

Office of Legislative  
**Auditor General**

**MARCELLA CORA CPA, CIA, CICA, CGMA**  
AUDITOR GENERAL



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TELEPHONE: (313) 224-8354

August 6, 2020

**FINAL REPORT TRANSMITTAL LETTER**

Honorable Wayne County Commissioners:

Enclosed is the 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, 2019. Our report is dated May 13, 2020; DAP No. 2020-57-905. The report was accepted by the Audit Committee at its meeting held on July 22, 2020, and formally received by the Wayne County Commission on August 6, 2020.

We are pleased to inform you that officials from the Wayne County Sewage Disposal Systems 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:  
<https://www.waynecounty.com/elected/commission/oag/legislative-auditor.aspx>

Sincerely,

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

**REPORT DISTRIBUTION**

**Department of Public Services**

Beverly Watts, Director, Department of Public Services  
Elmeka Steele, Deputy Director, DPS, Department of Environmental Services

**Wayne County Department of Management and Budget**

Hughey Newsome, Chief Financial Officer  
Mathieu Dube, Deputy Chief Financial Officer  
Suzanne Abouzenni, Division Director, Management & Budget, DPS Finance Division  
Shauntika Bullard, Director, Grants and Contract Management

**Wayne County Executive**



**WAYNE COUNTY OFFICE OF LEGISLATIVE AUDITOR GENERAL**

**County of Wayne, Michigan  
Office of Legislative Auditor General**

**Financial Assessment – Limited Review Report**

**Wayne County Sewage Disposal Systems  
Year Ended September 30, 2019  
Financial Statements**

**DAP NO. 2020-57-905**

**May 13, 2020**

Office of Legislative  
**Auditor General**

**MARCELLA CORA CPA, CIA, CICA, CGMA**  
AUDITOR GENERAL 500 GRISWOLD STREET



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May 13, 2020

DAP No. 2020-57-905

Honorable Raymond E. Basham, Chairman  
Committee on Audit  
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, 2019.

Dear Chairman Basham:

The Office of Legislative Auditor General (OAG) received (see attachment) the Wayne County Sewage Disposal Systems financial statements for the fiscal year ended September 30, 2019 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, 2019.

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, 2019, 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 formerly consisted of the Downriver Sewage Disposal System, Rouge Valley Sewage Disposal System, Northeast Sewage Disposal System, and Combined Sewer Overflow Basins (CSO Basins). At present, Wayne County's Sewage Disposal Systems consists only of the Rouge Valley Disposal System and CSO Basins.
- The Sewage Disposal Systems are classified as both major (i.e., Rouge Valley) and non-major (i.e., 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 Division administers the sewage operations.

## **Special Item – Sale of Sewage Disposal Systems**

### **Northeast Sewage Disposal System**

On September 27, 2018, the Southeast Macomb Sanitary District (SEMSD) purchased the Northeast Sewage Disposal System (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 SEMSD representative. SEMSD will be responsible for obtaining such payments from all customers regardless of date of service.

### **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 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 judgement 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.

## **External Auditors Reports and Letters**

- Plante Moran, PLLC, the independent external auditor, stated that the information for the Sewage Disposal Systems as of September 30, 2019 is fairly stated in all material respects in

relation to the County's basic financial statements as a whole. This unmodified 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 auditor noted under Other Matter that management omitted the management's discussion and analysis that is required by the Governmental Accounting Standards Board, which considers it to be an essential part of the financial reporting. However, their opinion on the basic financial statements is not affected by the missing information.

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 for the county as a whole did not indicate any deficiencies or material weakness for the Wayne County Sewage Disposal Systems.

#### **Statement of Net Position (In Thousands)**

<b>Description</b>	<b>FY 2019</b>	<b>FY 2018</b>	<b>Increase (Decrease)</b>	<b>Primary Reasons</b>
Assets	\$108,283	\$108,303	(\$20)	---
Liabilities	\$29,610	\$22,636	\$6,974	Primarily due to increases in accounts and contracts payable and other liabilities.
Net Position	\$78,673	\$85,668	(\$6,994)	Decrease primarily due to operating expenses exceeding operating revenues by \$4.7 million, in addition to a loss on sale of assets (i.e., non-operating expenses) of \$2.2 million.

