

Western Townships Utilities Authority

**Financial Report
with Supplemental Information
September 30, 2017**

Western Townships Utilities Authority

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Independent Auditor's Report

To the Commissioners
Western Townships Utilities Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the Western Townships Utilities Authority (the "Authority") as of and for the years ended September 30, 2017 and 2016 and the related notes to the financial statements, which collectively comprise the Western Townships Utilities Authority's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Western Townships Utilities Authority as of September 30, 2017 and 2016 and the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Commissioners
Western Townships Utilities Authority

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Western Townships Utilities Authority's basic financial statements. The schedule of operating expenditures - budget and actual and the schedule of indebtedness are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

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

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

Alante & Moran, PLLC

January 11, 2018

Western Townships Utilities Authority

Management's Discussion and Analysis

Using this Annual Report

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

Financial Overview

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

	2013	2014	2015	2016	2017
Total costs charged to townships	\$ 12,120,169	\$ 12,687,670	\$ 14,143,851	\$ 14,713,565	\$ 14,411,554
Total flow (thousands of gallons)*	5,154,879	5,677,317	5,493,666	5,664,201	5,563,220
Cost per thousand gallons	\$ 2.351	\$ 2.235	\$ 2.575	\$ 2.598	\$ 2.591

* 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)

In past years, WTUA transported the sewage to two treatment plants, the Ypsilanti Community Utilities Authority (YCUA) and the Great Lakes Water Authority (GLWA) through the Wayne County/RVIS system. As of July 1, 2017, WTUA discontinued sending flow to GLWA (with the exception of the 'swap' area which represents flow from the city of Plymouth). YCUA bills the Authority based upon actual sewage flow. A look-back is calculated by YCUA at the end of its fiscal year and charged or credited to the Authority based upon its share of the sewage flow and actual expenditures. Currently, WTUA is in the process of negotiating a termination agreement with Wayne County/RVIS and anticipates that the only GLWA/Wayne County costs, moving forward, will be WTUA's alleged portion of their long-term debt. It is probable that the alleged debt share (\$1,386,000) will be paid over 14 years as a fixed annual amount of \$99,000. WTUA's first installment payment for \$8,250 was made to Wayne County/RVIS in August 2017.

Condensed Financial Information

The following table presents condensed information about the Authority's financial position compared to the prior year. The increase in net position is caused by a decrease in the long-term liabilities due to principal payments made on bonds. The decrease in liabilities was offset by a decrease in capital assets due to depreciation expense.

	September 30			Change (2016 to 2017)	
	2015	2016	2017	Amount	Percent
Assets					
Current assets	\$ 2,397,880	\$ 2,130,981	\$ 2,976,306	\$ 845,325	39.7
Restricted assets	1,732,737	1,569,624	507,944	(1,061,680)	(67.6)
Capital assets	148,402,624	143,875,783	139,328,185	(4,547,598)	(3.2)
Total assets	152,533,241	147,576,388	142,812,435	(4,763,953)	(3.2)
Deferred Outflow	1,112,406	801,450	490,496	(310,954)	(38.8)
Liabilities					
Current liabilities	2,118,991	1,852,092	1,327,827	(524,265)	(28.3)
Other liabilities	1,036,939	1,039,014	-	(1,039,014)	(100.0)
Long-term liabilities	54,579,271	44,578,287	35,453,926	(9,124,361)	(20.5)
Total liabilities	57,735,201	47,469,393	36,781,753	(10,687,640)	(22.5)
Net Position					
Net investment in capital assets	95,127,179	100,123,414	105,734,255	5,610,841	5.6
Restricted	504,378	506,142	507,944	1,802	0.4
Unrestricted	278,889	278,889	278,979	90	0.0
Total net position	<u>\$ 95,910,446</u>	<u>\$ 100,908,445</u>	<u>\$ 106,521,178</u>	<u>\$ 5,612,733</u>	5.6

Western Townships Utilities Authority

Management's Discussion and Analysis (Continued)

