
Charter County of Wayne, Michigan
Sewage Disposal Systems

Financial Report
September 30, 2018

Charter County of Wayne, Michigan Sewage Disposal Systems

Contents

Independent Auditor's Report	1-2
Basic Financial Statements	
Statement of Net Position	3
Statement of Revenue, Expenses, and Changes in Net Position	4
Statement of Cash Flows	5-6
Notes to Financial Statements	7-16

Independent Auditor's Report

To 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, 2018, which collectively comprise the County's basic financial statements, and have issued our report thereon dated March 22, 2019, which contained unmodified opinions 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 22, 2019.

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 as of and for the year ended September 30, 2018 are presented for the purpose of additional analysis and are not a required part of the County's 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 County's basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the County's 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 County's basic financial statements as a whole.

We previously audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of the Charter County of Wayne, Michigan as of and for the year ended September 30, 2017 (not presented herein), and have issued our report thereon dated March 27, 2018, which contained unmodified opinions on the respective 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. The financial information for the Systems for the year ended September 30, 2017 is presented for purposes of additional analysis and is not a required part of the County's 2017 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 2017 financial statements. The financial information for the Systems for the year ended September 30, 2017 has been subjected to the auditing procedures applied in the audit of the County's 2017 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those financial statements or to those financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the financial information for the Systems for 2017 is fairly stated in all material respects in relation to the County's basic financial statements as a whole for the year ended September 30, 2017.

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

Emphasis of Matters

As discussed in Note 6 to the basic financial statements, the 2017 basic financial statements have been restated to correct a misstatement. During the year ended September 30, 2017, an adjustment of \$8,998,721 was recorded to reduce the receivable owed to the Downriver Sewage Disposal System from the local municipalities for debt service payments. The error was identified during the accounting for the sale of the Downriver Sewage Disposal System and resulted in the restated 2017 beginning of the year combined net position of \$268,998,811. Receivables due from other governments was reduced to \$11,973,548. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the financial statements present only the sewage disposal system funds and do not purport to, and do not, present fairly the financial position of the Charter County of Wayne, Michigan as of September 30, 2018, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter

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.

