
Charter County of Wayne, Michigan
Sewage Disposal Systems

Financial Report
September 30, 2017

Charter County of Wayne, Michigan Sewage Disposal Systems

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Independent Auditor's Report

To the The Wayne County Commission and
the County Executive
Charter County of Wayne, Michigan
Detroit, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Charter County of Wayne, Michigan (the "County") as of and for the year ended September 30, 2017, which collectively comprise the County's basic financial statements and have issued our report thereon dated March 27, 2018, which contained an unmodified opinion on the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. We have not performed any procedures with respect to the audited financial statements subsequent to March 27, 2018.

In Relation to Opinion on Accompanying Financial Statements

The accompanying financial statements of the Downriver Sewage Disposal System Fund, the Rouge Valley Sewage Disposal System Fund, the Northeast Sewage Disposal System Fund, and the Combined Sewer Overflow (CSO) Basins Fund (collectively, the "Systems") of the Charter County of Wayne, Michigan are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information 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. The 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Matters

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Report on Summarized Comparative Information

The Systems' September 30, 2016 financial statements were audited by a predecessor auditor, which expressed an unmodified audit opinion on those audited financial statements in the report dated March 22, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

To the The Wayne County Commission and
the County Executive
Charter County of Wayne, Michigan
Detroit, Michigan

Such information does not include all of the information required or sufficient detail to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Systems' financial statements for the year ended September 30, 2016, from which such summarized information was derived.

Plante & Moran, PLLC

March 27, 2018

**Charter County of Wayne, Michigan
Sewage Disposal Systems**

Statement of Net Position

September 30, 2017 and 2016

	Downriver	Rouge Valley	Northeast	CSO Basins	Total	2016
Assets						
Current assets:						
Equity in pooled cash and investments (Note 3)	\$ 27,780,929	\$ 11,522,119	\$ 4,245,089	\$ 304,891	\$ 43,853,028	\$ 44,323,426
Other cash and investments -						
Investments, uncategorized	1,000	-	-	-	1,000	1,000
Receivables:						
Due from other governments	5,689,888	11,575,483	3,706,898	-	20,972,269	18,205,151
Other receivables	995,009	8,756	-	-	1,003,765	115,183
Allowance for doubtful accounts	(2,907)	(1,639,438)	-	-	(1,642,345)	(1,467)
Due from other county funds	-	124,461	-	-	124,461	-
Restricted assets - Accounts receivable	4,410,869	-	-	1,294,594	5,705,463	9,408,154
Prepaid expenses	-	-	-	-	-	86,913
Total current assets	38,874,788	21,591,381	7,951,987	1,599,485	70,017,641	72,138,360
Noncurrent assets:						
Restricted assets: (Note 4)						
Equity in pooled cash and investments	12,316,202	672	-	4,184,919	16,501,793	19,352,849
Other cash and investments	2,453,485	-	-	-	2,453,485	2,812,561
Bond principal due from municipalities	31,198,860	50,000	-	2,431,930	33,680,790	42,986,936
Capital assets: (Note 5)						
Assets not subject to depreciation	29,159,264	5,377,376	13,421,902	2,195,372	50,153,914	41,965,726
Assets subject to depreciation - Net	160,514,256	82,571,475	1,538,436	-	244,624,167	262,458,417
Total noncurrent assets	235,642,067	87,999,523	14,960,338	8,812,221	347,414,149	369,576,489
Total assets	274,516,855	109,590,904	22,912,325	10,411,706	417,431,790	441,714,849
Deferred Outflows of Resources						
Bond refunding loss being amortized	-	-	-	-	-	19,438
Deferred pension costs	911,648	-	-	-	911,648	-
Total deferred outflows of resources	911,648	-	-	-	911,648	19,438
Liabilities						
Current liabilities:						
Accounts and contracts payable	1,792,108	420,162	24,741	1,481,661	3,718,672	4,213,691
Due to other county funds	-	-	124,461	-	124,461	-
Accrued wages and benefits	47,025	-	-	-	47,025	43,930
Compensated absences, current (Note 6)	155,550	-	-	-	155,550	154,207
Interest payable	278,647	-	-	-	278,647	4,077,968
Current portion of long-term debt (Note 6)	15,628,281	680,000	575,000	1,733,067	18,616,348	19,749,033
Other liabilities	943,143	9,277,417	4,286,106	13,386	14,520,052	14,125,410
Total current liabilities	18,844,754	10,377,579	5,010,308	3,228,114	37,460,755	42,364,239

See notes to financial statements.