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

	Year Ended September 30			Change (2016 to 2017)	
	2015	2016	2017	Amount	Percent
Earned revenue from townships	\$ 14,143,851	\$ 14,713,565	\$ 14,411,554	\$ (302,011)	(2.1)
SAW grant revenue	115,827	109,411	163,555	54,144	49.5
Other operating revenue	<u>119,358</u>	<u>78,227</u>	<u>783,769</u>	<u>705,542</u>	100.0
Total revenue	14,379,036	14,901,203	15,358,878	457,675	3.1
Sewage treatment charges	11,542,688	11,792,971	12,317,450	524,479	4.4
Operation and maintenance	1,638,555	1,598,661	1,789,566	190,905	11.9
Administrative	613,062	494,527	494,437	(90)	(0.0)
Sewage capacity rental	<u>584,731</u>	<u>550,811</u>	<u>515,371</u>	<u>(35,440)</u>	(6.4)
Total operating expenses	14,379,036	14,436,970	15,116,824	679,854	4.7
Other nonoperating income	<u>4,371,992</u>	<u>4,219,256</u>	<u>5,072,743</u>	<u>853,487</u>	20.2
Net income - Before capital contributions	4,371,992	4,683,489	5,314,797	631,308	13.5
Capital contributions from townships	<u>1,819,329</u>	<u>314,510</u>	<u>297,936</u>	<u>(16,574)</u>	(5.3)
Change in net position	<u>\$ 6,191,321</u>	<u>\$ 4,997,999</u>	<u>\$ 5,612,733</u>	<u>\$ 614,734</u>	12.3

Sewage treatment charges increased 4.4 percent this year. The total volume of sewage flow treated decreased 1.7 percent this year. WTUA did not realize a decrease in costs coinciding with the decrease in flow due to Wayne County having a fixed charge; however, the increase was offset by the Lower Rouge Expansion settlement credited to Canton Township. The statement of revenue, expenses, and changes in net position shows \$242,054 of operating income. This amount represents payments for YCUA's UAAL for pension and a reduction of the liability. The offsetting reduction in the equity in YCUA capital asset is reflected in depreciation expense in the statement of revenue, expenses, and changes in net position.

Operations and maintenance costs were up this year due to an increase in maintenance costs for both Lower Rouge and the Collection System as well as increases in electric costs for Lower Rouge (now that the North Pump Station is up and running) and higher SAW grant expenditures which were offset by SAW grant revenue (WTUA was reimbursed 90 percent).

Capital contributions are for the current capital projects which are all funded from township contributions with the exception of some of the Lower Rouge expansion costs, which were funded with the remaining Odor Control Duct settlement funds (\$0 remaining currently).

Budgetary Highlights

During the year, the Authority did not make any amendments to the operating budget. Operating costs came in at 88.8 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:

EQ basin and pump stations	\$ 110,978
Furniture, fixtures, and equipment	46,993
Increased equity in YCUA	19,343
Pipe lining project/sewer lines	<u>164,433</u>
Total capital project additions	<u>\$ 341,747</u>

The Lower Rouge equalization basin expansion project increases the storage capacity at the Lower Rouge facility by 5.5 million gallons and has a new pump station with three new pumps. Construction started in early 2008 and final completion was expected in mid-2010. The project is 99 percent complete, with a few remaining issues. These issues were largely resolved in 2017 with the settlement agreement, but there are still some final punch list items to complete.

The Authority's total investment in capital assets is over \$211 million (before considering depreciation).

Economic Factors and Next Year's Budgets and Rates

The Authority ceased sending flow to the Wayne County/RVIS as of July 1, 2017 and is currently working to negotiate a termination agreement with the county.

Sewage treatment charges represent approximately 74 percent of the Authority's operating budget for the next fiscal year. YCUA has increased its rates for the next fiscal year by approximately 0.6 percent when compared with the estimated look-back rate for the current year, but the rate does not take the YCUA Pension UAAL payments into account. The Authority pays YCUA a fixed cost of \$19,343 per month in addition to the sewage bill to pay down the Authority's portion of the unfunded actuarial accrued liability for YCUA's Pension Plan. The Authority budgeted \$100,000 to be paid to Wayne County/RVIS in FY2018 for the Authority's alleged portion of outstanding debt.

