayne County and YCUA. Rates for YCUA increased 11.05 percent and rates for Wayne County increased 3.6 percent. Overall, the volume billing for YCUA increased 11.24 percent and Wayne County decreased 11.73 percent during the current fiscal year. Operations and maintenance costs were up mainly due to an increase in utilities. There were some increases in various maintenance items in the collection system from the previous year. Nonoperating income is up mainly due to an increase in depreciation and interest expense. This will be the first full year of depreciation on the YCUA plant expansion. The increase in the interest expense is due to the accounting treatment of the interest expense, as in prior years part of the interest expense was capitalized during the construction of the YCUA expansion. Overall, interest expense has decreased from the previous year.

### Budgetary Highlights

During the year, the Authority made one minor amendment to its budget. Costs came in at 92.2 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:

Middle Rouge screw pump replacement	\$ 1,747,100
Lower Rouge equalization basin expansion	1,018,076
MPRI sewer repair	425,080
YCUA expansion	198,361
Pump stations instrumentation upgrade	73,069
Other	136,286
	<hr/>
Total capital project additions	\$ 3,597,972

The Middle Rouge screw pump replacement project consisted of replacing four of the six screw pumps at the lift station. The remaining two pumps will be replaced in 2008. The Lower Rouge equalization basin expansion project will increase the storage capacity at the Lower Rouge facility by 5.5 mg as well as installing three new pumps. Bids were received in December 2007. The contract should be awarded by January 2008 with construction starting shortly thereafter. The Middle Rouge interceptor repairs involved the lining of a portion of the interceptor in Northville and Plymouth Townships, which will extend the life of the existing lines for 50 or more years.

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.

As a result, the Authority's total investment in capital assets increased to over \$177 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 awarding a contract for additional storage capacity for the Lower Rouge facility. Construction is expected to start in 2008 and be completed in 2010. Current estimated cost for this expansion is \$25 million to \$30 million. The costs for the equalization basin will be paid by Canton Township, which has bonded funds to pay for this expansion. Additional expansion of the YCUA sewage treatment facility is also being explored.

Sewage treatment charges represent approximately 75 percent of the Authority's operating budget for the next fiscal year. The Authority's operating budget for the year ending September 30, 2008 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	
	2007	2006
<b>Assets</b>		
Current assets:		
Cash (Note 4)	\$ 146,380	\$ 134,160
Due from members	1,278,125	1,372,454
Billing lookback - Due from members (Note 6)	92,157	-
Unbilled receivable:		
Debt service	1,322,217	1,389,717
Capital improvement	24,065	9,885
Prepaid expenses	<u>27,102</u>	<u>33,348</u>
Total current assets	<u>2,890,046</u>	<u>2,939,564</u>
Noncurrent assets - Restricted		
Cash and investments (Note 4)	940,261	2,994,846
Accrued interest receivable	650	2,710
Capital assets - Net (Note 5):		
Nondepreciable	3,551,084	2,796,126
Depreciable	<u>144,807,705</u>	<u>146,640,261</u>
Total noncurrent assets	<u>149,299,700</u>	<u>152,433,943</u>
Total assets	<u>152,189,746</u>	<u>155,373,507</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	1,250,249	987,301
Construction and retainers payable	113,580	350,728
Billing lookback - Due to members (Note 6)	-	7,818
Accrued interest payable	<u>1,322,217</u>	<u>1,389,717</u>
Total current liabilities	<u>2,686,046</u>	<u>2,735,564</u>
Noncurrent liabilities:		
Accrued payables - Capital projects	-	15,000
Long-term debt due within one year (Note 7)	5,179,675	5,179,675
Current liabilities payable from restricted assets:		
Construction retainers payable	191,290	738,316
Construction contracts payable	16,321	1,340,486
Long-term debt - Due in more than one year (Note 7)	<u>102,602,390</u>	<u>107,782,065</u>
Total noncurrent liabilities	<u>107,989,676</u>	<u>115,055,542</u>
Total liabilities	<u>110,675,722</u>	<u>117,791,106</u>
<b>Net Assets</b>		
Invested in capital assets - Net of related debt	40,576,724	36,459,647
Restricted for capital purposes	733,300	918,754
Unrestricted	<u>204,000</u>	<u>204,000</u>
Total net assets	<u>\$ 41,514,024</u>	<u>\$ 37,582,401</u>