**Charter County of Wayne, Michigan
Sewage Disposal Systems**

Statement of Net Position (Continued)

September 30, 2017 and 2016

	Downriver	Rouge Valley	Northeast	CSO Basins	Total	2016
Noncurrent liabilities:						
Net pension liability	\$ 6,020,120	\$ -	\$ -	\$ -	\$ 6,020,120	\$ 5,409,898
Net OPEB liability	2,737,728	-	-	-	2,737,728	2,757,326
Long-term debt - Net of current portion (Note 6)	79,321,414	10,562,234	11,740,000	2,669,786	104,293,434	113,079,932
Total noncurrent liabilities	88,079,262	10,562,234	11,740,000	2,669,786	113,051,282	121,247,156
Total liabilities	106,924,016	20,939,813	16,750,308	5,897,900	150,512,037	163,611,395
Deferred Inflows of Resources - Related to pension	304,741	-	-	-	304,741	125,360
Net Position						
Net investment in capital assets	94,723,825	76,706,617	2,645,338	(2,207,481)	171,868,299	171,595,178
Restricted - Bond programs	50,100,769	50,672	-	7,911,443	58,062,884	70,482,532
Unrestricted	23,375,152	11,893,802	3,516,679	(1,190,156)	37,595,477	35,919,822
Total net position	<u>\$ 168,199,746</u>	<u>\$ 88,651,091</u>	<u>\$ 6,162,017</u>	<u>\$ 4,513,806</u>	<u>\$ 267,526,660</u>	<u>\$ 277,997,532</u>

See notes to financial statements.

**Charter County of Wayne, Michigan
Sewage Disposal Systems**

Statement of Revenue, Expenses, and Changes in Net Position

Years Ended September 30, 2017 and 2016

	Downriver	Rouge Valley	Northeast	CSO Basins	2017	2016
Operating Revenue						
Sewage disposal charges	\$ 17,106,231	\$ 55,923,653	\$ 26,049,297	\$ 46,500	\$ 99,125,681	\$ 101,459,947
Industrial surcharges	1,122,999	-	-	-	1,122,999	1,241,049
Other charges for services	5,106,411	8,250	-	1,466,140	6,580,801	6,109,543
Other revenue	1,800	-	-	-	1,800	6,660
Total operating revenue	23,337,441	55,931,903	26,049,297	1,512,640	106,831,281	108,817,199
Operating Expenses						
Personal	2,204,479	-	-	-	2,204,479	2,304,062
Fringe benefits	492,600	-	-	-	492,600	1,200,427
Pension	888,631	-	-	-	888,631	(2,576,883)
Materials and supplies	2,105,891	1,747	56,222	42,303	2,206,163	2,181,185
Contractual services	6,533,053	56,495,873	24,692,830	1,103,381	88,825,137	83,838,915
Travel	3,769	-	-	-	3,769	6,049
Miscellaneous operating	4,087,988	69,516	393,123	334,709	4,885,336	4,609,414
Rentals	58,827	806	357,895	32,844	450,372	414,990
Depreciation	14,661,321	2,821,813	357,761	-	17,840,895	16,538,113
Total operating expenses	31,036,559	59,389,755	25,857,831	1,513,237	117,797,382	108,516,272
Operating (Loss) Income	(7,699,118)	(3,457,852)	191,466	(597)	(10,966,101)	300,927
Nonoperating Revenue (Expense)						
Investment income, net	281,890	126,227	48,489	37,228	493,834	468,665
Gain on sale of assets	-	35,047	-	-	35,047	-
Collections from participating local units	1,408,554	1,406	-	2,130,144	3,540,104	2,289,241
Interest and fiscal charges	(2,877,205)	(289,120)	(250,812)	(156,619)	(3,573,756)	(3,953,209)
State grants	-	-	-	-	-	5,124
Total nonoperating (expense) revenue	(1,186,761)	(126,440)	(202,323)	2,010,753	495,229	(1,190,179)
Change in Net Position	(8,885,879)	(3,584,292)	(10,857)	2,010,156	(10,470,872)	(889,252)
Net Position - Beginning of year	177,085,625	92,235,383	6,172,874	2,503,650	277,997,532	278,886,784
Net Position - End of year	\$ 168,199,746	\$ 88,651,091	\$ 6,162,017	\$ 4,513,806	\$ 267,526,660	\$ 277,997,532

See notes to financial statements.