Contacting the Authority's Management

This financial report is intended to provide our member townships and the Authority's bondholders with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives from the member townships. If you have questions about this report or need additional information, we welcome you to contact the director of operations.

Western Townships Utilities Authority

Statement of Net Position

	September 30, 2017	September 30, 2016
	<u>2017</u>	<u>2016</u>
Assets		
Current assets:		
Cash and cash equivalents (Note 3)	\$ 679,129	\$ 126,682
Receivables:		
Due from members	1,549,045	1,464,625
Other	368,088	46,989
Prepaid expenses and other assets	59,388	69,703
Unbilled debt service receivable	320,656	422,982
	<u>2,976,306</u>	<u>2,130,981</u>
Total current assets		
Noncurrent assets:		
Restricted assets (Notes 3 and 4)	507,944	1,569,624
Capital assets (Note 5):		
Assets not subject to depreciation	3,558,834	3,558,142
Assets subject to depreciation	135,769,351	140,317,641
	<u>139,836,129</u>	<u>145,445,407</u>
Total noncurrent assets		
Total assets	<u>142,812,435</u>	<u>147,576,388</u>
Deferred Outflows of Resources - Deferred charges on refundings	490,496	801,450
Liabilities		
Current liabilities:		
Accounts payable	597,438	1,350,521
Accrued payables, payroll, and compensated absences	41,644	55,192
Construction payable and construction retainers payable from current assets	-	23,397
Billing lookback - Due to members	368,088	-
Accrued interest payable	320,657	422,982
	<u>1,327,827</u>	<u>1,852,092</u>
Total current liabilities		
Noncurrent liabilities:		
Contracts payable - YCUA - Due within one year (Note 8)	232,119	232,119
Contracts payable - YCUA - Due in more than one year (Note 8)	2,533,972	2,766,085
Due to Wayne County - Due within one year (Note 9)	99,000	-
Due to Wayne County - Due in more than one year (Note 9)	1,270,500	-
Construction retainers payable from restricted assets	-	1,039,014
Long-term debt - Due within one year (Note 6)	10,461,749	10,261,749
Long-term debt - Due in more than one year (Note 6)	20,856,586	31,318,334
	<u>35,453,926</u>	<u>45,617,301</u>
Total noncurrent liabilities		
Total liabilities	<u>36,781,753</u>	<u>47,469,393</u>
Net Position		
Net investment in capital assets	105,734,255	100,123,414
Restricted	507,944	506,142
Unrestricted	278,979	278,889
	<u>106,521,178</u>	<u>100,908,445</u>
Total net position		

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

Western Townships Utilities Authority

Statement of Revenue, Expenses, and Changes in Net Position

	Year Ended	
	September 30, 2017	September 30, 2016
Operating Revenue		
Earned revenue from townships	\$ 14,411,554	\$ 14,713,565
SAW grant revenue	163,555	109,411
Other operating revenue	783,769	78,227
Total operating revenue	15,358,878	14,901,203
Operating Expenses		
Sewage treatment charges	12,317,450	11,792,971
Operating and maintenance	1,789,566	1,598,661
Administrative	494,437	494,527
Sewage capacity rental	515,371	550,811
Total operating expenses	15,116,824	14,436,970
Operating Income	242,054	464,233
Nonoperating Revenue (Expenses)		
Interest earnings	1,894	1,764
Debt billings to townships	10,834,950	10,512,438
Interest expense	(1,384,950)	(1,787,438)
Depreciation	(4,889,345)	(5,008,302)
Amortization	500,794	500,794
Gain on sale of assets	9,400	-
Total nonoperating revenue	5,072,743	4,219,256
Income - Before capital contributions	5,314,797	4,683,489
Capital Contributions from Townships	297,936	314,510
Change in Net Position	5,612,733	4,997,999
Net Position - Beginning of year	100,908,445	95,910,446
Net Position - End of year	\$ 106,521,178	\$ 100,908,445

