

October 12, 2016

To the Members of the Audit Committee  
and Board of Trustees  
Southeastern Oakland County  
Water Authority

We have audited the financial statements of the Southeastern Oakland County Water Authority (the "Authority") as of and for the year ended June 30, 2016 and have issued our report thereon dated October 12, 2016. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated August 3, 2016, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of the Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

**Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters dated August 10, 2016.

**Significant Audit Findings**

***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Authority are described in Note I to the financial statements.

No new accounting policies were adopted and the application of existing policies was not changed during the year except for the implementation of GASB Statement No. 72.

We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus.

We noted no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Management's estimate of the net other postemployment benefit obligation is based on their calculation of the annual required contribution. The calculation is based on significant estimates, including the anticipated rate of return on investments, estimated future healthcare costs, and employee eligibility rates. We reviewed the assumptions and believe them to be reasonable.

Management's estimate of the net pension liability, including the allocation of the salaried employees' portion between SOCRRA and SOCWA, is also considered to be a significant estimate. The calculation of the net pension liability includes assumptions related to the anticipated rate of return on investments and the period of time over which participants will collect benefits. The allocation between SOCRRA and SOCWA is based on actual payroll figures. We reviewed the assumptions and believe them to be reasonable.

The disclosures in the financial statements are neutral, consistent, and clear.

***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

***Disagreements with Management***

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We did not detect any misstatements as a result of audit procedures.

To the Members of the Audit Committee  
and Board of Trustees  
Southeastern Oakland County  
Water Authority

October 12, 2016

***Significant Findings or Issues***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Authority, and business plans and strategies that may affect the risks of material misstatement with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated October 12, 2016.

***Management Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

This information is intended solely for the use of the audit committee, the board of trustees, and management of the Southeastern Oakland County Water Authority and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**Plante & Moran, PLLC**



William E. Brickey



Keith Szymanski

# **Southeastern Oakland County Water Authority**

---

**Financial Report  
with Supplemental Information  
June 30, 2016**

# **Southeastern Oakland County Water Authority**

---

## **Contents**

<b>Report Letter</b>	1-2
<b>Management's Discussion and Analysis</b>	3-8
<b>Basic Financial Statements</b>	
Statement of Net Position	9
Statement of Revenue, Expenses, and Changes in Net Position	10
Statement of Cash Flows	11
Notes to Financial Statements	12-29
<b>Required Supplemental Information</b>	30
OPEB System Schedule - Nonunion	31
OPEB System Schedule - Union	32
Schedule of the Authority's Proportionate Share of the Net Pension Liability	33
Schedule of Authority Contributions	34
<b>Other Supplemental Information</b>	35
Schedule of Budget Analysis	36
Schedule of Budget Operating Expenses Analysis	37-40
Schedule of Accounts Receivable and Analysis of Charges	41
Schedule of Working Capital Analysis	42

## Independent Auditor's Report

To the Board of Trustees  
Southeastern Oakland County Water Authority

### **Report on the Financial Statements**

We have audited the accompanying basic financial statements of the Southeastern Oakland County Water Authority (the "Authority") as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

### ***Opinion***

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Southeastern Oakland County Water Authority as of June 30, 2016 and the changes in its financial position and its cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

To the Board of Trustees  
Southeastern Oakland County Water Authority

**Other Matters**

*Required Supplemental Information*

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

**Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Southeastern Oakland County Water Authority's basic financial statements. The other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

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

*Plante & Moran, PLLC*

October 12, 2016

# **Southeastern Oakland County Water Authority**

## **Management's Discussion and Analysis**

Our discussion and analysis of the Southeastern Oakland County Water Authority's (SOCWA or the "Authority") financial performance provides an overview of SOCWA's financial activities for the fiscal year ended June 30, 2016. Please read it in conjunction with the Authority's financial statements.

### **Financial Highlights**

Water sales to member municipalities were under budget for the fiscal year ended June 30, 2016. Actual total water sales were \$25,925,473 compared to budgeted water sales of \$26,123,600. For the fiscal year, sales were \$198,127 or 0.8 percent less than budgeted. Total revenue was \$199,728 under budget. Operating expenses were under budget by \$432,028. Revenue in excess of operating expenses was \$1,364,250, which exceeded the budgeted amount of \$1,131,950.

### **Overview of the Basic Financial Statements**

The discussion and analysis is intended to serve as an introduction to the Authority's financial statements. The Authority's basic financial statements comprise two components: (1) financial statements and (2) notes to the financial statements. This report also contains required supplemental information and other supplemental information in addition to the basic financial statements themselves.

**Financial Statements** - The financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private sector business.

The statement of net position presents information on all of the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in total net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The statement of revenue, expenses, and changes in net position presents information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The Authority is a single business-type activity. As such, charges for services are intended to recover all or a significant portion of the costs to provide services. The business-type activity of the Authority includes providing water services to member communities.

# Southeastern Oakland County Water Authority

## Management's Discussion and Analysis (Continued)

**Notes to the Financial Statements** - The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. Please refer to the notes to the financial statements section of this report.

**Other Information** - In addition to the basic financial statements, this report also presents certain supplemental information. This is limited to the budget analysis information, pension and OPEB schedules, and to this management's discussion and analysis.

### Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the Authority's financial position. In the case of the Authority, assets and deferred outflows exceed liabilities and deferred inflows by \$17,056,568 at the close of the most recent fiscal year.

By far the largest portion of the Authority's net position is invested in capital assets (e.g., land, buildings, vehicles, equipment, and infrastructure). The Authority uses these capital assets to provide services to its member communities; consequently, these assets are not available for future spending.