#### **Long Term Debt and Other Obligations**

As of September 30, 2019, total long-term debt and other obligations totaled \$12.3 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 outstanding for these bonds was approximately \$2.4 million as of September 30, 2019.

*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 outstanding for these bonds was approximately \$9.9 million as of September 30, 2019.

### **Restricted Assets**

The Systems' restricted assets total approximately \$5.0 million and represent amounts restricted for use in replacement, improvement, and construction projects (\$1.2 million) and bond reserves and amounts pledged toward the payment of outstanding bonds and notes (\$3.8 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. As of September 30, 2019, restricted assets totaled \$5,035,821 a reduction of \$268,000 from FY 2018.

### **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 financial statements for fiscal year ended September 30, 2019, be forwarded to the Wayne County Commission for receiving and filing.

Respectfully submitted,



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

Cc: Beverly Watts, Director, Department of Public Services  
Elmeka Steele, Deputy Director, DPS, Department of Environmental Services  
Dr. Shawny DeBerry, Department Executive 7  
Suzanne Abouzenni, Division Director, Management & Budget, DPS Finance Division  
Hughey Newsome, Chief Financial Officer  
Mathieu Dube, Deputy Chief Financial Officer

**Attachment**

**Wayne County Sewage Disposal Systems  
Financial Statements  
Fiscal Years Ended September 30, 2019**

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Charter County of Wayne, Michigan  
Sewage Disposal Systems

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**Financial Report**  
**September 30, 2019**

# Charter County of Wayne, Michigan

## Sewage Disposal Systems

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## **Independent Auditor's Report**

To the Wayne County Commission and  
the County Executive  
Charter County of Wayne, Michigan  
Sewage Disposal Systems

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, 2019, which collectively comprise the County's basic financial statements, and have issued our report thereon dated March 16, 2020, 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 16, 2020.

### ***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, 2019 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, 2018 (not presented herein) and have issued our report thereon dated March 22, 2019, 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, 2018 is presented for purposes of additional analysis and is not a required part of the County's 2018 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 2018 financial statements. The financial information for the Systems for the year ended September 30, 2018 has been subjected to the auditing procedures applied in the audit of the County's 2018 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 2018 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, 2018.

### ***Emphasis of 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, 2019 or 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.

To the Wayne County Commission and  
the County Executive  
Charter County of Wayne, Michigan  
Sewage Disposal Systems