**Charter County of Wayne, Michigan
Sewage Disposal Systems**

Statement of Cash Flows

Years Ended September 30, 2017 and 2016

	Downriver	Rouge Valley	Northeast	CSO Basins	2017	2016
Cash Flows from Operating Activities						
Receipts from customers	\$ 24,127,399	\$ 56,580,546	\$ 24,387,050	\$ 1,512,640	\$ 106,607,635	\$ 109,295,417
Payments to suppliers	(13,503,139)	(57,004,453)	(25,707,449)	(131,597)	(96,346,638)	(90,617,660)
Payments to other funds	-	(124,461)	-	(334,482)	(458,943)	-
Payments to employees and their benefits	(4,825,104)	-	-	-	(4,825,104)	(4,567,324)
Receipts from other funds	-	-	124,461	-	124,461	-
Net cash and cash equivalents provided by (used in) operating activities	5,799,156	(548,368)	(1,195,938)	1,046,561	5,101,411	14,110,433
Cash Flows from Capital and Related Financing Activities						
Repayment of long-term debt	(15,749,034)	(665,000)	(565,000)	(1,650,000)	(18,629,034)	(20,804,107)
Proceeds from issuance of long-term debt	7,871,591	614,465	122,177	-	8,608,233	9,071,037
Bond principal received from municipalities	9,514,320	25,000	-	985,052	10,524,372	18,883,578
State grants	-	-	-	-	-	5,122
Proceeds from sale of capital assets	-	48,247	-	-	48,247	-
Acquisition of capital assets	(7,628,214)	(405,619)	(71,623)	(82,732)	(8,188,188)	(10,266,905)
Interest paid	(2,877,205)	(289,120)	(250,812)	(137,181)	(3,554,318)	(4,920,825)
Interest received from participating local units	1,408,554	1,406	-	170,474	1,580,434	2,289,241
Net cash and cash equivalents used in capital and related financing activities	(7,459,988)	(670,621)	(765,258)	(714,387)	(9,610,254)	(5,742,859)
Cash Flows Provided by Investing Activities	281,890	126,227	48,489	37,225	493,831	468,665
Net (Decrease) Increase in Cash and Cash Equivalents	(1,378,942)	(1,092,762)	(1,912,707)	369,399	(4,015,012)	8,836,239
Cash and Cash Equivalents - Beginning of year	43,930,558	12,615,553	6,157,796	4,120,411	66,824,318	57,988,079
Cash and Cash Equivalents - End of year	\$ 42,551,616	\$ 11,522,791	\$ 4,245,089	\$ 4,489,810	\$ 62,809,306	\$ 66,824,318
Classification of Cash and Cash Equivalents						
Equity in pooled cash and investments	\$ 27,780,929	\$ 11,522,119	\$ 4,245,089	\$ 304,891	\$ 43,853,028	\$ 44,657,908
Restricted equity in pooled cash and investments	12,316,202	672	-	4,184,919	16,501,793	19,352,849
Restricted other cash and investments	2,453,485	-	-	-	2,453,485	2,812,561
Other cash and investments	1,000	-	-	-	1,000	1,000
Total cash and cash equivalents	\$ 42,551,616	\$ 11,522,791	\$ 4,245,089	\$ 4,489,810	\$ 62,809,306	\$ 66,824,318

See notes to financial statements.

**Charter County of Wayne, Michigan
Sewage Disposal Systems**

Statement of Cash Flows (Continued)

Years Ended September 30, 2017 and 2016

	Downriver	Rouge Valley	Northeast	CSO Basins	2017	2016
Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities						
Operating (loss) income	\$ (7,699,118)	\$ (3,457,852)	\$ 191,466	\$ (597)	\$ (10,966,101)	\$ 300,927
Adjustments to reconcile operating (loss) income to net cash from operating activities:						
Depreciation	14,661,321	2,821,813	357,761	-	17,840,895	16,538,113
Amortization of bond discounts, bond premiums and deferred loss on refunding	37,606	-	-	-	37,606	43,783
Changes in assets and liabilities:						
Due from other governments	(979,357)	657,399	(1,662,247)	-	(1,984,205)	(862,804)
Accounts receivable	667,123	(8,756)	-	-	658,367	1,006,540
Accounts payable and other liabilities	(751,214)	(436,511)	(207,379)	1,381,640	(13,464)	389,113
Interfunds	-	(124,461)	124,461	(334,482)	(334,482)	334,482
Net pension liability	610,222	-	-	-	610,222	(3,528,834)
Pension deferrals	(732,267)	-	-	-	(732,267)	73,657
Net other postemployment benefits	(19,598)	-	-	-	(19,598)	(18,813)
Compensated absences	1,343	-	-	-	1,343	(54,673)
Accrued wages	3,095	-	-	-	3,095	(111,058)
Net cash and cash equivalents provided by (used in) operating activities	<u>\$ 5,799,156</u>	<u>\$ (548,368)</u>	<u>\$ (1,195,938)</u>	<u>\$ 1,046,561</u>	<u>\$ 5,101,411</u>	<u>\$ 14,110,433</u>

See notes to financial statements.