The following table reflects the condensed statement of net position compared to the prior year:

	<u>2016</u>	<u>2015</u>
<b>Assets</b>		
Other assets	\$ 9,837,097	\$ 7,849,487
Capital assets - Net	<u>14,756,359</u>	<u>14,978,152</u>
Total assets	24,593,456	22,827,639
<b>Deferred Outflows of Resources</b>	656,188	149,149
<b>Liabilities</b>		
Current liabilities	6,163,611	5,158,913
Noncurrent liabilities	<u>2,007,809</u>	<u>1,633,384</u>
Total liabilities	8,171,420	6,792,297
<b>Deferred Inflows of Resources</b>	<u>21,656</u>	<u>-</u>
<b>Net Position</b>		
Net investment in capital assets	14,756,359	14,978,152
Unrestricted	<u>2,300,209</u>	<u>1,206,339</u>
Total net position	<u><u>\$ 17,056,568</u></u>	<u><u>\$ 16,184,491</u></u>

# Southeastern Oakland County Water Authority

## Management's Discussion and Analysis (Continued)

Operating activities increased the Authority's net position by \$844,079 accounting for 96.8 percent of the change in the Authority's net position for the current year. Nonoperating revenue accounted for an increase of \$27,998 in net position.

The following table reflects the condensed statement of revenue, expenses, and changes in net position compared to the prior year:

	2016	2015
<b>Revenue</b>		
Charge for services	\$ 25,925,473	\$ 21,123,037
Rental	107,404	108,910
Interest and other	53,995	29,516
Total revenue	26,086,872	21,261,463
<b>Expenses</b>		
Operating expenses	24,722,622	21,586,441
Depreciation and amortization	492,173	514,470
Interest expense	-	29,750
Total expenses	25,214,795	22,130,661
<b>Change in Net Position</b>	872,077	(869,198)
<b>Net Position - Beginning of year</b>	16,184,491	17,053,689
<b>Net Position - End of year</b>	<b>\$ 17,056,568</b>	<b>\$ 16,184,491</b>

Revenue from water sales for 2016 increased by \$4,802,436 due to a 6.0 percent increase in volume of water sold to members and a 14.0 percent increase in the water sales rates. Revenue from all other sources was substantially the same as 2015. Operating expenses increased primarily due to increased volume of water purchased from the Detroit Water and Sewerage Department (DWSD) and the Great Lakes Water Authority (GLWA). GLWA assumed operation of DWSD's water supply system and became SOCWA's water supplier as of January 1, 2016. The volume of water purchased increased by 5.8 percent from 2015 and the DWSD and GLWA increased its water sales rate by 19.0 percent.

# Southeastern Oakland County Water Authority

## Management's Discussion and Analysis (Continued)

The following graph reflects the three-year trend of operating revenue and expense:



### Capital Asset and Debt Administration

**Capital Assets** - The Authority's investment in capital assets for its activities as of June 30, 2016 amounted to \$14,756,359 (net of accumulated depreciation). This investment in capital assets includes land, buildings, pump stations, elevated tanks, reservoirs, equipment, and infrastructure. In the current fiscal year, the Authority's total investment in capital assets decreased by 1.5 percent.

Major capital asset events during the fiscal year included the following:

- The remodeling of the Webster Office, Control Room, and Lab, which is still in progress, at a cost of \$154,000
- The replacement of SOCWA's Control SCADA System, which is also still in progress, at a cost of \$110,000
- The purchase of a water meter for \$6,000

# Southeastern Oakland County Water Authority

## Management's Discussion and Analysis (Continued)

### Authority Capital Assets (net of depreciation)

	2016	2015
Land	\$ 1,153,643	\$ 1,153,643
Construction in progress	264,927	563
Pumping station	3,501,366	3,501,366
Elevated tanks	1,910,813	1,910,813
Reservoirs	3,239,507	3,239,507
SCADA system	1,831,929	1,831,929
Transmission mains and accessories	16,630,395	16,630,395
Meters	990,327	984,311
Webster office	385,684	385,684
Equipment and other assets	1,523,959	1,538,766
Less accumulated depreciation	<u>(16,676,191)</u>	<u>(16,198,825)</u>
Total capital assets - Net of depreciation	<u><b>\$ 14,756,359</b></u>	<u><b>\$ 14,978,152</b></u>

Additional information on the Authority's capital assets can be found in Note 3 of this report.

### Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the Authority's budget for the 2016-2017 fiscal year:

- Employee wages were increased by 2.0 percent for salaried employees and by 1.5 percent for union employees.
- The number of full-time employees decreased by 1 from 2015 to 2016.
- Health insurance costs were increased by 5 percent.
- Water sales were estimated as the two-year average for the 2014 and 2015 calendar years.
- Water rates to the member communities and non-member customers included a 10 percent fixed charge, which will be collected on a monthly basis. Commodity rates were increased by \$0.20 per 1,000 cubic feet for the member communities and by \$0.52 per 1,000 cubic feet for the non-member customers.

# **Southeastern Oakland County Water Authority**

---

## **Management's Discussion and Analysis (Continued)**

- Capital expenditures were estimated at \$705,000 and included \$200,000 for the lining or replacement of one of SOCWA's transmission mains, \$120,000 for the replacement of our SCADA system, \$50,000 for the remodeling of our Webster Office, \$135,000 for the replacement of the roofs of the Shafter and Oliver pump stations, \$50,000 for the replacement of the pressure reducing valve at 14 Mile and Lahser, \$50,000 for vehicle replacements, \$40,000 for water meter replacements, \$30,000 for the refurbishment of the water storage reservoir on 14 Mile, \$20,000 for a variable frequency drive for one of the pumps at the Shafter pump station, and \$10,000 for cathodic protection upgrades for the water tanks.
- An incremental pension expense of \$275,000, in addition to our required pension contributions, in order to continue to reduce the unfunded pension liability

### **Request for Information**

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the general manager, 3910 W. Webster, Royal Oak, Michigan 48073.

