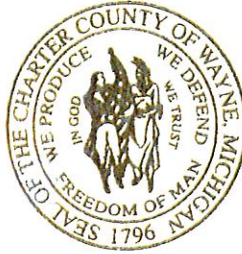


Office of Legislative
Auditor General

Marcella Cora CPA, CIA, CICA, CGMA
AUDITOR GENERAL



500 GRISWOLD STREET
STE. 848; GUARDIAN BLDG.
DETROIT, MICHIGAN 48226

Telephone: (313) 224-8354
Fax: (313) 224-7974

July 15, 2016

FINAL REPORT TRANSMITTAL LETTER

Honorable Wayne County Commissioners:

Enclosed is our final copy of the Office of Legislative Auditor General's Financial Assessment – Limited Review report for the Wayne County Sewage Disposal Systems audited financial statements for the fiscal year ended September 30, 2015. Our report is dated June 16, 2016; DAP No. 2016-57-904. The report was accepted by the Audit Committee at its meeting held on June 29, 2016, and formally received by the Wayne County Commission on July 7, 2016.

We are pleased to inform you that officials from the Wayne County Department of Public Services provided their full cooperation. If you have any questions, concerns, or desire to discuss the report in greater detail, we would be happy to do so at your convenience. This report is intended for your information and should not be used for any other purpose. Copies of all Office of Legislative Auditor General's final reports can be found on our website at:
<http://www.waynecounty.com/commission/743.htm>.

Marcella Cora, CPA, CIA, CGMA, CICA
Auditor General

REPORT DISTRIBUTION

Department of Public Services

Beverly Watts, Interim Director, Department of Public Service
Kenneth Kucel, Division Director, DPS – Environmental Services Group
Suzanne Abouzenni, Director of Finance

Department of Management & Budget

Tony Saunders, Chief Financial Officer
Mathieu Dube, Deputy Chief Financial Officer
Yogesh Gusani, Director of Financial Reporting
Terry L. Hasse – Director, Grants Compliance and Contract Management
Ashley V. Johnson, Assistant Division Director of Grants and Contracts

Wayne County Executive



Office of Legislative
Auditor General

Marcella Cora CPA, CIA, CICA, CGMA
AUDITOR GENERAL



500 GRISWOLD STREET
STE. 848; GUARDIAN BLDG.
DETROIT, MICHIGAN 48226

Telephone: (313) 224-8354
Fax: (313) 224-7974

June 16, 2016

DAP No. 2016-57-904

Honorable Raymond E. Basham, Chairman
Audit Committee
Wayne County Commission
County of Wayne, Michigan
500 Griswold Ave., Suite 727
Detroit, MI 48226

Subject: Office of Legislative Auditor General's Financial Assessment – Limited Review Report for the Wayne County Sewage Disposal Systems Audited Financial Statements for the fiscal year ended September 30, 2015.

Dear Chairman Basham:

At the June 15, 2016 Audit Committee meeting, the Wayne County Sewage Disposal Systems financial statements for the fiscal year ended September 30, 2015, were referred to the Wayne County Office of Legislative Auditor General (OAG) for review, assessment and recommendation. Because we have performed more extensive financial reviews of the Wayne County Sewage Disposal Systems financial statements in the past few years in accordance with professional attestation standards, and determined they were complete, thorough, and in accordance with generally accepted accounting principles, we elected to conduct a limited review of their financial statements for the fiscal year ended September 30, 2015.

Our limited review is substantially less in scope than an examination or audit in accordance with Generally Accepted Government Auditing Standards or Generally Accepted Auditing Standards, the objective of which is the expression of an opinion on the audited financial statements. Accordingly, we do not express such an opinion.

Our limited review of the Sewage Disposal Systems audited financial statements, for the fiscal year ended September 30, 2015, included, but was not necessarily limited to, a thorough and complete review of the documents; limited inquiries of county officials; and analytical review procedures. Below we have summarized some key items from the financial and other reports for consideration by the Committee and Commission members.



Background

- Wayne County's Sewage Disposal Systems collectively consist of the Downriver Sewage Disposal System, Rouge Valley Sewage Disposal System, Northeast Sewage Disposal System, and Combined Sewer Overflow Basins (CSO Basins).
- The Sewage Disposal Systems are classified as both major (i.e., Downriver, Rouge Valley) and non-major (i.e., Northeast, CSO Basins) enterprise funds within the county's Comprehensive Annual Financial Report (CAFR). Enterprise funds, operating revenue, and expenses generally result from providing services and producing/delivering goods.
- The Wayne County Department of Public Services – Environmental Services Group administers the various sewage disposal systems in accordance with the 1962 Downriver Agreement.

External Auditors Reports and Letters

- Rehmann Robson, LLC, the independent external auditor, stated that the financial statements presented fairly, in all material respects, the financial position of the Sewage Disposal Systems as of September 30, 2015. This type of opinion is issued by an auditor when the financial statements presented are free of material misstatements and are represented fairly in accordance with the Generally Accepted Accounting Principles. It is the best type of opinion an entity may receive from an external auditor.
- The financial statements of the Sewage Disposal Systems have been included in the county's Comprehensive Annual Financial Report (CAFR) as enterprise funds.