Western Townships Utilities Authority

Statement of Cash Flows

	Year Ended	
	September 30, 2017	September 30, 2016
Cash Flows from Operating Activities		
Cash received from townships and other receipts	\$ 14,540,050	\$ 14,525,616
Cash payments to suppliers for goods and services	(14,176,059)	(13,901,886)
Cash payments for employee services	(327,581)	(298,354)
Net cash provided by operating activities	36,410	325,376
Cash Flows from Capital and Related Financing Activities		
Payments on YCUA contracts payable	(232,113)	(464,235)
Collection of debt billings to townships	10,937,276	10,607,950
Capital contributions from members	295,564	216,952
Proceeds from sales of capital assets	9,400	-
Payments for the acquisition or construction of capital assets	(620,389)	(656,653)
Principal and interest paid on capital debt	(10,937,275)	(10,607,949)
Net cash used in capital and related financing activities	(547,537)	(903,935)
Cash Flows from Investing Activities - Interest received on investments	1,894	1,764
Net Decrease in Cash and Cash Equivalents	(509,233)	(576,795)
Cash and Cash Equivalents - Beginning of year	1,696,306	2,273,101
Cash and Cash Equivalents - End of year	\$ 1,187,073	\$ 1,696,306
Statement of Net Position Classification of Cash and Cash Equivalents		
Unrestricted cash	\$ 679,129	\$ 126,682
Restricted cash	507,944	1,569,624
Total cash and cash equivalents	\$ 1,187,073	\$ 1,696,306
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating income	\$ 242,054	\$ 464,233
Changes in assets and liabilities:		
Due from members - Monthly billings	(82,048)	(288,932)
Accounts receivable - Nonmembers	(321,099)	31,608
Provision for YCUA lookback	-	40,000
Prepaid expenses	10,315	(53,868)
Accounts payable	(753,083)	287,781
Accrued payable and payroll	(797,317)	2,817
Due to members - Billing lookback	368,088	(158,263)
Due to Wayne County	1,369,500	-
Net cash provided by operating activities	\$ 36,410	\$ 325,376

Western Townships Utilities Authority

Notes to Financial Statements September 30, 2017 and 2016

Note I - Summary of Significant Accounting Policies

Nature of Entity - The Western Townships Utilities Authority (WTUA or 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.

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

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

Basis of Accounting - The accrual basis of accounting is used by the Authority.

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

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

Cash Equivalents - For the purpose of the statement of cash flows, all highly liquid investments with original maturities of three months or less are considered to be cash equivalents. In addition, the statement of cash flows includes both restricted and unrestricted cash and cash equivalents.

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 as of the end of the year. The Authority has accrued interest payable in an amount equal to the unbilled receivable for debt service.

Western Townships Utilities Authority

Notes to Financial Statements September 30, 2017 and 2016

Note 1 - Summary of Significant Accounting Policies (Continued)

Restricted Assets - The Authority has funds set aside to pay retainages associated with various construction contracts and, as such, these amounts have been classified as restricted assets. The settlement proceeds related to the Lower Rouge expansion odor control duct are classified as restricted. When an expense is incurred that allows the use of restricted assets, those assets are applied before utilizing any unrestricted assets. The board has also set aside cash for emergency replacement of critical assets. These also are classified as restricted assets.

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

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

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

Note 2 - Stewardship, Compliance, and Accountability

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

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operating expenditures to the budget adopted by the board of commissioners for the enterprise fund is included in the supplemental information.

There were no budget overruns at September 30, 2017 and 2016.

Western Townships Utilities Authority

Notes to Financial Statements September 30, 2017 and 2016

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The law also allows investments outside the state of Michigan when fully insured. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which 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 three banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above. The Authority's deposits and investment policies are in accordance with statutory authority.

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

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. At September 30, 2017 and 2016, the Authority had \$1,265,232 and \$2,073,935, respectively, of bank deposits that were uninsured and uncollateralized. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Authority evaluates each financial institution 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.