Charter County of Wayne, Michigan

Sewage Disposal Systems

Notes to Financial Statements

September 30, 2017

Note 1 - Nature of Business

The Downriver Sewage Disposal System (Downriver), Rouge Valley Sewage Disposal System (Rouge Valley), Northeast Sewage Disposal System (Northeast), and Combined Sewer Overflow Basins (CSO Basins) that are tributary to the Sewage Disposal Systems (collectively, the "Systems"), are enterprise funds of the Charter County of Wayne, Michigan (the "County"). The County owns and operates the various systems and basins in accordance with enabling legislation and service agreements.

Direct salaries, wages, and employee benefits, plus materials and services supplied by outside vendors or other county operations, are charged to the system responsible for such expenses when incurred. Certain other services are shared among the Systems and other county operations, with the proportionate cost of these services being billed to the individual system based upon actual services provided.

These financial statements present only the Systems and are not intended to present the financial position and results of operation of the County in conformity with United States generally accepted accounting principles.

The financial statements of the Systems are included in the County's Comprehensive Annual Financial Report, reported as enterprise funds. The County's Comprehensive Annual Financial Report can be obtained by contacting the Office of Management and Budget, 500 Griswold, 14th Floor, Detroit, MI 48226.

Note 2 - Significant Accounting Policies

Accounting and Reporting Principles

The Systems follow accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board. The following is a summary of the significant accounting policies used by the Systems:

Basis of Accounting

The Systems use the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Specific Balances and Transactions

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Cash resources of the individual funds of the County, except as specifically stated by ordinance, are pooled and invested. Interest on pooled investments is allocated among the respective funds based on average investment balances.

Investments

Investments are reported at fair value or estimated fair value. Short-term investments are reported at cost, which approximates fair value. For the purpose of the statement of cash flows, the Systems consider all highly liquid investments, including restricted assets, with a maturity of three months or less when purchased to be cash equivalents. All pooled investments qualify as cash equivalents.

Due from Other Governments

Due from other governmental units represents receivables from local municipalities and the State of Michigan, for sewage disposal and grant revenue. The balance sheet (aging) method is used to estimate the reserve for uncollectable.

Charter County of Wayne, Michigan

Sewage Disposal Systems

Notes to Financial Statements

September 30, 2017

Note 2 - Significant Accounting Policies (Continued)

Restricted Assets

The revenue bonds of the enterprise funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets, as well as amounts due from municipalities recorded at the time of issuance of debt for the construction of the Systems' sewage facilities and systems. Certain assets that were shown as current restricted assets in the prior year have been reclassified to unrestricted current assets.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are defined by the System as assets with an initial individual cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation.

Interest, salaries, and employee benefits costs incurred during the construction of capital assets are included as part of the capitalized value of the assets constructed.

Depreciation is computed using the straight-line method over the following useful lives:

	<u>Depreciable Life - Years</u>
Buildings and improvements	5 - 25
Machinery, equipment, and vehicles	5 - 25
Infrastructure (interceptors and appurtenances)	25 - 80

Long-term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed at the time they are incurred, whereas deferred amounts on refunding are to be reported as deferred outflows of resources.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense/expenditure) until then. The Systems have two items that qualify for reporting in this category.

The first is the deferred charges related to bond refunding, which became fully amortized during the year ended September 30, 2017. The deferred outflow results from the difference between the reacquisition price and the net carrying amount of the old debt in a refunding. The deferred amount is then amortized and recorded as a component of interest expense.

The Systems also reports deferred outflows of resources that relate to the defined benefit pension plan. The deferred outflows result from two transactions: the variance between the plan's actual investment earnings compared to the plan's assumed investment earnings and differences between projected and actual experience of the plan.

September 30, 2017

Note 2 - Significant Accounting Policies (Continued)

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The Systems have one item that qualifies for reporting in this category. It is the deferred inflow of resources related to the defined benefit pension plan. The deferred inflow of resources results from the changes in assumptions related economic and demographic factors, in expected and actual investment returns, assumptions, and benefits provided in the pension plans.

Net Position

Net position of the Systems is classified in three components:

Net investment in capital assets - net of related debt consists of capital assets net of accumulated depreciation reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets.

Restricted net position has been limited for use by grantors, contributors, laws, regulations, or constitutional provisions.

Unrestricted net position is the remaining net position that does not meet the definition of invested in capital or restricted.

The net position classifications presented in the financial statements for the year ended September 30, 2016, as audited by other auditors, included receivables for debt service payments from the participating communities as a component of net investment in capital assets rather than as restricted net position. The 2016 column on the statement of net position has been restated to reflect net position presentation consistent with the 2017 presentation.

Net Position Flow Assumption

The Systems will sometimes fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Systems' policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Sewage Disposal Revenue

The Systems' revenue, except for the CSO Basins, is recorded and based on consumption. The CSO Basins' revenue is based on the recovery of operation and maintenance costs from the communities they serve.

Contractual Services

Contractual services for the Rouge Valley and Northeast systems primarily represent amounts billed for sewage treatment and disposal costs based on rates established by the Great Lakes Water Authority.