Plante & Moran, PLLC

March 22, 2019

Charter County of Wayne, Michigan

Sewage Disposal Systems

Statement of Net Position

September 30, 2018

	Downriver	Rouge Valley	Northeast	CSO Basins	Total	2017 (for Comparative Purposes Only)
Assets						
Current assets:						
Equity in pooled cash and investments (Note 2)	\$ 2,428,452	\$ -	\$ 275,589	\$ -	\$ 2,704,041	\$ 43,853,028
Other cash and investments	-	-	-	-	-	1,000
Receivables:						
Due from other governments	-	11,412,224	-	2,009,157	13,421,381	11,973,548
Other receivables	-	13,134	-	-	13,134	1,003,765
Allowance for doubtful accounts	-	-	-	-	-	(1,642,345)
Due from other county funds	-	-	-	-	-	124,461
Restricted assets - Accounts receivable	-	-	-	-	-	5,705,463
Prepaid expenses	-	-	-	74,477	74,477	-
Total current assets	2,428,452	11,425,358	275,589	2,083,634	16,213,033	61,018,920
Noncurrent assets:						
Restricted assets: (Note 3)						
Equity in pooled cash and investments	-	186	-	2,796,088	2,796,274	16,501,793
Other cash and investments	-	-	-	-	-	2,453,485
Bond principal due from municipalities	-	25,000	-	1,946,289	1,971,289	33,680,790
Capital assets: (Note 4)						
Assets not subject to depreciation	-	5,377,376	-	2,195,372	7,572,748	50,153,914
Assets subject to depreciation - Net	-	79,750,026	-	-	79,750,026	244,624,167
Total noncurrent assets	-	85,152,588	-	6,937,749	92,090,337	347,414,149
Total assets	2,428,452	96,577,946	275,589	9,021,383	108,303,370	408,433,069
Deferred Outflows of Resources - Deferred pension costs						
	-	-	-	-	-	911,648
Liabilities						
Current liabilities:						
Accounts and contracts payable	813,916	159,907	14,599	437,008	1,425,430	3,718,672
Due to other governmental units	521,636	-	-	-	521,636	-
Due to other county funds	-	-	-	-	-	124,461
Payable to Wayne County, Michigan	-	523,892	-	1,018,707	1,542,599	-
Accrued wages and benefits	-	-	-	-	-	47,025
Other liabilities	1,092,900	4,687,915	260,990	24,306	6,066,111	14,520,052
Compensated absences, current	-	-	-	-	-	155,550
Interest payable	-	-	-	-	-	278,647
Current portion of long-term debt	-	695,000	-	140,000	835,000	18,616,348
Total current liabilities	2,428,452	6,066,714	275,589	1,620,021	10,390,776	37,460,755
Noncurrent liabilities:						
Net pension liability	-	-	-	-	-	6,020,120
Net OPEB liability	-	-	-	-	-	2,737,728
Long-term debt - Net of current portion	-	9,893,534	-	2,351,381	12,244,915	104,293,434
Total noncurrent liabilities	-	9,893,534	-	2,351,381	12,244,915	113,051,282
Deferred Inflows of Resources - Related to pension						
	-	-	-	-	-	304,741
Net Position						
Net investment in capital assets	-	74,538,868	-	(296,009)	74,242,859	171,868,299
Restricted - Bond programs	-	25,186	-	4,742,377	4,767,563	58,062,884
Unrestricted	-	6,053,644	-	603,613	6,657,257	28,596,756
Total net position	\$ -	\$ 80,617,698	\$ -	\$ 5,049,981	\$ 85,667,679	\$ 258,527,939

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

Statement of Revenue, Expenses, and Changes in Net Position

Year Ended September 30, 2018

	Downriver	Rouge Valley	Northeast	CSO Basins	2018	2017 (for Comparative Purposes Only)
Operating Revenue						
Sewage disposal charges	\$ 15,296,897	\$ 51,005,339	\$ 26,049,297	\$ 46,500	\$ 92,398,033	\$ 99,125,681
Industrial surcharges	390,165	-	-	-	390,165	1,122,999
Other charges for services	6,070,148	33,000	-	1,744,527	7,847,675	6,580,801
Other revenue	-	-	-	-	-	1,800
Total operating revenue	21,757,210	51,038,339	26,049,297	1,791,027	100,635,873	106,831,281
Operating Expenses						
Personal	2,296,240	-	-	-	2,296,240	2,204,479
Fringe benefits	573,700	-	-	-	573,700	492,600
Pension and retirement benefits	49,832,022	-	6,741,007	-	56,573,029	888,631
Materials and supplies	2,533,321	5,600	1,172	75,952	2,616,045	2,206,163
Contractual services	5,509,039	55,996,242	23,301,774	1,141,046	85,948,101	88,825,137
Travel	3,402	-	-	-	3,402	3,769
Miscellaneous operating	4,095,958	87,929	340,858	268,610	4,793,355	4,885,336
Rentals	60,847	2,996	92,444	19,769	176,056	450,372
Depreciation	13,937,584	2,821,449	355,050	-	17,114,083	17,840,895
Total operating expenses	78,842,113	58,914,216	30,832,305	1,505,377	170,094,011	117,797,382
Operating (Loss) Income	(57,084,903)	(7,875,877)	(4,783,008)	285,650	(69,458,138)	(10,966,101)
Nonoperating Revenue (Expense)						
Investment income - Net	521,718	116,448	89,219	38,476	765,861	493,834
Gain on sale of assets	-	-	-	-	-	35,047
Collections from participating local units	1,952,211	844	-	85,169	2,038,224	3,540,104
Interest and fiscal charges	(2,358,279)	(274,808)	(240,552)	126,880	(2,746,759)	(3,573,756)
State grants	52,884	-	-	-	52,884	-
Total nonoperating revenue (expense)	168,534	(157,516)	(151,333)	250,525	110,210	495,229
Special Items - Loss on transfer of operations (Note 1)	(102,284,656)	-	(1,227,676)	-	(103,512,332)	-
Change in Net Position	(159,201,025)	(8,033,393)	(6,162,017)	536,175	(172,860,260)	(10,470,872)
Net Position - Beginning of year, as restated (Note 6)	159,201,025	88,651,091	6,162,017	4,513,806	258,527,939	268,998,811
Net Position - End of year	\$ -	\$ 80,617,698	\$ -	\$ 5,049,981	\$ 85,667,679	\$ 258,527,939