# Western Townships Utilities Authority

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

	Year Ended September 30	
	2007	2006
<b>Operating Revenue</b>		
Earned revenue from townships	\$ 11,756,702	\$ 10,071,697
Interest earned on operating cash and other revenue	54,843	43,930
Total operating revenue	<u>11,811,545</u>	<u>10,115,627</u>
<b>Operating Expenses</b>		
Sewage treatment charges	8,918,445	7,344,926
Operation and maintenance	1,434,018	1,242,678
Administrative and other	463,371	486,108
Sewage capacity rental	995,711	1,041,915
Total operating expenses	<u>11,811,545</u>	<u>10,115,627</u>
<b>Operating Income</b>	<u>-</u>	<u>-</u>
<b>Nonoperating Revenue (Expenses)</b>		
Interest earnings on restricted assets	12,906	66,860
Debt billings to townships	10,856,375	10,442,561
Interest expense	(5,356,375)	(3,382,000)
Depreciation	(4,675,570)	(3,668,979)
Amortization	(320,325)	(320,325)
Total nonoperating revenue	<u>517,011</u>	<u>3,138,117</u>
<b>Net Income - Before capital contributions</b>	517,011	3,138,117
<b>Capital Contributions from Townships</b>	<u>3,414,612</u>	<u>3,490,960</u>
<b>Increase in Net Assets</b>	3,931,623	6,629,077
<b>Net Assets - Beginning of year</b>	<u>37,582,401</u>	<u>30,953,324</u>
<b>Net Assets - End of year</b>	<u><u>\$ 41,514,024</u></u>	<u><u>\$ 37,582,401</u></u>

# Western Townships Utilities Authority

## Statement of Cash Flows

	Year Ended September 30	
	2007	2006
<b>Cash Flows from Operating Activities</b>		
Cash received from townships	\$ 11,584,766	\$ 10,107,652
Cash payments to suppliers for goods and services	(11,277,152)	(9,882,058)
Cash payments for employee services	(265,199)	(287,423)
Net cash provided by (used in) operating activities	<u>42,415</u>	<u>(61,829)</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Collection of debt billings to townships	10,923,875	10,501,250
Principal and interest paid on long-term debt	(10,923,875)	(10,501,250)
Capital contributions from members	3,566,722	3,391,646
Payments for the acquisition or construction of capital assets	(5,721,311)	(10,129,405)
Net cash used in capital and related financing activities	(2,154,589)	(6,737,759)
<b>Cash Flows from Investing Activities</b> - Interest received on investments	<u>69,809</u>	<u>159,640</u>
<b>Net Decrease in Cash and Cash Equivalents</b>	(2,042,365)	(6,639,948)
<b>Cash and Cash Equivalents</b> - Beginning of year	<u>3,129,006</u>	<u>9,768,954</u>
<b>Cash and Cash Equivalents</b> - End of year	<u><b>\$ 1,086,641</b></u>	<u><b>\$ 3,129,006</b></u>
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>		
Unrestricted cash	\$ 146,380	\$ 134,160
Restricted cash and investments	<u>940,261</u>	<u>2,994,846</u>
Total cash and cash equivalents	<u><b>\$ 1,086,641</b></u>	<u><b>\$ 3,129,006</b></u>
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>		
Operating income	\$ -	\$ -
Less interest and other income included in operating revenue	(54,843)	(43,930)
Adjustments to reconcile operating income to net cash from operating activities - Changes in assets and liabilities:		
(Increase) decrease in due from members - Monthly billings	(67,445)	95,004
Decrease (increase) in prepaid expenses	6,246	(2,926)
Increase in due from members - Billing lookback	(96,861)	-
Increase (decrease) in accounts payable	262,948	(50,928)
Decrease in due to members - Billing lookback	(7,630)	(59,049)
Net cash provided by (used in) operating activities	<u><b>\$ 42,415</b></u>	<u><b>\$ (61,829)</b></u>

There were no noncash transactions during the years ended September 30, 2007 and 2006.

# Western Townships Utilities Authority

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## Notes to Financial Statements September 30, 2007 and 2006

### 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, 2007 and 2006

### 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, 2006 financial statements have been reclassified to conform to classifications used in 2007. These classifications had no effect on September 30, 2006 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

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## Notes to Financial Statements September 30, 2007 and 2006

### **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, 2007 and 2006.

### **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, 2007 and 2006

### 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 September 30, 2007, the Authority's bank deposits totaling approximately \$11,000 were insured. At September 30, 2006, the Authority had \$288,279 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized.