Other Postemployment Benefit Costs

The County offers the Systems' employees pension and retiree health care benefits. Information regarding those benefits and the related liabilities, deferrals, and disclosures are presented in the County's Comprehensive Annual Financial Report.

September 30, 2017

Note 2 - Significant Accounting Policies (Continued)

Compensated Absences (Vacation and Sick Leave)

The Systems' employees earn vacation and sick leave benefits based, in part, on length of service. Vacation pay is fully vested when earned and sick pay vests upon completion of two years of service. Upon separation from service, employees are paid accumulated vacation and sick pay depending upon the nature of the separation (death, retirement, or termination). Certain limitations are placed on the hours of vacation and sick leave that employees may accumulate and carry over for payment at termination, retirement, or death. Unused hours exceeding these limitations are forfeited. The amount of accumulated unpaid vacation and sick pay is recorded in the statement of net position.

Classification of Revenue and Expenses

The Systems' funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with the Systems' principal ongoing operations. The principal operating revenue are charges to customers for sales and services. Operating expenses for the Systems' funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Risk Management

The Systems participate in the County's self-insurance program for its various risk exposure coverages and employee insurance benefits. See the County's Comprehensive Annual Financial Report for further discussion of this program.

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.

Comparative Data/Reclassifications

Comparative total data for the prior year has been presented in order to provide an understanding of the changes in the financial position and operations of the Systems. As noted under the net position section, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Upcoming Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the Systems to recognize on the face of the financial statements their proportionate share of the net OPEB liability related to its participation in the County's OPEB plan. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The Systems are currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Systems' financial statements for the year ending September 30, 2018.

**Charter County of Wayne, Michigan
Sewage Disposal Systems**

Notes to Financial Statements

September 30, 2017

Note 2 - Significant Accounting Policies (Continued)

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 Systems are currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Systems' financial statements for the year ending September 30, 2021.

Note 3 - Cash and Investments

The carrying amount of the Systems' pooled cash and investments, which are deposited entirely in the County treasurer's internal cash management pool except for \$2.4 million in separately held demand deposit accounts, was \$60.3 million for the year ended September 30, 2017. The Systems' pooled cash and investments deposited in the County treasurer's internal cash management pool was \$64.0 million, except for demand deposits held separately was \$2.8 million for the year ended September 30, 2016. Because it is not feasible to allocate risk to individual funds or pool participants, aggregate cash, and investment categories are presented in the County's basic financial statements.

Note 4 - Restricted Assets

The Systems' restricted assets total approximately \$58.3 million and represent amounts restricted for use in replacement, improvement, and construction projects (\$10.3 million) and bond reserves and amounts pledged toward the payment of outstanding bonds and notes (\$48.0 million). Bond principal due from municipalities was recorded upon the issuance of debt payable from judgment levies for construction of sewage facilities and systems. Such principal will be repaid by the benefited local communities in accordance with the debt services requirements of the County.

At September 30, 2017 and 2016, restricted assets are composed of the following:

Description	2017	2016
Equity in pooled cash and investments:		
Replacement, improvement, and construction projects	\$ 10,331,424	\$ 11,951,499
Bond and interest redemption	6,170,369	7,401,350
Other cash and investments - Bond and interest redemption	2,453,485	2,812,561
Receivables:		
Bond and interest redemption	5,705,463	9,408,154
Bond principal due from local units	33,680,790	42,986,936
Total	\$ 58,341,531	\$ 74,560,500

**Charter County of Wayne, Michigan
Sewage Disposal Systems**

Notes to Financial Statements

September 30, 2017

Note 5 - Capital Assets

Capital assets are capitalized in the fund in which they are utilized. Capital asset activity of the Systems' funds was as follows:

Business-type Activities

	Balance October 1, 2016	Additions	Disposals and Adjustments	Balance September 30, 2017
Downriver Sewage Disposal				
Capital assets not being depreciated:				
Land	\$ 2,426,717	\$ -	\$ -	\$ 2,426,717
Construction in progress	19,104,333	7,628,214	-	26,732,547
Subtotal	21,531,050	7,628,214	-	29,159,264
Capital assets being depreciated:				
Buildings and improvements	19,213,707	-	-	19,213,707
Machinery and equipment	1,397,935	19,844	-	1,417,779
Land improvements	1,367,301	-	-	1,367,301
Infrastructure	400,607,353	-	-	400,607,353
Subtotal	422,586,296	19,844	-	422,606,140
Accumulated depreciation:				
Buildings and improvements	17,988,078	135,789	-	18,123,867
Machinery and equipment	1,033,163	104,324	-	1,137,487
Land improvements	695,899	61,710	-	757,609
Infrastructure	227,713,424	14,359,497	-	242,072,921
Subtotal	247,430,564	14,661,320	-	262,091,884
Net capital assets being depreciated	175,155,732	(14,641,476)	-	160,514,256
Net Downriver Sewage Disposal capital assets	196,686,782	(7,013,262)	-	189,673,520