# Southeastern Oakland County Water Authority

## Statement of Net Position June 30, 2016

### Assets

#### Current assets:

Cash and investments (Note 2)	\$ 6,211,170
Accounts receivable	3,245,164
Other receivable - Related party (Note 5)	251,788
Other current assets	128,975

Total current assets 9,837,097

#### Noncurrent assets -

#### Capital assets (Note 3):

Nondepreciable	1,418,570
Depreciable	13,337,789

Total noncurrent assets 14,756,359

Total assets 24,593,456

**Deferred Outflows of Resources** - Deferred pension outflows (Note 7) 656,188

### Liabilities

#### Current liabilities:

Accounts payable	5,999,030
Accrued liabilities and other:	
Accrued salaries and wages	34,110
Other current liabilities	15,410
Accrued compensated absences (Note 1)	115,061

Total current liabilities 6,163,611

#### Noncurrent liabilities:

Net postemployment healthcare obligation (Note 6)	33,947
Accrued compensated absences (Note 1)	146,861
Net pension liability (Note 7)	1,827,001

Total noncurrent liabilities 2,007,809

Total liabilities 8,171,420

**Deferred Inflows of Resources** - Deferred pension inflows (Note 7) 21,656

### Equity

#### Net position:

Net investment in capital assets	14,756,359
Unrestricted	2,300,209

Total net position **\$ 17,056,568**

# **Southeastern Oakland County Water Authority**

## **Statement of Revenue, Expenses, and Changes in Net Position Year Ended June 30, 2016**

### **Operating Revenue**

Water charges:	
Member municipalities	\$ 16,888,373
Non-member municipalities	9,037,100
Rental income	107,404
Miscellaneous income	25,997
	<hr/>
Total operating revenue	26,058,874

### **Operating Expense**

Source of supply	22,846,992
Operating, maintenance, and administrative	1,875,630
Depreciation	492,173
	<hr/>
Total operating expenses	25,214,795

### **Operating Income**

844,079

### **Nonoperating Revenue**

Investment income	25,148
Gain on sale of assets	2,850
	<hr/>
Total nonoperating revenue	27,998

### **Change in Net Position**

872,077

### **Net Position - Beginning of year**

16,184,491

### **Net Position - End of year**

\$ 17,056,568

# Southeastern Oakland County Water Authority

## Statement of Cash Flows Year Ended June 30, 2016

### Cash Flows from Operating Activities

Receipts from customers	\$ 24,771,841
Receipts from related party	599,762
Payments to suppliers	(22,820,989)
Payments to employees	<u>(1,613,384)</u>
Net cash provided by operating activities	937,230

### Cash Flows from Capital and Related Financing Activities

Proceeds from sales of capital assets	2,850
Purchase of capital assets	<u>(270,380)</u>
Net cash used in capital and related financing activities	(267,530)

### Cash Flows from Investing Activities - Interest received on investments

25,148

### Net Increase in Cash and Cash Equivalents

694,848

### Cash and Cash Equivalents - Beginning of year

5,516,322

### Cash and Cash Equivalents - End of year

\$ 6,211,170

### Reconciliation of Operating Income to Net Cash from Operating Activities

Operating income	\$ 844,079
Depreciation and amortization	492,173
Changes in assets and liabilities:	
Accounts receivable	(1,287,033)
Due from others	8,277
Net pension liability and related deferred outflows	(109,317)
Other assets	(14,006)
Accounts payable	1,020,580
Accrued wages	548
Postemployment healthcare obligation	(3,024)
Other accrued liabilities	(13,855)
Accrued compensated absences	<u>(1,192)</u>
Net cash provided by operating activities	<u><u>\$ 937,230</u></u>

# **Southeastern Oakland County Water Authority**

---

## **Notes to Financial Statements June 30, 2016**

### **Note I - Summary of Significant Accounting Policies**

The following is a summary of the significant accounting policies used by the Southeastern Oakland County Water Authority (the "Authority" or SOCWA):

#### **Reporting Entity**

The Authority was created in 1953 as a Michigan Public Corporation under Act Number 179 of the Michigan Public Act of 1952. The Authority provides a water supply system primarily to 12 municipal communities in Oakland County, Michigan. The Authority is governed by a board of trustees, with one member representing each constituent municipality. Principal funding for the Authority is derived from water charges to the member municipalities.

The Authority has followed the guidelines of the Governmental Accounting Standards Board's (GASB) Statements No. 14 and No. 39 (as amended by GASB Statement No. 61) and has determined that no entities should be consolidated into its financial statements as component units, entities for which the government is considered to be financially accountable. Therefore, the reporting entity consists of the primary government financial statements only.

#### **Accounting and Reporting Principles**

The Authority follows 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.

#### **Report Presentation**

This report includes the fund-based statements of the Authority. In accordance with government accounting principles, a government-wide presentation with program and general revenue is not applicable to special purpose governments engaged only in business-type activities.

#### **Fund Accounting**

Proprietary funds include enterprise funds, which provide goods or services to users in exchange for charges or fees. The Authority reports all activity in a single enterprise fund, the Water Fund.

#### **Basis of Accounting**

Proprietary funds 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.

# Southeastern Oakland County Water Authority

## Notes to Financial Statements June 30, 2016

### Note I - Summary of Significant Accounting Policies (Continued)

#### Specific Balances and Transactions

**Cash, Cash Equivalents, and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the financial statements. Capital assets are defined by the Authority as assets with an initial individual cost of more than \$5,000 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 fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year

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

<u>Capital Asset Class</u>	<u>Lives</u>
Pumping stations	10 to 50 years
Elevated tanks	10 to 50 years
Reservoirs	10 to 50 years
SCADA system	10 to 40 years
Transmission mains and accessories	25 to 100 years
Meters	10 to 30 years
Webster office	10 to 25 years
Equipment and other assets	5 to 25 years

#### **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 a future period and so will not be recognized as an outflow of resources (expense) until then. The Authority reports deferred outflows of resources related to pensions for the difference between projected and actual investment earnings of the pension plan, as well as Authority contributions made after the measurement date of the net pension liability.

# **Southeastern Oakland County Water Authority**

---

## **Notes to Financial Statements June 30, 2016**

### **Note I - Summary of Significant Accounting Policies (Continued)**

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Authority reports deferred inflows of resources related to pensions for the difference between projected and actual experience of the pension plan as compared to the actuarial assumptions used.

#### **Net Position Flow Assumption**

Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

**Pension** - The Authority offers pension benefits to retirees. The Authority records a net pension liability for the difference between the total pension liability calculated by the actuary and the pension plan's fiduciary net position. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plan, and additions to/deductions from the pension plan's fiduciary net position have been determined on the same basis as they are reported by the pension plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Other Postemployment Benefit Costs** - The Authority offers healthcare benefits to qualified retirees. The Authority performs an actuarial calculation to compute the annual required contribution (ARC) necessary to fund the obligation over the remaining amortization period. The Authority reports the full accrual cost equal to the current year required contribution, adjusted for interest and "adjustment to the ARC" on the beginning of year underpaid amount, if any.