Note 4 - Restricted Assets

Restricted assets are restricted for the following purposes:

	<u>2017</u>	<u>2016</u>
Cash and investments:		
Capital replacement reserve	\$ 503,372	\$ 502,741
Debt service	4,572	3,401
Payment of construction retainages	-	1,039,014
Construction funds	-	24,468
Total	<u>\$ 507,944</u>	<u>\$ 1,569,624</u>

Western Townships Utilities Authority

Notes to Financial Statements September 30, 2017 and 2016

Note 5 - Capital Assets

Capital asset activity for the year ended September 30, 2017 was as follows:

	Balance October 1, 2016	Reclassifications	Additions	Disposals	Balance September 30, 2017
Capital assets not being depreciated:					
Land	\$ 3,549,602	\$ -	\$ -	\$ -	\$ 3,549,602
Construction in progress	8,540	(8,540)	9,232	-	9,232
Subtotal	3,558,142	(8,540)	9,232	-	3,558,834
Capital assets being depreciated:					
Land restoration costs	2,412,243	-	-	-	2,412,243
Sewage transmission lines	46,286,651	8,540	155,201	-	46,450,392
Equalization basin and pump station	67,334,823	-	110,978	-	67,445,801
Equity in YCUA	91,209,998	-	19,343	-	91,229,341
Furniture and equipment	101,282	-	46,993	(20,748)	127,527
Subtotal	207,344,997	8,540	332,515	(20,748)	207,665,304
Accumulated depreciation:					
Land restoration costs	(2,412,243)	-	-	-	(2,412,243)
Sewage transmission lines	(16,336,854)	-	(795,945)	-	(17,132,799)
Equalization basin and pump station	(24,259,276)	-	(1,805,306)	-	(26,064,582)
Equity in YCUA	(23,928,040)	-	(2,279,613)	-	(26,207,653)
Furniture and equipment	(90,943)	-	(8,481)	20,748	(78,676)
Subtotal	(67,027,356)	-	(4,889,345)	20,748	(71,895,953)
Net capital assets being depreciated	140,317,641	8,540	(4,556,830)	-	135,769,351
Net capital assets	\$ 143,875,783	\$ -	\$ (4,547,598)	\$ -	\$ 139,328,185

Western Townships Utilities Authority

Notes to Financial Statements September 30, 2017 and 2016

Note 5 - Capital Assets (Continued)

Capital asset activity for the year ended September 30, 2016 was as follows:

	Balance October 1, 2015	Reclassifications	Additions	Disposals	Balance September 30, 2016
Capital assets not being depreciated:					
Land	\$ 3,549,602	\$ -	\$ -	\$ -	\$ 3,549,602
Construction in progress	257,812	(257,812)	8,540	-	8,540
Subtotal	3,807,414	(257,812)	8,540	-	3,558,142
Capital assets being depreciated:					
Land restoration costs	2,412,243	-	-	-	2,412,243
Sewage transmission lines	45,722,870	257,812	305,969	-	46,286,651
Equalization basin and pump station	67,167,871	-	166,952	-	67,334,823
Equity in YCUA	91,209,998	-	-	-	91,209,998
Furniture and equipment	101,282	-	-	-	101,282
Subtotal	206,614,264	257,812	472,921	-	207,344,997
Accumulated depreciation:					
Land restoration costs	(2,412,243)	-	-	-	(2,412,243)
Sewage transmission lines	(15,548,578)	-	(788,276)	-	(16,336,854)
Equalization basin and pump station	(22,323,746)	-	(1,935,530)	-	(24,259,276)
Equity in YCUA	(21,648,669)	-	(2,279,371)	-	(23,928,040)
Furniture and equipment	(85,818)	-	(5,125)	-	(90,943)
Subtotal	(62,019,054)	-	(5,008,302)	-	(67,027,356)
Net capital assets being depreciated	144,595,210	257,812	(4,535,381)	-	140,317,641
Net capital assets	\$ 148,402,624	\$ -	\$ (4,526,841)	\$ -	\$ 143,875,783

Construction Commitments - The Authority has one ongoing construction project at year end: repairs to interceptors. The repairs to interceptors project had a total project commitment of \$257,716 and total expenditures of \$9,232. Unspent commitments totaled \$248,484 at year end.