Charter County of Wayne, Michigan

Sewage Disposal Systems

Notes to Financial Statements

September 30, 2017

Note 5 - Capital Assets (Continued)

Business-type Activities (Continued)

	Balance October 1, 2016	Additions	Disposals and Adjustments	Balance September 30, 2017
Rouge Valley Sewage Disposal				
Capital assets not being depreciated:				
Land	\$ 1,448,847	\$ -	\$ -	\$ 1,448,847
Construction in progress	3,522,910	405,619	-	3,928,529
Subtotal	4,971,757	405,619	-	5,377,376
Capital assets being depreciated:				
Buildings and improvements	9,042,608	-	(440,000)	8,602,608
Machinery and equipment	370,672	-	-	370,672
Infrastructure	139,121,423	-	-	139,121,423
Subtotal	148,534,703	-	(440,000)	148,094,703
Accumulated depreciation:				
Buildings and improvements	7,677,710	172,986	(345,972)	7,504,724
Machinery and equipment	254,571	31,252	-	285,823
Infrastructure	55,195,934	2,536,747	-	57,732,681
Subtotal	63,128,215	2,740,985	(345,972)	65,523,228
Net capital assets being depreciated	85,406,488	(2,740,985)	(94,028)	82,571,475
Net Rouge Valley Sewage Disposal capital assets	90,378,245	(2,335,366)	(94,028)	87,948,851
Northeast Sewage Disposal				
Capital assets not being depreciated:				
Land	11,040	-	-	11,040
Construction in progress	13,339,239	71,623	-	13,410,862
Subtotal	13,350,279	71,623	-	13,421,902
Capital assets being depreciated:				
Buildings and improvements	10,064,660	-	-	10,064,660
Machinery and equipment	184,645	-	-	184,645
Infrastructure	1,156,802	-	-	1,156,802
Subtotal	11,406,107	-	-	11,406,107
Accumulated depreciation:				
Buildings and improvements	8,859,773	322,454	-	9,182,227
Machinery and equipment	85,843	17,568	-	103,411
Infrastructure	564,294	17,739	-	582,033
Subtotal	9,509,910	357,761	-	9,867,671
Net capital assets being depreciated	1,896,197	(357,761)	-	1,538,436
Net Northeast Sewage Disposal capital assets	15,246,476	(286,138)	-	14,960,338

**Charter County of Wayne, Michigan
Sewage Disposal Systems**

Notes to Financial Statements

September 30, 2017

Note 5 - Capital Assets (Continued)

Business-type Activities (Continued)

CSO Basins

Capital assets not being depreciated - Construction in progress	\$ 2,112,640	\$ 82,732	\$ -	\$ 2,195,372
Net business-type activity capital assets	<u>\$ 304,424,143</u>	<u>\$ (9,552,034)</u>	<u>\$ (94,028)</u>	<u>\$ 294,778,081</u>

Construction in progress in the Systems involves various improvements. The costs expected to be incurred to complete these projects are estimated at \$4.6 million. These projects are expected to be funded by future contributions from federal grants, participating local governmental units, and assets restricted for improvements.

Note 6 - Long-term Debt

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Downriver Sewage Disposal:					
General obligations	\$ 50,384,660	\$ -	\$ (13,044,034)	\$ 37,340,626	\$ 11,375,675
Revenue bonds	52,065,578	7,871,591	(2,705,000)	57,232,169	4,215,000
Compensated absences	154,207	155,550	(154,207)	155,550	155,550
Deferred amounts - For issuance premiums	414,506	-	(37,606)	376,900	37,606
Total Downriver Sewage Disposal	<u>\$ 103,018,951</u>	<u>\$ 8,027,141</u>	<u>\$ (15,940,847)</u>	<u>\$ 95,105,245</u>	<u>\$ 15,783,831</u>
Rouge Valley Sewage Disposal:					
General obligations	75,000	-	(25,000)	50,000	25,000
Revenue bonds	11,217,769	614,465	(640,000)	11,192,234	655,000
Total Rouge Valley Sewage Disposal	<u>\$ 11,292,769</u>	<u>\$ 614,465</u>	<u>\$ (665,000)</u>	<u>\$ 11,242,234</u>	<u>\$ 680,000</u>
Northeast Sewage Disposal - Revenue bonds	12,757,823	122,177	(565,000)	12,315,000	575,000
CSO Basins:					
General obligations	5,681,715	160,307	(1,650,000)	4,192,022	1,711,984
Deferred amounts - For issuance premiums	231,914	-	(21,083)	210,831	21,083
Total CSO Basins	<u>\$ 5,913,629</u>	<u>\$ 160,307</u>	<u>\$ (1,671,083)</u>	<u>\$ 4,402,853</u>	<u>\$ 1,733,067</u>