Charter County of Wayne, Michigan
Sewage Disposal Systems

Statement of Cash Flows

Year Ended September 30, 2018

	<u>Downriver</u>	<u>Rouge Valley</u>	<u>Northeast</u>	<u>CSO Basins</u>	<u>2018</u>	<u>2017 (for Comparative Purposes Only)</u>
Cash Flows from Operating Activities						
Receipts from customers	\$ 21,757,214	\$ 49,557,782	\$ 27,447,802	\$ 1,076,464	\$ 99,839,262	\$ 106,607,635
Receipts from other funds	-	-	-	-	-	124,461
Payments to suppliers	(13,836,714)	(60,942,524)	(28,068,667)	(2,613,587)	(105,461,492)	(96,346,638)
Payments to employees and fringes	(52,904,541)	-	(6,741,007)	-	(59,645,548)	(4,825,104)
Payments to other funds	-	-	-	-	-	(458,943)
Net cash and cash equivalents (used in) provided by operating activities	(44,984,041)	(11,384,742)	(7,361,872)	(1,537,123)	(65,267,778)	5,101,411
Cash Flows from Noncapital Financing Activities						
Loans received from other county funds	-	523,892	-	1,018,707	1,542,599	-
Collections of loans made to other funds	-	124,461	-	-	124,461	-
Repayments of loans from other funds	-	-	(124,461)	-	(124,461)	-
Cash transferred related to sale of system	(41,538,868)	-	(2,497,841)	-	(44,036,709)	-
Net cash and cash equivalents (used in) provided by noncapital financing activities	(41,538,868)	648,353	(2,622,302)	1,018,707	(42,494,110)	-
Cash Flows from Capital and Related Financing Activities						
Issuance of bonds	5,552,432	26,300	-	11,343	5,590,075	8,608,233
Receipt of capital grants	52,884	-	-	-	52,884	-
Interest received from participating local units	1,952,211	844	-	85,169	2,038,224	1,580,434
Proceeds from sale of capital assets	-	-	-	-	-	48,247
Bond principal received from municipalities	6,656,091	25,000	-	485,641	7,166,732	10,524,372
Purchase of capital assets	(4,107,986)	-	-	-	(4,107,986)	(8,188,188)
Principal paid on capital debt	(15,590,675)	(680,000)	(575,000)	(1,711,983)	(18,557,658)	(18,629,034)
Interest paid	(2,636,926)	(274,808)	(240,552)	(83,952)	(3,236,238)	(3,554,318)
Proceeds from sale of system	54,000,000	-	6,741,007	-	60,741,007	-
Net cash and cash equivalents provided by (used in) capital and related financing activities	\$ 45,878,031	\$ (902,664)	\$ 5,925,455	\$ (1,213,782)	\$ 49,687,040	\$ (9,610,254)

Charter County of Wayne, Michigan

Sewage Disposal Systems

Statement of Cash Flows (Continued)