Western Townships Utilities Authority

Notes to Financial Statements September 30, 2017 and 2016

Note 6 - Long-term Debt

Long-term debt activity for the year ended September 30, 2017 can be summarized as follows:

	Interest Rate Ranges	Principal Maturing Through	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2009 General Obligation Bond (used to refund 2001 bonds)	3.00% - 5.00%	2019	\$ 14,250,000	\$ -	\$ (6,290,000)	\$ 7,960,000	\$ 6,525,000
2012 General Obligation Bond (used to refund 2002 bonds)	3.00% - 5.00%	2023	23,945,000	-	(3,160,000)	20,785,000	3,125,000
Less:							
Unamortized premium on 2009 issue			949,695	-	(422,086)	527,609	422,086
Unamortized premium on 2012 issue			<u>2,435,388</u>	<u>-</u>	<u>(389,662)</u>	<u>2,045,726</u>	<u>389,663</u>
Total long-term debt			<u>\$ 41,580,083</u>	<u>\$ -</u>	<u>\$ (10,261,748)</u>	<u>\$ 31,318,335</u>	<u>\$ 10,461,749</u>

Long-term debt activity for the year ended September 30, 2016 can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2009 General Obligation Bond (used to refund 2001 bonds)	3.00% - 5.00%	2019	\$ 20,265,000	\$ -	\$ (6,015,000)	\$ 14,250,000	\$ 6,290,000
2012 General Obligation Bonds (used to refund 2002 Bonds)	3.00% - 5.00%	2023	26,655,000	-	(2,710,000)	23,945,000	3,160,000
Less:							
Unamortized premium on 2009 issue			1,371,782	-	(422,087)	949,695	422,086
Unamortized premium on 2012 issue			<u>2,825,050</u>	<u>-</u>	<u>(389,662)</u>	<u>2,435,388</u>	<u>389,663</u>
Total long-term debt			<u>\$ 51,116,832</u>	<u>\$ -</u>	<u>\$ (9,536,749)</u>	<u>\$ 41,580,083</u>	<u>\$ 10,261,749</u>

Western Townships Utilities Authority

Notes to Financial Statements September 30, 2017 and 2016

Note 6 - Long-term Debt (Continued)

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

Years Ending September 30	Principal	Interest	Total
2018	\$ 9,650,000	\$ 1,057,000	\$ 10,707,000
2019	4,530,000	744,363	5,274,363
2020	3,565,000	586,050	4,151,050
2021	3,525,000	444,250	3,969,250
2022	3,495,000	286,375	3,781,375
2023	3,980,000	99,500	4,079,500
Total	<u>\$ 28,745,000</u>	<u>\$ 3,217,538</u>	<u>\$ 31,962,538</u>

Interest - For the year ended September 30, 2017, interest incurred by the Authority totaled \$1,384,950. For the year ended September 30, 2016, interest incurred by the Authority totaled \$1,787,438.

Classification - Long-term debt that is due within one year has been classified as a noncurrent liability on the statement of net position since these obligations are not payable with the current resources of the Authority. The Authority will bill the member townships when bond payments are due.

Note 7 - Leases

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

Western Townships Utilities Authority

Notes to Financial Statements September 30, 2017 and 2016

Note 7 - Leases (Continued)

Annual payment requirements for the above are as follows:

<u>Years Ending September 30</u>	<u>Amount</u>
2018	\$ 479,913
2019	442,154
2020	403,883
2021	364,630
2022	322,936
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>\$ 11,950,211</u>

Note 8 - Contracts Payable - YCUA

The Authority assumed a liability equal to 18.57 percent of YCUA's unfunded pension obligation as of August 31, 2015. As a result, the Authority recorded a liability in the amount of \$3,481,782 and makes monthly contributions of \$19,343 through August 2029. In exchange, the Authority received 4.3 million gallons per day of additional capacity in the YCUA wastewater treatment plant.