**Charter County of Wayne, Michigan
Sewage Disposal Systems**

Notes to Financial Statements

September 30, 2017

Note 6 - Long-term Debt (Continued)

General Obligation Bonds and Contracts

The Systems issue general obligation bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Systems. County contractual agreements and installment purchase agreements are also general obligations of the Systems. General obligations outstanding at September 30, 2017 are as follows:

Purpose	Year of Maturity	Interest Rates	Original Amount	Outstanding
Downriver Sewage Disposal:				
1995-3	2019	2.25%	\$ 49,525,000	\$ 3,040,000
1995-8	2021	2.25%	58,035,000	10,455,000
1995-11	2018	2.25%	1,907,456	118,751
1995-12	2018	2.25%	5,773,353	340,000
1995-13	2019	2.25%	3,840,000	235,000
2007B-3	2028	4.25-5.75%	15,790,000	10,530,000
1997	2018	2.25%	2,509,825	155,000
1998	2021	2.25%	16,865,000	3,040,000
1999-2	2020	2.25%	105,103	15,128
1999-3	2021	2.25%	12,030,000	2,210,000
1999-4	2020	2.25%	11,731,749	1,381,747
1999B-5	2019	4.5-5.125%	15,005,000	2,295,000
2000	2021	2.5%	5,085,000	1,230,000
2005	2026	1.63%	4,680,000	2,295,000
Total Downriver Sewage Disposal			<u>\$ 202,882,486</u>	<u>\$ 37,340,626</u>
Rouge Valley Sewage Disposal -				
SFR 5140-01	2019	2.25%	425,000	50,000
CSO Basins:				
SRF 5123-01	2019	2.25%	5,856,984	356,984
2007B-2	2018	4.25-5.75%	9,935,000	1,215,000
2011A-3	2030	2.50%	275,368	225,368
2011A-4	2032	2.50%	760,000	605,000
SRF 5430-02	2036	2.50%	2,175,000	1,789,670
Total CSO Basins			<u>\$ 19,002,352</u>	<u>\$ 4,192,022</u>

**Charter County of Wayne, Michigan
Sewage Disposal Systems**

Notes to Financial Statements

September 30, 2017

Note 6 - Long-term Debt (Continued)

Revenue Bonds

Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets and to pay debt service. Revenue bonds currently outstanding are as follows:

	<u>Year of Maturity</u>	<u>Interest Rates</u>	<u>Original Amount</u>	<u>Amount Outstanding</u>
Downriver Sewage Disposal:			\$ -	\$ -
2007D	2028	4.0-5.4%	4,300,000	2,840,000
2008D	2030	2.50%	4,329,086	2,859,086
2008A-2	2031	2.50%	10,612,059	7,472,059
2008B-2	2030	2.50%	12,115,000	8,535,000
2008C	2030	2.50%	4,330,000	2,850,000
2011A-2	2033	2.50%	13,780,990	11,515,990
2013-1	2035	2.00%	11,955,000	9,744,340
2016	2037	2.50%	17,705,000	11,415,694
Total Downriver Sewage Disposal			<u>\$ 79,127,135</u>	<u>\$ 57,232,169</u>
Rouge Valley Sewage Disposal:				
SRF-5350-01	2031	2.50%	8,553,417	8,553,417
2015 (5402-01)	2036	2.50%	2,638,817	2,638,817
Total Rouge Valley Sewage Disposal			<u>\$ 11,192,234</u>	<u>\$ 11,192,234</u>
Northeast Sewage Disposal -				
2013-2	2035	2.00%	\$ 13,435,000	\$ 12,315,000

**Charter County of Wayne, Michigan
Sewage Disposal Systems**

Notes to Financial Statements

September 30, 2017

Note 6 - Long-term Debt (Continued)

Debt Service Requirements to Maturity

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

Years Ending September 30	Downriver Sewage Disposal	
	Principal	Interest
2018	\$ 15,590,675	\$ 2,528,657
2019	11,978,673	2,116,909
2020	10,371,278	1,843,267
2021	5,170,000	1,574,676
2022	4,995,000	1,427,313
2023-2027	27,040,000	4,747,044
2028-2032	17,671,839	1,097,200
2033-2037	1,755,330	21,749
Total	<u>\$ 94,572,795</u>	<u>\$ 15,356,815</u>