# **Southeastern Oakland County Water Authority**

---

## **Notes to Financial Statements June 30, 2016**

### **Note I - Summary of Significant Accounting Policies (Continued)**

**Compensated Absences (Vacation and Sick Leave)** - The Authority allows union employees to accumulate unused vested sick leave. Once an employee has accumulated not less than 960 hours (120 days), the employee shall receive payment at the end of the next fiscal year for all unused sick leave credits earned during the immediately preceding fiscal year. Once an employee has accumulated not less than 320 hours (40 days) and no more than 960 hours (120 days), the employee shall receive payment at the end of the next fiscal year for half of all unused sick leave credits earned during the immediately preceding fiscal year. The Authority allows nonunion employees to accumulate unused vested sick leave. Once an employee has accumulated not less than 320 hours (40 days), the employee shall receive payment at the end of the next fiscal year for all unused sick leave credits earned during the immediately preceding fiscal year. Employees forfeit all rights to vacation time earned if not used within the year following accrual, unless carried over with the consent of management.

As of June 30, 2016, there were \$261,922 of accrued compensated absences, of which, \$115,061 was deemed a current liability. Activity during the current year consisted of \$117,636 of reductions to the liability and \$116,444 of additional earned accrued compensated absences.

**Proprietary Funds Operating Classification** - Proprietary 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 a proprietary fund's principal ongoing operations. The principal operating revenue of the Authority are charges to customers for sales. Operating expenses for enterprise funds include the cost of sales, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

**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.

# **Southeastern Oakland County Water Authority**

---

## **Notes to Financial Statements June 30, 2016**

### **Note 2 - Deposits and Investments**

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. A local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Authority has designated three banks, one credit union, and the Oakland County Local Government Investment Pool for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government, bank accounts, certificates of deposit, and local government investment pools, but not the remainder of state statutory authority as listed above. Southeastern Oakland County Water Authority's deposits and investment policies are in accordance with Public Act 196 of 1997.

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

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. At year end, the Authority had \$2,267,838 in bank deposits that were uninsured and uncollateralized. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable risk level are used as depositories.

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Authority's investment policy limits interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and by investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools. As of year end, the Authority held \$977,909 in an investment pool with a weighted average maturity of 1.07 years.

# **Southeastern Oakland County Water Authority**

---

## **Notes to Financial Statements June 30, 2016**

### **Note 2 - Deposits and Investments (Continued)**

**Credit Risk** - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Authority's investment policy limits credit risk by limiting investment to the safest type of securities, pre-qualifying the financial institution, brokers, dealer, intermediaries, and advisors with which the Authority will do business, and diversifying the investment portfolio so that potential losses on individual securities will be minimized. As of year end, the Authority had no investments subject to credit risk.

**Concentration of Credit Risk** - The Authority places no limit on the amount it may invest in any one issuer, except for the Oakland County Local Government Investment Pool (the "LGIP"), for which there is a \$1 million limit. More than 15 percent of the Authority's investments are in the LGIP. The LGIP is not registered with the SEC, and does not issue a separate report. The fair value of the position in the pool is not the same as the value of the pool shares, since the pool does not meet the requirements under GASB 79 to report its value for financial reporting purposes at amortized cost.

#### **Fair Value Measurements**

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Authority's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

#### **Investments in Entities that Calculate Net Asset Value per Share**

The Authority holds shares or interests in an investment pool where the fair value of the investments is measured on a recurring basis using net asset value per share (or its equivalent) of the investment companies as a practical expedient.

# Southeastern Oakland County Water Authority

## Notes to Financial Statements June 30, 2016

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

As of June 30, 2016, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Oakland County Government Investment Pool	\$ 977,909	\$ -	No restrictions	None

The Oakland County LGIP invests assets in a manner which will seek the highest investment return consistent with the preservation of principal and meet the daily liquidity needs of participants.

### Note 3 - Capital Assets

Capital asset activity of the Authority was as follows:

	Balance July 1, 2015	Additions	Disposals	Balance June 30, 2016
Capital assets not being depreciated:				
Land	\$ 1,153,643	\$ -	\$ -	\$ 1,153,643
Construction in progress	563	264,364	-	264,927
Subtotal	1,154,206	264,364	-	1,418,570
Capital assets being depreciated:				
Pump stations	3,501,366	-	-	3,501,366
Elevated tanks	1,910,813	-	-	1,910,813
Reservoirs	3,239,507	-	-	3,239,507
SCADA system	1,831,929	-	-	1,831,929
Transmission mains and accessories	16,630,395	-	-	16,630,395
Meters	984,311	6,016	-	990,327
Webster office	385,684	-	-	385,684
Equipment and other assets	1,538,766	-	(14,807)	1,523,959
Subtotal	30,022,771	6,016	(14,807)	30,013,980
Less accumulated depreciation	16,198,825	492,173	(14,807)	16,676,191
Net capital assets being depreciated	13,823,946	(486,157)	-	13,337,789
Total	\$ 14,978,152	\$ (221,793)	\$ -	\$ 14,756,359

# **Southeastern Oakland County Water Authority**

---

## **Notes to Financial Statements June 30, 2016**

### **Note 4 - Risk Management**

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), and natural disasters, as well as medical benefits to employees. The Authority has purchased commercial insurance for medical benefits and is a member of the Michigan Municipal League and the Michigan Municipal Risk Management Authority sponsored self-insurance/public entity risk pools. The Authority pays annual premiums to the respective pools for general liability, property, auto, workers' compensation, and employee fidelity insurance coverage. The agreements for the formation of the Michigan Municipal Risk Management Authority and the Michigan Municipal League Workers' Compensation Fund provide that the pools will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of limitations imposed by the pool. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

### **Note 5 - Related Party Transactions**

The Authority has developed a cost-sharing strategy for certain administrative salaries, operating expenses, and capital asset expenses with the Southeastern Oakland County Resource Recovery Authority (SOCRRA). The cost-sharing arrangements resulted in the Authority charging SOCRRA \$551,485 for the year ended June 30, 2016. In addition to these shared costs, the Authority also charges and receives an annual office rental fee from SOCRRA in the amount of \$40,000. As of June 30, 2016, the amount of payables due from SOCRRA was \$251,788.