Year Ended September 30, 2018

	Downriver	Rouge Valley	Northeast	CSO Basins	2018	2017 (for Comparative Purposes Only)
Cash Flows Provided by Investing Activities - Investment earnings	\$ 521,714	\$ 116,448	\$ 89,219	\$ 38,476	\$ 765,857	\$ 493,831
Net Decrease in Cash and Cash Equivalents	(40,123,164)	(11,522,605)	(3,969,500)	(1,693,722)	(57,308,991)	(4,015,012)
Cash and Cash Equivalents - Beginning of year	42,551,616	11,522,791	4,245,089	4,489,810	62,809,306	66,824,318
Cash and Cash Equivalents - End of year	<u>\$ 2,428,452</u>	<u>\$ 186</u>	<u>\$ 275,589</u>	<u>\$ 2,796,088</u>	<u>\$ 5,500,315</u>	<u>\$ 62,809,306</u>
Classification of Cash and Cash Equivalents						
Equity in pooled cash and investments	\$ 2,428,452	\$ -	\$ 275,589	\$ -	\$ 2,704,041	\$ 43,853,028
Restricted equity in pooled cash and investments	-	186	-	2,796,088	2,796,274	16,501,793
Restricted other cash and investments	-	-	-	-	-	2,453,485
Other cash and investments	-	-	-	-	-	1,000
Total cash and cash equivalents	<u>\$ 2,428,452</u>	<u>\$ 186</u>	<u>\$ 275,589</u>	<u>\$ 2,796,088</u>	<u>\$ 5,500,315</u>	<u>\$ 62,809,306</u>
Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities						
Operating (loss) income	\$ (57,084,903)	\$ (7,875,877)	\$ (4,783,008)	\$ 285,650	\$ (69,458,138)	\$ (10,966,101)
Adjustments to reconcile operating (loss) income to net cash from operating activities:						
Depreciation	13,937,584	2,821,449	355,050	-	17,114,083	17,840,895
Amortization of bond discounts, bond premiums and deferred loss on refunding	-	-	-	-	-	37,606
Changes in assets and liabilities:						
Due from other governments and other receivables	-	(1,480,557)	1,398,505	(714,563)	(796,615)	(1,325,838)
Interfunds	-	-	-	-	-	(334,482)
Prepaid and other assets	-	-	-	(74,477)	(74,477)	-
Accounts payable and other liabilities	(1,634,147)	(4,849,757)	(4,332,419)	(1,033,733)	(11,850,056)	(12,121)
Net pension and OPEB liabilities	-	-	-	-	-	590,624
Deferrals related to pension	-	-	-	-	-	(732,267)
Accrued wages	(202,575)	-	-	-	(202,575)	3,095
Net cash and cash equivalents (used in) provided by operating activities	<u>\$ (44,984,041)</u>	<u>\$ (11,384,742)</u>	<u>\$ (7,361,872)</u>	<u>\$ (1,537,123)</u>	<u>\$ (65,267,778)</u>	<u>\$ 5,101,411</u>

September 30, 2018

Note 1 - Significant Accounting Policies

Reporting Entity

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.

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 uncollectible.

September 30, 2018

Note 1 - 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.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are defined by the Systems 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 one item that qualifies for reporting in this category. The Systems reports deferred outflows of resources that relate to the defined benefit pension plan. The deferred outflows result from two transactions: changes in assumptions and differences between projected and actual experience of the plan.

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 inflows of resources result from experience differences and the change in expected and actual investment returns.

September 30, 2018

Note 1 - Significant Accounting Policies (Continued)

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 assets or restricted.

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.

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.

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.

September 30, 2018

Note 1 - Significant Accounting Policies (Continued)

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.

Upcoming Accounting Pronouncement

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.

Special Item - Sale of Sewage Disposal Systems

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") to transfer the NESDS from the County to SEMSD. The NESDS transports wastewater collected from the City of St. Clair Shores, City of Eastpointe, City of Roseville, City of Harper Woods, City of Grosse Pointe Woods, and the Village of Grosse Pointe Shores 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 foot diameter concrete sewer main, and two pump stations, the Matter 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.