***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 & Moreau, PLLC*

March 16, 2020

# Charter County of Wayne, Michigan

## Sewage Disposal Systems

### Statement of Net Position

September 30, 2019

	Downriver	Rouge Valley	Northeast	CSO Basins	Total	2018 (for comparative purposes only)
<b>Assets</b>						
Current assets:						
Equity in pooled cash and investments (Note 2)	\$ 285,994	\$ 4,959,049	\$ -	\$ -	\$ 5,245,043	\$ 2,704,041
Receivables:						
Due from other governments	96,318	24,830,190	-	3,267,677	28,194,185	13,421,381
Other receivables	-	48,901	-	63,038	111,939	13,134
Allowance for doubtful accounts	-	(13,115,505)	-	-	(13,115,505)	-
Prepaid expenses	-	-	-	-	-	74,477
Total current assets	382,312	16,722,635	-	3,330,715	20,435,662	16,213,033
Noncurrent assets:						
Restricted assets: (Note 3)						
Equity in pooled cash and investments	-	54	-	2,682,403	2,682,457	2,796,274
Bond principal due from municipalities	-	-	-	2,353,364	2,353,364	1,971,289
Capital assets: (Note 4)						
Assets not subject to depreciation	-	1,448,847	-	-	1,448,847	7,572,748
Assets subject to depreciation - Net	-	81,362,908	-	-	81,362,908	79,750,026
Total noncurrent assets	-	82,811,809	-	5,035,767	87,847,576	92,090,337
Total assets	382,312	99,534,444	-	8,366,482	108,283,238	108,303,370
<b>Liabilities</b>						
Current liabilities:						
Accounts and contracts payable	96,095	4,908,349	-	12,070	5,016,514	1,425,430
Due to other governmental units	286,217	-	-	523,653	809,870	521,636
Payable to Wayne County, Michigan	-	-	-	2,422,688	2,422,688	1,542,599
Other liabilities	-	9,094,180	-	15,242	9,109,422	6,066,111
Current portion of long-term debt (Note 5)	-	685,000	-	145,000	830,000	835,000
Total current liabilities	382,312	14,687,529	-	3,118,653	18,188,494	10,390,776
Noncurrent liabilities - Long-term debt - Net of current portion (Note 5)	-	9,212,913	-	2,208,364	11,421,277	12,244,915
Total liabilities	382,312	23,900,442	-	5,327,017	29,609,771	22,635,691
<b>Net Position</b>						
Net investment in capital assets	-	72,913,842	-	-	72,913,842	74,242,859
Restricted - Bond programs	-	54	-	5,035,767	5,035,821	4,767,563
Unrestricted	-	2,720,106	-	(1,996,302)	723,804	6,657,257
Total net position	\$ -	\$ 75,634,002	\$ -	\$ 3,039,465	\$ 78,673,467	\$ 85,667,679

# Charter County of Wayne, Michigan

## Sewage Disposal Systems

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

Year Ended September 30, 2019

	Downriver	Rouge Valley	Northeast	CSO Basins	2019	2018 (for comparative purposes only)
<b>Operating Revenue</b>						
Sewage disposal charges	\$ -	\$ 53,337,736	\$ -	\$ 36,900	\$ 53,374,636	\$ 92,398,033
Industrial surcharges	-	-	-	-	-	390,165
Other charges for services	-	20	-	1,944,650	1,944,670	7,847,675
Total operating revenue	-	53,337,756	-	1,981,550	55,319,306	100,635,873
<b>Operating Expenses</b>						
Personal	-	-	-	-	-	2,296,240
Fringe benefits	-	-	-	-	-	573,700
Pension and retirement benefits	-	-	-	-	-	56,573,029
Materials and supplies	-	2,618	-	63,335	65,953	2,616,045
Contractual services	-	55,319,828	-	1,327,658	56,647,486	85,948,101
Travel	-	-	-	-	-	3,402
Miscellaneous operating	-	306,977	-	258,200	565,177	4,793,355
Rentals	-	-	-	-	-	176,056
Depreciation	-	2,775,974	-	-	2,775,974	17,114,083
Total operating expenses	-	58,405,397	-	1,649,193	60,054,590	170,094,011
<b>Operating (Loss) Income</b>	-	(5,067,641)	-	332,357	(4,735,284)	(69,458,138)
<b>Nonoperating Revenue (Expense)</b>						
Investment income - Net	-	76,048	-	14,274	90,322	765,861
Loss on sale of assets	-	-	-	(2,359,130)	(2,359,130)	-
Collections from participating local units	-	265,755	-	64,319	330,074	2,038,224
Interest and fiscal charges	-	(257,858)	-	(62,336)	(320,194)	(2,746,759)
State grants	-	-	-	-	-	52,884
Total nonoperating revenue (expense)	-	83,945	-	(2,342,873)	(2,258,928)	110,210
<b>Special Items - Loss on transfer of operations (Note 1)</b>	-	-	-	-	-	(103,512,332)
<b>Change in Net Position</b>	-	(4,983,696)	-	(2,010,516)	(6,994,212)	(172,860,260)
<b>Net Position - Beginning of year</b>	-	80,617,698	-	5,049,981	85,667,679	258,527,939
<b>Net Position - End of year</b>	<u>\$ -</u>	<u>\$ 75,634,002</u>	<u>\$ -</u>	<u>\$ 3,039,465</u>	<u>\$ 78,673,467</u>	<u>\$ 85,667,679</u>