### **Note 6 - Other Postemployment Benefits**

**Plan Description** - The Authority provides retiree healthcare benefits to eligible union and nonunion employees and their beneficiaries. There are separate plans for union and nonunion employees. SOCRRA and SOCWA are joint participants in the nonunion plan that operates under SOCWA's name. The amounts disclosed represent the full amount of the plan's activity. SOCWA's share is estimated to be 43 percent of the nonunion plan. Since the nonunion plan became effective January 1, 2002, eligible employees have been required to contribute to the plan based on eligible payroll. The contribution percentage for the year ended June 30, 2016 was 5 percent. The Authority's board has the authority to establish and amend benefit provisions.

Union employees are not required to make contributions but certain participants are required to pay co-pays. Benefit provisions are established through collective bargaining agreements. Both plans are agent multiple-employer defined benefit plans administered by the Municipal Employees' Retirement System of Michigan Health Funding Vehicle.

# **Southeastern Oakland County Water Authority**

---

## **Notes to Financial Statements June 30, 2016**

### **Note 6 - Other Postemployment Benefits (Continued)**

**Funding Policy** - The Authority has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a “pay-as-you-go” basis). However, the Authority has made contributions to advance-fund these benefits, as determined by the board through annual budget resolutions and through specific board actions.

The Authority funded 100 percent of the cost of current year premiums for eligible retired plan members and their beneficiaries as well as an additional \$30,000 discretionary contribution to the union plan authorized as part of the budget. For fiscal year 2016, the Authority contributed a total of \$44,979 to the union plan. The Authority also made an additional \$15,000 discretionary contribution to the nonunion plan authorized as part of the budget. For fiscal year 2016, the Authority contributed a total of \$52,658 to the nonunion plan.

**Funding Progress** - The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

# Southeastern Oakland County Water Authority

## Notes to Financial Statements June 30, 2016

### Note 6 - Other Postemployment Benefits (Continued)

#### Annual OPEB Cost and Net OPEB Obligation

The Authority's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The Authority has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than 100 total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the Authority's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Authority's net OPEB obligation to the retiree health plan:

	<u>Nonunion*</u>	<u>Union</u>	<u>Total</u>
Annual required contribution (recommended)	\$ 41,277	\$ 46,887	\$ 88,164
Interest on prior year net OPEB obligation	5,670	520	6,190
Less adjustment to the annual required contribution	<u>(5,215)</u>	<u>(478)</u>	<u>(5,693)</u>
Annual OPEB cost	41,732	46,929	88,661
Amounts contributed:			
Payments of current premiums	(37,658)	(14,979)	(52,637)
Advance funding	<u>(15,000)</u>	<u>(30,000)</u>	<u>(45,000)</u>
(Decrease) increase in net OPEB obligation	(10,926)	1,950	(8,976)
OPEB obligation - Beginning of year	<u>70,877</u>	<u>6,494</u>	<u>77,371</u>
OPEB obligation - End of year	<u>\$ 59,951</u>	<u>\$ 8,444</u>	<u>\$ 68,395</u>

\* Amounts represent total plan activity, including SOCRRA's share. SOCWA's share of the nonunion OPEB obligation was \$25,503 at June 30, 2016. That amount, plus the SOCWA union OPEB obligation of \$8,444, leads to a total OPEB obligation of \$33,947.

# Southeastern Oakland County Water Authority

## Notes to Financial Statements June 30, 2016

### Note 6 - Other Postemployment Benefits (Continued)

The annual OPEB costs, the percentage contributed to the plan, and the net OPEB obligation for the current and two preceding years were as follows:

	Fiscal Year Ended	Annual OPEB Costs	Percentage Contributed	Net OPEB Obligation
Union	6/30/16	\$ 46,929	95.8 %	\$ 8,444
	6/30/15	72,527	116.1	6,494
	6/30/14	99,973	96.6	18,160
Nonunion*	6/30/16	41,732	126.2	59,951
	6/30/15	43,662	108.5	70,877
	6/30/14	51,874	135.5	74,582

\* Amounts represent total plan activity, including SOCRRA's share

The funding progress of the union and nonunion plans is as follows:

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)
Union	6/30/15	\$ 609,406	\$ 858,555	\$ 249,149	71.0 %
	6/30/14	501,898	940,758	438,860	53.4
	6/30/13	386,955	1,061,990	675,035	36.4
Nonunion*	6/30/15	483,509	826,980	343,471	58.5
	6/30/14	422,036	797,924	375,888	52.9
	6/30/13	341,394	816,491	475,097	41.8

\* Amounts represent total plan activity, including SOCRRA's share

**Actuarial Methods and Assumptions** - Projections of benefits for financial reporting purposes are based on the substantive plans (the plans as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

# Southeastern Oakland County Water Authority

## Notes to Financial Statements June 30, 2016

### Note 6 - Other Postemployment Benefits (Continued)

The following simplifying assumptions were made:

*Retirement age for active employees* - Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 62 or at the first subsequent year in which the member would qualify for benefits.

*Marital status* - Marital status of members at the calculation date was assumed to continue throughout retirement.

*Mortality* - Life expectancies were based on mortality tables from the National Center for Health Statistics. The United States Life Tables for Males and for Females were obtained from the Center for Disease Control ([www.cdc.gov](http://www.cdc.gov)). The most recent data utilized are the life tables for males and females, 2011 version (Tables 2 and 3 from the National Vital Statistics Reports, Vol. 64, No. 11 dated September 22, 2015).

*Turnover* - Nongroup-specific age-based turnover data from GASB Statement No. 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

*Healthcare cost trend rate* - The expected rate of increase in healthcare insurance premiums was based on projections of the Office of the Actuary at the Centers for Medicare and Medicaid Services. A rate of 4.9 percent initially, fluctuating to an ultimate rate of 6.2 percent after six years, was used.

*Health insurance premiums* - 2016 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

*Inflation rate* - The expected long-term inflation assumption of 2.5 percent was based on projected changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) in The 2007 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds for an intermediate growth scenario.

*Payroll growth rate* - The expected long-term payroll growth rate was assumed to equal the rate of inflation.