On September 27, 2018, SEMSD purchased the NESDS for \$6,741,007 (the "Transfer Fee"). The payment of \$6,741,007 consists of \$2,741,007 for a transfer fee and \$4,000,000 for pension and other post-employment benefits liabilities that the County retained. The parties agreed that any future payments received by Wayne County from any customers on the NESDS will be returned to the customer and notice of such payment will be sent via email to a SEMSD representative. SEMSD will be responsible for obtaining such payments from all customers of NESDS regardless of date of service.

The parties agreed that the County will retain \$250,000 in an account for making payments to vendors for any services provided prior to the transfer of the NESDS. The County will return any unused portion of the escrowed funds to SEMSD no later than January 1, 2019.

The County will not be making any further payments regarding services from the GLWA for the month of September 2018 or any invoices known or unknown from a governmental entity regarding any necessary payments. Such invoices and notices will be forwarded to SEMSD for direct payments.

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

Notes to Financial Statements

September 30, 2018

Note 1 - Significant Accounting Policies (Continued)

Downriver Sewage Disposal System (DSDS)

On September 27, 2018, the Downriver Utility Wastewater Authority (DUWA), purchased the Downriver Sewage Disposal System (DSDS) from Wayne County for a total sale price of \$57.5 million - \$54 million received in cash and \$3.5 million through a subordinated bond delivered at closing, payable not later than five years after closing. The County transferred all of the assets associated with DSDS at the time of closing. The County retained \$2.5 million in a reserve account for making payments to vendors for any services provided prior to the transfer of the DSDS to DUWA and \$500,000 was retained for postclosing costs, as mutually agreed between the County and DUWA.

At the time of closing, the County has transferred all the outstanding debts related to revenue bonds to DUWA but retained the judgment levy debt amounting to \$23 million. This debt is now reflected within the County's governmental activities financial statements. DUWA has assumed the responsibilities associated with the ownership, maintenance, operating, and administration of DSDS, including third-party claims associated with lawsuits.

Note 2 - 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, was \$5.5 million for the year ended September 30, 2018.

For the year ended September 30, 2017, the Systems' pooled cash and investments deposited in the county treasurer's internal cash management pool was \$60.3 million, except for demand deposits held separately which were \$2.4 million.

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 3 - Restricted Assets

The Systems' restricted assets total approximately \$6.8 million and represent amounts restricted for use in replacement, improvement, and construction projects (\$1.3 million) and bond reserves and amounts pledged toward the payment of outstanding bonds and notes (\$5.5 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, 2018 and 2017, restricted assets are composed of the following:

Description	2018	2017
Equity in pooled cash and investments:		
Replacement, improvement, and construction projects	\$ 1,316,812	\$ 10,331,424
Bond and interest redemption	1,479,462	6,170,369
Other cash and investments - Bond and interest redemption	-	2,453,485
Receivables:		
Bond and interest redemption	2,009,157	4,410,869
Bond principal due from local units	1,971,289	33,680,790
Total	<u>\$ 6,776,720</u>	<u>\$ 57,046,937</u>

Charter County of Wayne, Michigan
Sewage Disposal Systems

Notes to Financial Statements

September 30, 2018

Note 4 - 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, 2017	Additions	Disposals and Adjustments	Balance September 30, 2018
Downriver Sewage Disposal				
Capital assets not being depreciated:				
Land	\$ 2,426,717	\$ -	\$ (2,426,717)	\$ -
Construction in progress	26,732,547	4,107,986	(30,840,533)	-
Subtotal	29,159,264	4,107,986	(33,267,250)	-
Capital assets being depreciated:				
Buildings and improvements	19,213,707	-	(19,213,707)	-
Machinery and equipment	1,417,779	-	(1,417,779)	-
Land improvements	1,367,301	-	(1,367,301)	-
Infrastructure	400,607,353	-	(400,607,353)	-
Subtotal	422,606,140	-	(422,606,140)	-
Accumulated depreciation:				
Buildings and improvements	18,123,867	140,577	(18,264,444)	-
Machinery and equipment	1,137,487	83,390	(1,220,877)	-
Land improvements	757,609	61,710	(819,319)	-
Infrastructure	242,072,921	13,651,907	(255,724,828)	-
Subtotal	262,091,884	13,937,584	(276,029,468)	-
Net capital assets being depreciated	160,514,256	(13,937,584)	(146,576,672)	-
Net Downriver Sewage Disposal capital assets	189,673,520	(9,829,598)	(179,843,922)	-