The auditors did not issue a separate SAS 114 letter nor a A-133 (Single Audit) for the Sewage Disposal System. The Auditor's Report to the Audit Committee (SAS 114) indicated no deficiencies or material weakness for the Wayne County Sewage Disposal Systems.

Statement of Net Assets (In Thousands)

Description	FY 2015	FY 2014	Increase (Decrease)	Primary Reasons
Assets	\$464,874	\$489,666	(\$24,792)	Primarily due to a decrease in capital assets being depreciated and bond principal due from municipalities.
Liabilities	\$186,377	\$191,154	(\$4,777)	Primarily due to a decrease in bonds and notes payable of \$12.2 million. Offset by an increase in net pension liability of \$9.3 million.
Net Position	\$279,525	\$298,805	(\$19,280)	The decrease is primarily due to an operating loss of \$9.8 million, plus a decrease of \$8.9 million due to the restatement of the beginning net position.

Financial Highlights

1. Total assets decreased \$24.7 million primarily due to a decrease in bond principal due from municipalities of \$17.0 million plus a decrease of \$7.7 million in capital assets being depreciated.
2. Total liabilities decreased \$4.7 million from FY 2015 primarily due to a decrease in bonds and notes payable that were due in more than 1 year of \$12.2 million, offset by an increase in Net Pension Liability of \$9.3 million.
3. Net Position decreased \$19.2 million in FY 2015 primarily due to an Operating loss of \$9.8 million (operating expenditures of \$112.6 million, [which includes depreciation expense of \$14 million for the Downriver System], exceeding operating revenues of \$102.8 million), plus a decrease of \$8.9 million due to the restatement of the beginning net position.

Restatement

Wayne County adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in the current year. A portion of the change in the County's beginning net position was allocated by the county to the system's Downriver Enterprise fund. As a result of this change, the beginning net position of the Downriver Enterprise fund decreased by \$ 8,863,347.

Long Term Debt and Other Obligations

As of September 30, 2015, total long-term debt and other obligations totaled \$143.8 million. The Sewage Disposal System primarily issues two types of bonds:

General Obligation Bonds; for which the county has pledged its limited tax full faith and credit for repayment. These bonds are primarily payable from the contractual proceeds received from the respective community. The principal balance for these bonds was approximately \$71.3 million as of September 30, 2015.

Revenue Bonds; which are secondarily secured by the limited tax full faith and credit pledge of the county. These bonds are primarily payable from the charges for sewage disposal services assessed against the communities. The principal balance for these bonds was approximately \$72.5 million as of September 30, 2015.

Restricted Assets

Restricted assets total approximately \$114.6 million and represent amounts restricted for use in replacement, improvement and construction projects (\$12.3 million) and bond reserves and amounts pledged toward the payment of outstanding bonds and notes (\$102.3 million). Bond principal due from municipalities is recorded upon the issuance of debt 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.

Subsequent Events

- The county entered in a State Revolving Fund loan for \$17,705,000 on January 15, 2016 through the issuance of Downriver Sewage Disposal System Revenue Bonds, Series 2015A. The proceeds will be used for capital projects related to the secondary treatment system. The total project costs are estimated to be \$19.2 million.
- On May 16, 2016, the Wayne County Executive received a non-Binding Letter of Intent to purchase Certain Assets Related to the Downriver Sewage Disposal System ("DSDW or "System") from Downriver Utility Wastewater Authority (DUWA). This letter sets forth, in general terms, the manner by which the County of Wayne and the Downriver Utility Wastewater Authority may pursue the transfer of certain assets and associated real estate in the Downriver Sewage Disposal System.

- On May 16, 2016, the Wayne County Executive received a non-Binding Letter of Intent to purchase Certain Assets Related to the Downriver Sewage Disposal System (“DSDW or “System”) from Downriver Utility Wastewater Authority (DUWA). This letter sets forth, in general terms, the manner by which the County of Wayne and the Downriver Utility Wastewater Authority may pursue the transfer of certain assets and associated real estate in the Downriver Sewage Disposal System.

Conclusion and Recommendation:

Based on our limited review, nothing came to our attention that caused us to believe the financial report, including the audited financial statements of the Sewage Disposal Systems are not presented in conformity with generally accepted accounting principles.

It is our recommendation that the OAG’s Financial Assessment – Limited Review Report of the Sewage Disposal Systems for fiscal year ended September 30, 2015, be forwarded to the Wayne County Commission for receiving and filing.

Respectfully submitted,



Marcella Cora, CPA, CIA, CICA, CGMA
Auditor General

Cc: Beverly Watts, Interim Director, Department of Public Services
Kenneth Kucel, Division Director, DPS – Environmental Services Group
Suzanne Abouzenni, Director of Finance, DPS
Yogesh Gusani, Director of Financial Reporting
Tony Saunders, Chief Financial Officer
Mathieu Dube, Deputy Chief Financial Officer
Terry L. Hasse, Director - Grants Compliance and Contracts Management, Department of Management & Budget
Ashley V. Johnson, Assistant Division Director of Grants and Contracts