#### 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:			
National City	\$ 806,000	Not rated	N/A
U.S. Bank	353,347	Aaa	Moody's

#### Concentration of Credit Risk

The Authority places no limit on the amount it may invest in any one issuer. At September 30, 2006, approximately 11 percent of the Authority's investments (\$340,000) were 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, 2007 and 2006

### Note 5 - Capital Assets

Capital asset activity for the year ended September 30, 2007 was as follows:

	2006	Increase	Decrease	2007
Capital assets not being depreciated:				
Land	\$ 2,136,913	\$ -	\$ -	\$ 2,136,913
Construction in progress - Capital projects	<u>659,213</u>	<u>1,018,076</u>	<u>(263,118)</u>	<u>1,414,171</u>
Subtotal	<u>2,796,126</u>	<u>1,018,076</u>	<u>(263,118)</u>	<u>3,551,084</u>
Capital assets being depreciated:				
Land restoration costs	2,412,243	-	-	2,412,243
Utility system:				
Sewage transmission lines	43,540,414	496,180	-	44,036,594
Equalization basin and pump station	37,464,952	2,148,473	(647,003)	38,966,422
Equity in YCUA	87,880,321	198,361	-	88,078,682
Furniture and equipment	<u>117,224</u>	<u>-</u>	<u>-</u>	<u>117,224</u>
Subtotal	<u>171,415,154</u>	<u>2,843,014</u>	<u>(647,003)</u>	<u>173,611,165</u>
Less accumulated depreciation for:				
Land restoration costs	(2,050,406)	(160,816)	-	(2,211,222)
Utility system:				
Sewage transmission lines	(8,811,891)	(740,195)	-	(9,552,086)
Equalization basin and pump station	(12,006,169)	(1,560,084)	647,003	(12,919,250)
Equity in YCUA	(1,842,790)	(2,199,552)	-	(4,042,342)
Furniture and equipment	<u>(63,637)</u>	<u>(14,923)</u>	<u>-</u>	<u>(78,560)</u>
Subtotal	<u>(24,774,893)</u>	<u>(4,675,570)</u>	<u>647,003</u>	<u>(28,803,460)</u>
Net capital assets being depreciated	<u>146,640,261</u>	<u>(1,832,556)</u>	<u>-</u>	<u>144,807,705</u>
Total capital assets - Net of depreciation	<u>\$ 149,436,387</u>	<u>\$ (814,480)</u>	<u>\$ (263,118)</u>	<u>\$ 148,358,789</u>

# Western Townships Utilities Authority

## Notes to Financial Statements September 30, 2007 and 2006

### Note 5 - Capital Assets (Continued)

**Construction Commitments** - The Authority has three active construction projects at year end, all of which are nearing completion. The purpose of the YCUA plant expansion is to improve and expand the YCUA wastewater treatment facilities. The Lower Rouge equalization basin expansion project is to increase the storage capacity at the Lower Rouge facility. The Middle Rouge pump replacements are to replace four of the current 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	\$ 76,018,580	\$ 75,952,784	\$ 65,796
Lower Rouge equalization basin expansion	1,134,652	1,079,369	55,283
Middle Rouge pump replacements	1,930,205	1,901,546	28,659
Total	<u>\$ 79,083,437</u>	<u>\$ 78,933,699</u>	<u>\$ 149,738</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, 2007 and 2006

### Note 6 - Due to Members - Billing Lookback

At September 30, 2007 and 2006, the amount due (from) to member townships is as follows:

	2007	2006
Operating activities:		
Monthly billings	\$ 11,659,841	\$ 10,079,326
Actual operating expenses - Net of interest earnings and planned working capital addition	<u>(11,756,702)</u>	<u>(10,071,697)</u>
Total operating activities	<u>(96,861)</u>	<u>7,629</u>
Debt activities:		
Debt invoiced to townships for 2001 bond issue	7,224,500	7,434,500
Debt invoiced to townships for 2002 bond issue	3,699,375	3,066,750
Semiannual principal and interest payments on debt	<u>(10,923,875)</u>	<u>(10,501,250)</u>
Total debt activities	<u>-</u>	<u>-</u>
Capital activities:		
Billed as part of the monthly invoices	3,419,316	3,491,149
Capital asset acquisitions with capital contributions	<u>(3,414,612)</u>	<u>(3,490,960)</u>
Total capital activities	<u>4,704</u>	<u>189</u>
Total billing lookback (from) to townships	<u>\$ (92,157)</u>	<u>\$ 7,818</u>

In addition, approximately \$353,000 and \$2,400,000 as of September 30, 2007 and 2006, respectively, was being held in trust related to the YCUA expansion project.