Charter County of Wayne, Michigan
Sewage Disposal Systems

Notes to Financial Statements

September 30, 2018

Note 4 - Capital Assets (Continued)

Business-type Activities (Continued)

	Balance October 1, 2017	Additions	Disposals and Adjustments	Balance September 30, 2018
Rouge Valley Sewage Disposal				
Capital assets not being depreciated:				
Land	\$ 1,448,847	\$ -	\$ -	\$ 1,448,847
Construction in progress	3,928,529	-	-	3,928,529
Subtotal	5,377,376	-	-	5,377,376
Capital assets being depreciated:				
Buildings and improvements	8,602,608	-	-	8,602,608
Machinery and equipment	370,672	-	-	370,672
Infrastructure	139,121,423	-	-	139,121,423
Subtotal	148,094,703	-	-	148,094,703
Accumulated depreciation:				
Buildings and improvements	7,504,724	253,815	-	7,758,539
Machinery and equipment	285,823	30,889	-	316,712
Infrastructure	57,732,681	2,536,745	-	60,269,426
Subtotal	65,523,228	2,821,449	-	68,344,677
Net capital assets being depreciated	82,571,475	(2,821,449)	-	79,750,026
Net Rouge Valley Sewage Disposal capital assets	87,948,851	(2,821,449)	-	85,127,402

Charter County of Wayne, Michigan
Sewage Disposal Systems

Notes to Financial Statements

September 30, 2018

Note 4 - Capital Assets (Continued)

Business-type Activities (Continued)

	Balance October 1, 2017	Additions	Disposals and Adjustments	Balance September 30, 2018
Northeast Sewage Disposal				
Capital assets not being depreciated:				
Land	\$ 11,040	\$ -	\$ (11,040)	\$ -
Construction in progress	13,410,862	-	(13,410,862)	-
Subtotal	13,421,902	-	(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	9,182,227	322,454	(9,504,681)	-
Machinery and equipment	103,411	14,858	(118,269)	-
Infrastructure	582,033	17,738	(599,771)	-
Subtotal	9,867,671	355,050	(10,222,721)	-
Net capital assets being depreciated	1,538,436	(355,050)	(1,183,386)	-
Net Northeast Sewage Disposal capital assets	14,960,338	(355,050)	(14,605,288)	-
CSO Basins				
Capital assets not being depreciated - Construction in progress	2,195,372	-	-	2,195,372
Net business-type activity capital assets	<u>\$ 294,778,081</u>	<u>\$ (13,006,097)</u>	<u>\$ (194,449,210)</u>	<u>\$ 87,322,774</u>

Construction in progress in the Systems involves various improvements. The costs expected to be incurred to complete these projects are estimated at \$1.3 million. These projects are expected to be funded by future contributions from federal grants, participating local governmental units, and assets restricted for improvements.