# Charter County of Wayne, Michigan

## Sewage Disposal Systems

### Statement of Cash Flows

Year Ended September 30, 2019

	Downriver	Rouge Valley	Northeast	CSO Basins	2019	2018 (for comparative purposes only)
<b>Cash Flows from Operating Activities</b>						
Receipts from customers	\$ -	\$ 52,999,528	\$ -	\$ 659,992	\$ 53,659,520	\$ 99,839,262
Payments to suppliers	(2,142,458)	(46,474,716)	(275,589)	(2,020,157)	(50,912,920)	(105,461,492)
Payments to employees and fringes	-	-	-	-	-	(59,645,548)
Net cash and cash equivalents (used in) provided by operating activities	(2,142,458)	6,524,812	(275,589)	(1,360,165)	2,746,600	(65,267,778)
<b>Cash Flows from Noncapital Financing Activities</b>						
Loans received from other county funds	-	-	-	1,403,981	1,403,981	1,542,599
Collections of loans made to other funds	-	-	-	-	-	124,461
Repayments of loans from other funds	-	-	-	-	-	(124,461)
Repayments of loans from other county funds	-	(523,892)	-	-	(523,892)	(44,036,709)
Net cash and cash equivalents (used in) provided by noncapital financing activities	-	(523,892)	-	1,403,981	880,089	(42,494,110)
<b>Cash Flows from Capital and Related Financing Activities</b>						
Issuance of bonds	-	-	-	-	-	5,590,075
Receipt of capital grants	-	-	-	-	-	52,884
Interest received from participating local units	-	125,755	-	64,319	190,074	2,038,224
Bond principal received from municipalities	-	165,000	-	128,016	293,016	7,166,732
Purchase of capital assets	-	(460,327)	-	(163,757)	(624,084)	(4,107,986)
Principal paid on capital debt	-	(690,621)	-	(138,017)	(828,638)	(18,557,658)
Interest paid	-	(257,858)	-	(62,336)	(320,194)	(3,236,238)
Proceeds from sale of system	-	-	-	-	-	60,741,007
Net cash and cash equivalents (used in) provided by capital and related financing activities	-	(1,118,051)	-	(171,775)	(1,289,826)	49,687,040
<b>Cash Flows Provided by Investing Activities - Investment earnings</b>	-	76,048	-	14,274	90,322	765,857
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	(2,142,458)	4,958,917	(275,589)	(113,685)	2,427,185	(57,308,991)
<b>Cash and Cash Equivalents - Beginning of year</b>	2,428,452	186	275,589	2,796,088	5,500,315	62,809,306
<b>Cash and Cash Equivalents - End of year</b>	<u>\$ 285,994</u>	<u>\$ 4,959,103</u>	<u>\$ -</u>	<u>\$ 2,682,403</u>	<u>\$ 7,927,500</u>	<u>\$ 5,500,315</u>
<b>Classification of Cash and Cash Equivalents</b>						
Equity in pooled cash and investments	\$ 285,994	\$ 4,959,049	\$ -	\$ -	\$ 5,245,043	\$ 2,704,041
Restricted equity in pooled cash and investments	-	54	-	2,682,403	2,682,457	2,796,274
<b>Total cash and cash equivalents</b>	<u>\$ 285,994</u>	<u>\$ 4,959,103</u>	<u>\$ -</u>	<u>\$ 2,682,403</u>	<u>\$ 7,927,500</u>	<u>\$ 5,500,315</u>

See notes to financial statements.