Based on the historical and expected returns of the MERS Total Market Fund, a discount rate of 8.0 percent was used for both calculations. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2016 was 24 years for the nonunion plan and nine years for the union plan.

# Southeastern Oakland County Water Authority

## Notes to Financial Statements June 30, 2016

### Note 7 - Defined Benefit Pension Plan

**Plan Description** - Because salaried employees of SOCWA and SOCRRA are participants in the SOCWA plan, the two authorities are considered joint participants. The amounts disclosed represent the full amount of the plan's activity. SOCWA's share is estimated to be approximately 67 percent.

The Authority participates in an agent multiple-employer defined benefit pension plan administered by the Municipal Employees Retirement System of Michigan (MERS), that covers all employees of the Authority. MERS was established as a statewide public employee pension plan by the Michigan Legislature under PA 135 of 1945 and is administered by a nine-member Retirement Board. MERS issues a publicly available financial report which includes the financial statements and required supplemental information of this defined benefit plan. This report can be obtained at [www.mersofmich.com](http://www.mersofmich.com) or in writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

**Benefits Provided** - The Plan provides certain retirement, disability, and death benefits to plan members and beneficiaries. PA 427 of 1984, as amended, established and amends the benefit provisions of the participants in MERS.

The MERS plan covers all full-time authority employees.

Retirement benefits for salaried employees hired before July 1, 2011 are calculated as 2.5 percent of the employee's final three-year average salary times the employee's years of service. Retirement benefits for union employees hired before July 1, 2011 are calculated as 2.25 percent of the employee's final three-year average salary times the employee's years of service. Union and salaried employees hired after July 1, 2011 are eligible for a hybrid defined benefit contribution plan. Retirement benefits for union and salaried employees participating in the hybrid plan are calculated as 1.0 percent and 1.5 percent, respectively, of the employee's final three-year average salary times the employee's credited years of service. These benefits are established by resolution of the Authority.

Normal retirement age is 60, with early retirement at 55 with 25 years of service. A reduced early retirement benefit is available at 50 with 25 years of service and at 55 with 15 years of service. The retirement allowance is reduced 0.5 percent for each complete month that the retirement date precedes 60. There is no early retirement option for employees hired after July 1, 2011. The vesting period is 10 years for all employees hired before July 1, 2011 and six years for employees that are participating in the hybrid plan.

Benefit terms, within the parameters established by MERS, are generally established and amended by authority of the board of members.

# Southeastern Oakland County Water Authority

## Notes to Financial Statements June 30, 2016

### Note 7 - Defined Benefit Pension Plan (Continued)

**Employees Covered by Benefit Terms** - At the December 31, 2015 measurement date, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	21
Inactive plan members entitled to but not yet receiving benefits	1
Active plan members	<u>18</u>
Total employees covered by MERS	<u><u>40</u></u>

**Contributions** - Article 9, Section 24 of the State of Michigan Constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, MERS retains an independent actuary to determine the annual contribution. The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS retirement board. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees.

For the year ended June 30, 2016, the average active employee contribution rate was 5.0 percent of annual pay for salaried employees, 2.5 percent of annual pay for union employees, and 0 percent for employees hired after July 1, 2011 who were participating in the hybrid plan. The Authority's average contribution rate was \$10,707 per month for salaried employees, \$6,361 per month for union employees, 9.49 percent of annual pay for salaried employees participating in the hybrid plan, and 3.77 percent of annual pay for union employees participating in the hybrid plan.

#### **Net Pension Liability**

At June 30, 2016, the Authority reported a liability of \$1,827,001 for its proportionate share of the net pension liability which was estimated to be 67 percent of the total. The net pension liability reported at June 30, 2016 was determined using a measure of the total pension liability and the pension net position as of December 31, 2015. The December 31, 2015 total pension liability was determined by an actuarial valuation performed as of that date.

# Southeastern Oakland County Water Authority

## Notes to Financial Statements June 30, 2016

### Note 7 - Defined Benefit Pension Plan (Continued)

Changes in the net pension liability during the measurement year were as follows:

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
Balance at December 31, 2014	\$ 5,725,838	\$ 4,274,903	\$ 1,450,935
Changes for the year:			
Service cost	64,175	-	64,175
Interest	459,243	-	459,243
Differences between expected and actual experience	(32,484)	-	(32,484)
Changes in assumptions	302,622	-	302,622
Contributions - Employer	-	465,558	(465,558)
Contributions - Employee	-	23,263	(23,263)
Net investment income	-	(62,107)	62,107
Benefit payments, including refunds	(382,687)	(382,687)	-
Administrative expenses	-	(9,224)	9,224
Net changes	410,869	34,803	376,066
Balance at December 31, 2015	\$ 6,136,707	\$ 4,309,706	\$ 1,827,001

**Assumption Changes** - From the time of the last measurement date at December 31, 2014 to December 31, 2015, the actuary modified significant assumptions that affect the measurement of the total pension liability. The actuary adjusted the assumed annual rate of return down from 8.25 percent to 8.00 percent. The mortality tables were updated from the 1994 Group Mortality Table to a blend of the RP-2014 tables described below.

# Southeastern Oakland County Water Authority

## Notes to Financial Statements June 30, 2016

### Note 7 - Defined Benefit Pension Plan (Continued)

#### Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2016, the Authority recognized pension expense of \$342,866. At June 30, 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 21,656
Changes in assumptions	201,748	-
Net difference between projected and actual earnings on pension plan investments	384,112	-
Employer contributions to the plan subsequent to the measurement date	70,328	-
Total	<u>\$ 656,188</u>	<u>\$ 21,656</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows. These amounts are exclusive of the employer contributions to the plan made subsequent to the measurement date (\$70,328), which will impact the net pension liability in fiscal year 2017, rather than pension expense.

Years Ending June 30	Amount
2017	\$ 190,164
2018	190,164
2019	100,118
2020	83,758

**Actuarial Assumptions** - The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%	
Salary increases	3.75%	
Investment rate of return	8.00%	Gross of pension plan investment expense, including inflation

# Southeastern Oakland County Water Authority

## Notes to Financial Statements June 30, 2016

### Note 7 - Defined Benefit Pension Plan (Continued)

Mortality rates were based on a 50 percent male and 50 percent female blend of the following tables:

1. The RP-2014 Healthy Annuitant Mortality Tables, with rates multiplied by 105 percent
2. The RP-2014 Employee Mortality Tables.
3. The RP-2014 Juvenile Mortality Tables.