Charter County of Wayne, Michigan
Sewage Disposal Systems

Notes to Financial Statements

September 30, 2018

Note 5 - Long-term Debt

Long-term debt activity for the year ended September 30, 2018 can be summarized as follows:

	Beginning Balance	Additions	Reductions	Transferred to Wayne County Governmental Activities	Ending Balance	Due within One Year
Downriver Sewage Disposal:						
General obligations	\$ 37,340,626	\$ -	\$ (14,170,673)	\$ (23,169,953)	\$ -	\$ -
Revenue bonds	57,232,169	5,552,432	(62,784,601)	-	-	-
Compensated absences	155,550	-	(155,550)	-	-	-
Deferred amounts - For issuance premiums	376,900	-	(36,771)	(340,129)	-	-
Total Downriver Sewage Disposal	\$ 95,105,245	\$ 5,552,432	\$ (77,147,595)	\$ (23,510,082)	\$ -	\$ -
Rouge Valley Sewage Disposal:						
General obligations	50,000	-	(25,000)	-	25,000	25,000
Revenue bonds	11,192,234	26,300	(655,000)	-	10,563,534	670,000
Total Rouge Valley Sewage Disposal	\$ 11,242,234	\$ 26,300	\$ (680,000)	\$ -	\$ 10,588,534	\$ 695,000
Northeast Sewage Disposal - Revenue bonds	12,315,000	-	(12,315,000)	-	-	-
CSO Basins:						
General obligations	4,192,022	11,343	(1,711,983)	-	2,491,381	140,000
Deferred amounts - For issuance premiums	210,831	-	(210,831)	-	-	-
Total CSO Basins	\$ 4,402,853	\$ 11,343	\$ (1,922,814)	\$ -	\$ 2,491,381	\$ 140,000

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, 2018 are as follows:

Purpose	Year of Maturity	Interest Rates	Original Amount	Outstanding
Rouge Valley Sewage Disposal - SRF 5140-01	2019	2.25%	\$ 425,000	\$ 25,000
CSO Basins:				
2011A-3	2030	2.50%	275,368	210,368
2011A-4	2032	2.50%	760,000	570,000
SRF 5430-02	2036	2.50%	2,175,000	1,711,013
Total CSO Basins			\$ 3,210,368	\$ 2,491,381

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

Notes to Financial Statements

September 30, 2018

Note 5 - 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>Purpose</u>	<u>Year of Maturity</u>	<u>Interest Rates</u>	<u>Original Amount</u>	<u>Amount Outstanding</u>
Rouge Valley Sewage Disposal:				
SRF-5350-01	2031	2.50%	\$ 8,553,417	\$ 8,038,417
2015 (5402-01)	2036	2.50%	<u>2,638,817</u>	<u>2,525,117</u>
Total Rouge Valley Sewage Disposal			<u>\$ 11,192,234</u>	<u>\$ 10,563,534</u>

Debt Service Requirements to Maturity

Annual debt service requirements to maturity for the above revenue bonds and general obligation debt are as follows:

<u>Years Ending September 30</u>	<u>Rouge Valley Sewage Disposal</u>	
	<u>Principal</u>	<u>Interest</u>
2019	\$ 695,000	\$ 257,087
2020	685,000	239,931
2021	705,000	222,618
2022	730,000	204,743
2023	745,000	186,306
2024-2028	4,010,000	640,288
2029-2033	<u>3,018,534</u>	<u>145,878</u>
Total	<u>\$ 10,588,534</u>	<u>\$ 1,896,851</u>

<u>Years Ending September 30</u>	<u>CSO Basins</u>	
	<u>Principal</u>	<u>Interest</u>
2019	\$ 140,000	\$ 62,001
2020	145,000	58,501
2021	145,000	54,876
2022	150,000	51,251
2023	155,000	47,501
2024-2028	825,000	177,755
2029-2033	865,368	69,496
2034-2036	<u>66,013</u>	<u>1,367</u>
Total	<u>\$ 2,491,381</u>	<u>\$ 522,748</u>

Note 6 - Prior Period Adjustment

During the year ended September 30, 2017, an adjustment of \$8,998,721 was recorded to reduce the receivable owed to the Downriver Sewage Disposal System from the local municipalities for debt service payments. The error was identified during the accounting for the sale of the Downriver Sewage Disposal System. Because the misstatement existed prior to fiscal year 2017, combined 2017 beginning of the year net position of \$277,997,532 was restated to \$268,998,811.