# Charter County of Wayne, Michigan

## Sewage Disposal Systems

### Statement of Cash Flows (Continued)

Year Ended September 30, 2019

	Downriver	Rouge Valley	Northeast	CSO Basins	2019	2018 (for comparative purposes only)
<b>Reconciliation of Operating (Loss) Income to Net Cash and Cash Equivalents from Operating Activities</b>						
Operating (loss) income	\$ -	\$ (5,067,641)	\$ -	\$ 332,357	\$ (4,735,284)	\$ (69,458,138)
Adjustments to reconcile operating (loss) income to net cash and cash equivalents from operating activities:						
Depreciation	-	2,775,974	-	-	2,775,974	17,114,083
Changes in assets and liabilities:						
Due from other governments and other receivables	-	(338,228)	-	(1,321,558)	(1,659,786)	(796,615)
Prepaid and other assets	-	-	-	74,477	74,477	(74,477)
Accounts payable and other liabilities	(2,142,458)	9,154,707	(275,589)	(445,441)	6,291,219	(11,850,056)
Accrued wages	-	-	-	-	-	(202,575)
Net cash and cash equivalents (used in) provided by operating activities	<u>\$ (2,142,458)</u>	<u>\$ 6,524,812</u>	<u>\$ (275,589)</u>	<u>\$ (1,360,165)</u>	<u>\$ 2,746,600</u>	<u>\$ (65,267,778)</u>

September 30, 2019

## **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) 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.

# Charter County of Wayne, Michigan

## Sewage Disposal Systems

### Notes to Financial Statements

September 30, 2019

#### 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:

	Depreciable Life - Years
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.

##### 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.

**September 30, 2019**

**Note 1 - Significant Accounting Policies (Continued)**

**Sewage Disposal Revenue**

The Systems' revenue, except for CSO Basins' revenue, is recorded and based on consumption. 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 system primarily represent amounts billed for sewage treatment and disposal costs based on rates established by the Great Lakes Water Authority.

**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. 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 (GASB) issued 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.

September 30, 2019

**Note 1 - Significant Accounting Policies (Continued)**

***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 Marter Road Booster Pump Station and the Kerby Road Pump Station. 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 postemployment benefits liabilities that the County retained. The parties agreed that any future payments received by Wayne County, Michigan 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 would retain \$250,000 in an account for making payments to vendors for any services provided prior to the transfer of the NESDS. The County returned any unused portion of the escrowed funds to SEMSD prior to January 1, 2019.

The County did not make any further payments regarding services from GLWA subsequent to September 2018 or any invoices known or unknown from a governmental entity regarding any necessary payments. Such invoices and notices were forwarded to SEMSD for direct payments.

**Downriver Sewage Disposal System (DSDS)**

On September 27, 2018, the Downriver Utility Wastewater Authority (DUWA) purchased the Downriver Sewage Disposal System from Wayne County, Michigan 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 no 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 DSDS to DUWA, and \$500,000 was retained for postclosing costs, as mutually agreed upon between the County and DUWA.

At the time of closing, the County transferred all the outstanding debts related to revenue bonds to DUWA but retained the judgment levy debt amounting to \$23 million. This debt was reflected within the County's governmental activities financial statements. DUWA 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 \$7.9 million for the year ended September 30, 2019.

For the year ended September 30, 2018, the Systems' pooled cash and investments deposited in the county treasurer's internal cash management pool was \$5.5 million.

# Charter County of Wayne, Michigan

## Sewage Disposal Systems

### Notes to Financial Statements

September 30, 2019

#### Note 2 - Cash and Investments (Continued)

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 \$5.0 million and represent amounts restricted for use in replacement, improvement, and construction projects (\$1.2 million) and bond reserves and amounts pledged toward the payment of outstanding bonds and notes (\$3.8 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, 2019 and 2018, restricted assets are composed of the following:

Description	2019	2018
Equity in pooled cash and investments:		
Replacement, improvement, and construction projects	\$ 1,166,021	\$ 1,316,812
Bond and interest redemption	1,516,436	1,479,462
Receivables - Bond principal due from local units	2,353,364	1,971,289
Total	<u>\$ 5,035,821</u>	<u>\$ 4,767,563</u>