For disabled retirees, the RP-2014 Disabled Retiree Mortality Table is used with a 50 percent male and 50 percent female blend.

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of the most recent actuarial experience study from 2009-2013.

**Discount Rate** - The discount rate used to measure the total pension liability was 8.00 percent. The projection of cash flows used to determine the discount rate assumes that employee contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

**Projected Cash Flows** - Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments was determined using a model in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return as of December 31, 2015, the measurement date, for each major asset class are summarized in the following table:

Asset Class	Target Allocation (%)	Long-term Expected Real Rate of Return
Global equity	58 %	5.0 %
Global fixed income	20 %	2.2 %
Real assets	12 %	4.2 %
Diversifying strategies	10 %	6.6 %

# Southeastern Oakland County Water Authority

## Notes to Financial Statements June 30, 2016

### Note 7 - Defined Benefit Pension Plan (Continued)

**Sensitivity of the Authority's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** - The following presents the net pension liability of the Authority, calculated using the discount rate of 8 percent, as well as what the Authority's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7 percent) or 1 percentage point higher (9 percent) than the current rate:

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Net pension liability of the Authority	\$ 2,434,312	\$ 1,827,001	\$ 1,301,074

**Pension Plan Fiduciary Net Position** - Detailed information about the plan's fiduciary net position is available in the separately issued financial report found at [www.mersofmichigan.com](http://www.mersofmichigan.com). The plan's fiduciary net position has been determined on the same basis used by the plan. The plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments and refunds of employee contributions are recognized as expense when due and payable in accordance with the benefit terms.

### Note 8 - Upcoming Accounting Pronouncements

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

## **Required Supplemental Information**

---

# **Southeastern Oakland County Water Authority**

## **Required Supplemental Information OPEB System Schedule - Nonunion\* Year Ended June 30, 2016**

The schedule of funding progress is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (Percent) (a/b)</u>
6/30/15	\$ 483,735	\$ 826,980	\$ 343,245	58.5 %
6/30/14	422,036	797,924	375,888	52.9
6/30/13	341,394	816,491	475,097	41.8

\* Amounts represent the total plan, including SOCRRA's share. SOCWA's share is estimated to be 43 percent.

# **Southeastern Oakland County Water Authority**

## **Required Supplemental Information OPEB System Schedule - Union Year Ended June 30, 2016**

The schedule of funding progress is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (Percent) (a/b)</u>
6/30/15	\$ 609,406	\$ 858,555	\$ 249,149	71.0 %
6/30/14	501,898	940,758	438,860	53.4
6/30/13	386,955	1,061,990	675,035	36.4

# **Southeastern Oakland County Water Authority**

---

## **Required Supplemental Information Schedule of the Authority's Proportionate Share of the Net Pension Liability Defined Benefit Pension Plan Last Two Fiscal Years (schedule is built prospectively upon implementation of GASB Statement No. 68)**

	<u>2016</u>	<u>2015</u>
Authority's proportion of the net pension liability	67.0 %	67.0 %
Authority's proportionate share of the net pension liability	\$ 1,827,001	\$ 1,450,935
Authority's covered employee payroll	\$ 710,649	\$ 734,095
Authority's proportionate share of the net pension liability as a percentage of its covered employee payroll	257.1 %	197.6 %
Plan fiduciary net position as a percentage of total pension liability	70.2 %	74.7 %

# Southeastern Oakland County Water Authority

## Required Supplemental Information Schedule of Authority Contributions Last Ten Fiscal Years

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined contribution	\$ 140,595	\$ 164,564	\$ 153,733	\$ 104,551	\$ 90,115	\$ 138,320	\$ 123,985	\$ 132,709	\$ 97,908	\$ 100,009
Contributions in relation to the actuarially determined contribution	414,360	472,309	466,787	417,497	90,115	138,320	123,985	132,709	97,908	100,009
Contribution excess	\$ (273,765)	\$ (307,745)	\$ (313,054)	\$ (312,946)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 710,649	\$ 734,095	\$ 771,027	\$ 709,510	\$ 722,206	\$ 840,129	\$ 850,515	\$ 907,247	\$ 839,460	\$ 866,951
Contributions as a percentage of covered employee payroll	58.3 %	64.3 %	60.5 %	58.8 %	12.5 %	16.5 %	14.6 %	14.6 %	11.7 %	11.5 %

### Notes to Schedule of Authority Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date	Actuarially determined contribution rates are calculated as of December 31 each year, which is 18 months prior to the beginning of the fiscal year in which the contributions are required
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry-age normal
Amortization method	Level percentage of pay, open
Remaining amortization period	25 years
Asset valuation method	10-year smoothed market
Inflation	3 - 4 percent
Salary increases	4.5 percent, including inflation
Investment rate of return	8 percent
Retirement age	Experience-based tables of rates that are specific to the type of eligibility condition
Mortality	50 percent male - 50 percent female blend of the 1994 Group Annuity Mortality Table.
Other information	Because salaried employees of SOCRRA and SOCWA are participants in the SOCWA plan, the two authorities are considered joint participants. The amounts disclosed above represent the SOCWA's share of the plan's total activity. SOCWA's share is estimated to be approximately 67 percent.