Western Townships Utilities Authority

Notes to Financial Statements September 30, 2017 and 2016

Note 9 - Settlement Agreement - Wayne County RVIS

The Authority discontinued utilization of the Wayne County RVIS for disposal of wastewater as of July 1, 2017. All flow to the county was ceased by that date, with the exception of the "swap" areas representing flow from the city of Plymouth. Discussions are currently taking place with Wayne County regarding the termination agreement (presently in draft form), as well as discussions with cities potentially interested in purchasing a portion of the Authority's capacity in the system. Wayne County is alleging that the Authority owes a share of outstanding debt to the county (\$1,386,000). As a result, the Authority has commenced payment of \$8,250 per month towards the alleged debt share. Any sale of the Authority's capacity in the Wayne County system will offset future costs.

Note 10 - Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Authority has purchased commercial insurance for medical benefits provided to employees and workers' compensation and participates in the Michigan Municipal Risk Management Authority (MMRMA) State Pool for claims relating to property loss and torts. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

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

Note 11 - Defined Contribution Pension Plan

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

In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by the personnel policies manual, the Authority contributes 15 percent of employees' gross earnings, and employees contribute 5 percent of earnings. Employees are 100 percent vested after a period of five years. In accordance with these requirements, for the fiscal years ended September 30, 2017 and 2016, the Authority contributed approximately \$32,000 and \$31,000, respectively.

Western Townships Utilities Authority

Notes to Financial Statements September 30, 2017 and 2016

Note 12 - Lower Rouge Expansion

Construction of the expansion of the Lower Rouge facility began in 2008. The expansion included a new pump station and a 5.5 million gallon storage basin as well as modifications to the existing pump station. Completion was expected in 2010. WTUA would not accept the project from the contractor until issues related to the odor control duct and vibration of the pumps were resolved. The issue with the odor control duct has been resolved. The pumps were pulled by the manufacturer, modifications were made, and the pumps were reinstalled and tested. The project reached substantial completion in September 2015, with the pumps identified as defective work. In 2017, the remaining issues were largely resolved through a settlement agreement, but there are still some final punch list items to complete.

Note 13 - Upcoming Accounting Pronouncements

In June 2017, the Governmental Accounting Standards Board issued GASB Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The Authority is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Authority's financial statements for the 2020-2021 fiscal year.

Supplemental Information

Western Townships Utilities Authority

Schedule of Operating Expenditures Budget and Actual Year Ended September 30, 2017

	Original Budget (Unaudited)	Final Budget (Unaudited)	Actual	Variance Favorable (Unfavorable)
Sewage Treatment Charges	<u>\$ 13,830,300</u>	<u>\$ 13,830,300</u>	<u>\$ 12,317,450</u>	<u>\$ 1,512,850</u>
Operation and Maintenance Costs	<u>\$ 2,151,394</u>	<u>\$ 2,151,394</u>	<u>\$ 1,789,566</u>	<u>\$ 361,828</u>
Administrative Costs	<u>\$ 523,292</u>	<u>\$ 523,292</u>	<u>\$ 494,437</u>	<u>\$ 28,855</u>
Sewage Capacity Rental Costs	<u>\$ 515,371</u>	<u>\$ 515,371</u>	<u>\$ 515,371</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, 2017 and 2016

Limited Tax General Obligation Bonds

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

Interest Rate (Percent)	Date of Maturity January 1	Principal Debt Outstanding September 30		Annual Interest Payable
		2016	2017	
5.00	2017	\$ 6,290,000	\$ -	\$ 533,725
5.00	2018	6,525,000	6,525,000	213,350
3.50	2019	1,435,000	1,435,000	25,113
	Total 2009 Issue	\$ 14,250,000	\$ 7,960,000	\$ 772,188

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

Interest Rate (Percent)	Date of Maturity January 1	Principal Debt Outstanding September 30		Annual Interest Payable
		2016	2017	
3.00	2017	\$ 3,160,000	\$ -	\$ 953,550
4.00	2018	3,125,000	3,125,000	843,650
4.00	2019	3,095,000	3,095,000	719,250
4.00	2020	3,565,000	3,565,000	586,050
4.00	2021	3,525,000	3,525,000	444,250
5.00	2022	3,495,000	3,495,000	286,375
5.00	2023	3,980,000	3,980,000	99,500
	Total 2012 Issue	\$ 23,945,000	\$ 20,785,000	\$ 3,932,625