### Note 7 - Long-term Debt

Long-term debt activity for the year ended September 30, 2007 was as follows:

	Beginning Balance	Current Year Reductions	Ending Balance	Due Within One Year
2001 General Obligation Bond, with interest rates from 3.50% to 5.25%, maturing through 2019 (used to fund WTUA collection system)	\$ 67,025,000	\$ (4,000,000)	\$ 63,025,000	\$ 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)	50,000,000	(1,500,000)	48,500,000	1,500,000
Less:				
Deferred amount on 2001 refunding	(3,497,430)	285,505	(3,211,925)	(285,505)
Unamortized bond issue costs on 2002 issue	(152,260)	9,370	(142,890)	(9,370)
Unamortized discount on 2002 issue	<u>(413,570)</u>	<u>25,450</u>	<u>(388,120)</u>	<u>(25,450)</u>
Total long-term debt	<u>\$ 112,961,740</u>	<u>\$ (5,179,675)</u>	<u>\$ 107,782,065</u>	<u>\$ 5,179,675</u>

# Western Townships Utilities Authority

## Notes to Financial Statements September 30, 2007 and 2006

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

#### Debt Service Requirements

The annual principal and interest requirements to service all debt outstanding as of September 30, 2007 are as follows:

<u>Years Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	7,600,000	3,802,375	11,402,375
2013-2017	46,000,000	12,636,625	58,636,625
2018-2022	27,875,000	3,528,751	31,403,751
2023	4,500,000	106,875	4,606,875
Total	<u>\$ 111,525,000</u>	<u>\$ 38,712,438</u>	<u>\$ 150,237,438</u>

#### Interest

For the year ended September 30, 2007, interest incurred by the Authority totaled \$5,356,375. 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.

### 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

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## Notes to Financial Statements September 30, 2007 and 2006

### Note 8 - Lease Commitment (Continued)

Annual payment requirements for the above are as follows:

Years Ending September 30	Amount
2008	\$ 780,672
2009	757,353
2010	732,445
2011	705,969
2012	677,947
2013-2017	2,916,375
2018-2022	2,013,516
2023-2027	1,300,424
2028-2032	1,091,629
2033-2037	858,340
2038-2042	583,298
2043-2047	409,576
2048-2052	433,764
2053-2057	457,951
2058-2062	482,139
2063-2067	506,326
2068-2072	530,514
2073-2077	554,701
2078-2082	578,889
2083-2087	603,076
2088-2092	627,264
2093-2097	651,451
2098-2099	267,353
Total	<u>\$ 18,520,972</u>

# Western Townships Utilities Authority

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## Notes to Financial Statements September 30, 2007 and 2006

### **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, 2007 and 2006, the Authority contributed approximately \$24,600 and \$23,500, respectively.

### **Note 11 - Contingency**

The Authority is currently involved in arbitration regarding wastewater treatment charges with one of its sewage treatment processors. The focus of the arbitration is to allow the Authority to request an actuarial study of the cost of retiree health care allocable to the period in which the Authority participated in using the plant, rather than sharing in the contributions to a retiree healthcare plan, which would include prior service costs for periods before the Authority started using the plant. Because an actuarial valuation has not been performed, an estimate of the ultimate amount to be paid is not able to be made at this point. As a result, these financial statements do not include any liability, if any, for the potential ultimate outcome of the arbitration.

## **Supplemental Information**

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# Western Townships Utilities Authority

## Schedule of Operating Expenditures Budget and Actual Year Ended September 30, 2007

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Sewage Treatment Charges</b>	<u>\$ 9,501,023</u>	<u>\$ 9,501,023</u>	<u>\$ 8,918,445</u>	<u>\$ 582,578</u>
<b>Operation and Maintenance Costs</b>	<u>\$ 1,696,216</u>	<u>\$ 1,719,216</u>	<u>\$ 1,434,018</u>	<u>\$ 285,198</u>
<b>Administrative Costs</b>	<u>\$ 596,352</u>	<u>\$ 596,352</u>	<u>\$ 463,371</u>	<u>\$ 132,981</u>
<b>Sewage Capacity Rental Costs</b>	<u>\$ 995,711</u>	<u>\$ 995,711</u>	<u>\$ 995,711</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, 2007 and 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		
		2007	2006	
5.25	2007	\$ -	\$ 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	63,025,000	67,025,000	21,777,875

# Western Townships Utilities Authority

## Schedule of Indebtedness (Continued) September 30, 2007

### Limited Tax General Obligation Bonds (Continued)

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

Rate (Percent)	Date of Maturity January 1	September 30		Interest Payable
		2007	2006	
4.00	2007	\$ -	\$ 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>48,500,000</u>	<u>50,000,000</u>	<u>22,358,438</u>
Total Limited Tax General Obligation Bonds		<u>\$ 111,525,000</u>	<u>\$ 117,025,000</u>	<u>\$ 44,136,313</u>