Years Ending	Rouge Valley Sewage Disposal	
	Principal	Interest
2018	\$ 680,000	\$ 274,316
2019	695,000	257,087
2020	685,000	239,931
2021	705,000	222,618
2022	730,000	204,743
2023-2027	3,910,000	738,976
2028-2032	3,683,417	229,651
2033-2035	153,817	3,845
Total	<u>\$ 11,242,234</u>	<u>\$ 2,171,167</u>

Years Ending	Northeast Sewage Disposal	
	Principal	Interest
2018	\$ 575,000	\$ 244,060
2019	590,000	228,900
2020	600,000	217,000
2021	610,000	204,900
2022	625,000	192,550
2023-2027	3,310,000	768,700
2028-2032	3,655,000	420,550
2033-2035	2,350,000	70,600
Total	<u>\$ 12,315,000</u>	<u>\$ 2,347,260</u>

**Charter County of Wayne, Michigan
Sewage Disposal Systems**

Notes to Financial Statements

September 30, 2017

Note 6 - Long-term Debt (Continued)

Years Ending	CSO Basins	
	Principal	Interest
2018	\$ 1,711,984	\$ 73,606
2019	140,000	62,001
2020	145,000	58,501
2021	145,000	54,876
2022	150,000	51,251
2023-2027	805,000	197,880
2028-2032	910,368	92,255
2033-2035	184,670	5,984
Total	<u>\$ 4,192,022</u>	<u>\$ 596,354</u>

Note 7 - Subsequent Events

Northeast Sewage Disposal System (NESDS)

On September 27, 2017, the Southeast Macomb Sanitary District (SEMSD) board unanimously approved the terms of the Transfer Agreement (the "Agreement"). The NESDS transports wastewater collected from the City of St. Clair Shores, Michigan, City of Eastpointe, Michigan, City of Roseville, Michigan, City of Harper Woods, Michigan, City of Grosse Pointe Woods, Michigan, and the Village of Grosse Pointe Shores, Michigan to the wastewater disposal system now operated by the Great Lakes Water Authority (GLWA) for treatment and disposal. The main physical assets of the NESDS are the Grosse Pointe Interceptor, a 2.8 mile, six-ft diameter concrete sewer main, and two pump stations, the Marter Road Booster Pump Station and the Kerby Road Pump Station. The SEMSD consists of three of the communities that convey wastewater to the NESDS, St. Clair Shores, Roseville, and Eastpointe.

SEMSD is purchasing the NESDS for \$6,741,007.26 (the "Transfer Fee"). The Transfer Fee consists of \$2,741,007.26 related to pension and other postemployment benefits the County is retaining (collectively, "OPEB") and a \$4,000,000 payment. There are a large number of conditions prior to closing that must be satisfied (by SEMSD) before either party is obligated to close.

Downriver Sewage Disposal System (DSDS)

On May 16, 2016, the County and the Downriver Utility Wastewater Authority (DUWA), entered into a nonbinding letter of intent to serve as the legal framework for a Definitive Transfer Agreement (DTA) that governs the transfer of the Downriver Sewage Disposal System (DSDS) to DUWA for a total payment of \$57.5 million. Based upon the size and complexity of DSDS, the scope and scale of its operations, and its current financing structure, negotiations of the final terms and conditions of the DTA were not completed until December of 2017. \$54 million dollars in cash due is due at closing. Cash is to be raised by DUWA in a revenue bond issue and \$3.5 million through a subordinated bond deliverable at closing, payable not later than five years after closing with a balloon payment. Upon approval of the DTA by DUWA, DUWA will proceed to finalize its financing with the MFA based upon the preliminary reviews and discussions held to date. The County has agreed to transfer virtually all of the assets associated with DSDS.

As of February 28, 2018, the County has \$96,457,368 of outstanding debt related to DSDS, consisting of revenue bonds and judgment levy bonds. At the time of closing of the transfer of the DSDS, DUWA will assume virtually all of the liabilities associated with the ownership, maintenance, operating, and administration of the DSDS, including third-party claims associated with lawsuits.

Charter County of Wayne, Michigan

Sewage Disposal Systems

Notes to Financial Statements

September 30, 2017

Note 7 - Subsequent Events (Continued)

The County and DUWA have identified tasks that both parties believe must be managed in connection with the transfer of the DSIDS to ensure that public safety and health standards are maintained at levels equal to or exceeding those maintained by the County prior to transfer of the DSIDS. Those tasks have been identified, the County and DUWA have jointly developed procedures, including time lines, for managing and completing tasks while both parties await approval of the DTA by DUWA's board and the County Commission, respectively.

The DUWA board voted on the DTA to acquire the DSIDS at its February 8, 2018 meeting. The DUWA board unanimously voted to recommend and advance the DTA to the communities with a deadline on their votes back to the board by April 30. The 13 communities will pass resolutions directing their DUWA representative's action on the DTA for a DUWA meeting the second week in May.