#### 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, 2018	Additions	Disposals and Adjustments	Balance September 30, 2019
<b>Rouge Valley</b>				
Capital assets not being depreciated:				
Land	\$ 1,448,847	\$ -	\$ -	\$ 1,448,847
Construction in progress	3,928,529	460,327	(4,388,856)	-
Subtotal	5,377,376	460,327	(4,388,856)	1,448,847
Capital assets being depreciated:				
Buildings and improvements	8,602,608	-	-	8,602,608
Machinery and equipment	370,672	-	-	370,672
Infrastructure	139,121,423	4,388,856	-	143,510,279
Subtotal	148,094,703	4,388,856	-	152,483,559
Accumulated depreciation:				
Buildings and improvements	7,758,539	253,815	-	8,012,354
Machinery and equipment	316,712	20,207	-	336,919
Infrastructure	60,269,426	2,501,952	-	62,771,378
Subtotal	68,344,677	2,775,974	-	71,120,651
Net capital assets being depreciated	79,750,026	1,612,882	-	81,362,908
Net Rouge Valley capital assets	<u>\$ 85,127,402</u>	<u>\$ 2,073,209</u>	<u>\$ (4,388,856)</u>	<u>\$ 82,811,755</u>

# Charter County of Wayne, Michigan

## Sewage Disposal Systems

### Notes to Financial Statements

September 30, 2019

#### Note 4 - Capital Assets (Continued)

##### Business-type Activities (Continued)

	Balance October 1, 2018	Additions	Disposals and Adjustments	Balance September 30, 2019
<b>CSO Basins</b>				
Capital assets not being depreciated -				
Construction in progress	\$ 2,195,372	\$ 163,757	\$ (2,359,129)	\$ -

Construction in progress in CSO Basins was written off during year ended September 30, 2019 based on an analysis of agreements between local units and the Systems.

#### Note 5 - Long-term Debt

Long-term debt activity for the year ended September 30, 2019 can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Direct borrowings and direct placements - Rouge Valley:					
General obligations	\$ 25,000	\$ -	\$ (25,000)	\$ -	\$ -
Revenue bonds	10,563,534	4,379	(670,000)	9,897,913	685,000
General obligations	2,491,381	1,983	(140,000)	2,353,364	145,000
Total direct borrowings and direct placements	<u>\$ 13,079,915</u>	<u>\$ 6,362</u>	<u>\$ (835,000)</u>	<u>\$ 12,251,277</u>	<u>\$ 830,000</u>

##### General Obligation Bonds and Contracts

The Systems issue general obligation bonds to provide for the acquisition and construction of major capital facilities. In the case of CSO Basins, ownership of the assets lies with the communities. 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, 2019 are as follows:

Purpose	Year of Maturity	Interest Rates	Original Amount	Outstanding
CSO Basins:				
2011A-3	2030	2.50%	\$ 275,368	\$ 195,368
2011A-4	2032	2.50%	760,000	535,000
SRF 5430-02	2036	2.50%	2,175,000	1,622,996
Total CSO Basins			<u>\$ 3,210,368</u>	<u>\$ 2,353,364</u>

# Charter County of Wayne, Michigan Sewage Disposal Systems

## Notes to Financial Statements

September 30, 2019

### 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:

Purpose	Year of Maturity	Interest Rates	Original Amount	Outstanding
Rouge Valley:				
SRF-5350-01	2031	2.50%	\$ 8,553,417	\$ 7,508,417
2015 (5402-01)	2036	2.50%	2,638,817	2,389,496
Total Rouge Valley			<u>\$ 11,192,234</u>	<u>\$ 9,897,913</u>

#### 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	Rouge Valley		CSO Basins	
	Direct Borrowings and Direct Placements		Direct Borrowings and Direct Placements	
	Principal	Interest	Principal	Interest
2020	\$ 685,000	\$ 239,931	\$ 145,000	\$ 58,501
2021	705,000	222,618	145,000	54,876
2022	730,000	204,743	150,000	51,251
2023	745,000	186,306	155,000	47,501
2024	765,000	167,502	160,000	43,626
2025-2029	4,105,000	539,092	845,000	157,130
2030-2034	2,162,313	79,572	753,364	47,861
Total	<u>\$ 9,897,313</u>	<u>\$ 1,639,764</u>	<u>\$ 2,353,364</u>	<u>\$ 460,746</u>