## **Other Supplemental Information**

---

# Southeastern Oakland County Water Authority

## Other Supplemental Information Schedule of Budget Analysis Year Ended June 30, 2016

	Original Budget	Actual	(Under) Over Amended Budget
<b>Revenue</b>			
Sale of water - Member municipalities	\$ 17,193,600	\$ 16,888,373	\$ (305,227)
Sale of water - Nonmember municipalities	8,930,000	9,037,100	107,100
Grant revenue	5,000	-	(5,000)
Rental income	108,000	107,404	(596)
Interest on investments	40,000	25,148	(14,852)
Miscellaneous income	10,000	28,847	18,847
Total revenue	26,286,600	26,086,872	(199,728)
<b>Operating Expenses - Excluding Depreciation</b>	<b>25,154,650</b>	<b>24,722,622</b>	<b>(432,028)</b>
<b>Amount Available for Reserves and Capital Outlay</b>	<b>\$ 1,131,950</b>	<b>\$ 1,364,250</b>	<b>\$ 232,300</b>

# Southeastern Oakland County Water Authority

## Other Supplemental Information Schedule of Budget Operating Expenses Analysis Year Ended June 30, 2016

	Budget	Actual	(Under) Over Budget
Source of supply - Pump station operations and water purchases for resale	\$ 23,087,000	\$ 22,846,992	\$ (240,008)
Meters:			
Labor and supervision	34,000	31,005	(2,995)
Power and light	8,000	7,949	(51)
Maintenance of equipment	30,000	25,305	(4,695)
Total meters	72,000	64,259	(7,741)
Mains:			
Labor and supervision	30,000	21,416	(8,584)
Maintenance of equipment	20,000	8,070	(11,930)
Miss Dig	15,000	21,248	6,248
Total mains	65,000	50,734	(14,266)
Webster pump station operations:			
Labor and supervision	408,000	405,327	(2,673)
Utilities	48,500	36,446	(12,054)
Maintenance of equipment	20,000	7,832	(12,168)
Maintenance of building	9,000	6,031	(2,969)
Maintenance of property and grounds	10,000	12,173	2,173
Safety training	4,500	975	(3,525)
Safety maintenance and supplies	5,000	2,380	(2,620)
Supplies	11,000	6,781	(4,219)
Tools	5,000	2,878	(2,122)
Maintenance of reservoirs	2,000	6,083	4,083
Maintenance of tanks	1,500	-	(1,500)
Total Webster pump station operations	524,500	486,906	(37,594)
Webster computer operations:			
Labor and supervision	41,500	43,026	1,526
Website and internet	7,500	8,133	633
Computer hardware maintenance	8,000	9,684	1,684
Computer software maintenance	12,000	4,266	(7,734)
UPS	2,000	1,814	(186)
Total Webster computer operations	71,000	66,923	(4,077)
Webster - Purification:			
Labor and supervision	45,000	48,246	3,246
Maintenance of equipment	1,000	640	(360)
Supplies	-	19,632	19,632
Regulatory testing	10,000	8,380	(1,620)
Total Webster - Purification	56,000	76,898	20,898

# Southeastern Oakland County Water Authority

## Other Supplemental Information Schedule of Budget Operating Expenses Analysis (Continued) Year Ended June 30, 2016

	Budget	Actual	(Under) Over Budget
Webster - Transportation:			
Labor and supervision	\$ 11,000	\$ 4,856	\$ (6,144)
Maintenance of equipment	15,000	17,864	2,864
Fuel	35,000	12,286	(22,714)
Supplies	-	168	168
Total Webster - Transportation	61,000	35,174	(25,826)
Total Webster expenses	712,500	665,901	(46,599)
Shafter pump station operations:			
Labor and supervision	18,200	12,468	(5,732)
Utilities	17,000	12,227	(4,773)
Maintenance of equipment	6,000	1,146	(4,854)
Maintenance of building	2,000	-	(2,000)
Total Shafter pump station operations	43,200	25,841	(17,359)
Lamb pump station operations:			
Labor and supervision	18,200	12,462	(5,738)
Utilities	12,500	6,125	(6,375)
Maintenance of equipment	6,000	1,337	(4,663)
Maintenance of building	1,000	730	(270)
Total Lamb pump station operations	37,700	20,654	(17,046)
12 Mile meter station:			
Labor and supervision	13,000	9,009	(3,991)
Utilities	1,500	877	(623)
Maintenance of equipment	2,500	-	(2,500)
Maintenance of building	500	-	(500)
Maintenance of property and grounds	500	-	(500)
Total 12 Mile meter station	18,000	9,886	(8,114)
Gare pump station operations:			
Labor and supervision	23,000	15,366	(7,634)
Utilities	20,600	10,507	(10,093)
Maintenance of equipment	6,000	4,485	(1,515)
Maintenance of building	2,000	740	(1,260)
Maintenance of property and grounds	1,000	3,000	2,000
Maintenance of reservoirs	1,000	-	(1,000)
Total Gare pump station operations	53,600	34,098	(19,502)

# Southeastern Oakland County Water Authority

## Other Supplemental Information Schedule of Budget Operating Expenses Analysis (Continued) Year Ended June 30, 2016

	Budget	Actual	(Under) Over Budget
Oliver pump station operations:			
Labor and supervision	\$ 9,500	\$ 5,803	\$ (3,697)
Utilities	4,000	3,392	(608)
Maintenance of equipment	1,000	947	(53)
Maintenance of building	1,000	81	(919)
Maintenance of property and grounds	1,000	4,415	3,415
Total Oliver pump station operations	16,500	14,638	(1,862)
14 Mile/Lahser meter station:			
Labor and supervision	9,500	7,506	(1,994)
Utilities	500	250	(250)
Maintenance of equipment	3,000	272	(2,728)
Maintenance of property and grounds	-	1,710	1,710
Total 14 Mile/Lahser meter station	13,000	9,738	(3,262)
Quarton/Chesterfield meter station:			
Labor and supervision	8,500	6,646	(1,854)
Utilities	350	360	10
Maintenance of equipment	2,500	487	(2,013)
Total Quarton/Chesterfield meter station	11,350	7,493	(3,857)
Bloomfield meter station -			
Labor and supervision	2,500	1,839	(661)
Bloomfield township meter station:			
Labor and supervision	3,000	2,063	(937)
Maintenance of equipment	2,000	-	(2,000)
Total Bloomfield meter station	5,000	2,063	(2,937)
14 Mile tank and pump station:			
Labor and supervision	23,000	14,197	(8,803)
Utilities	12,000	5,095	(6,905)
Maintenance of equipment	4,000	1,241	(2,759)
Maintenance of building	1,000	29	(971)
Maintenance of property and grounds	2,000	51	(1,949)
Maintenance of reservoir	2,000	640	(1,360)
Maintenance of tanks	2,500	1,920	(580)
Total 14 Mile tank and pump station	46,500	23,173	(23,327)

# Southeastern Oakland County Water Authority

## Other Supplemental Information Schedule of Budget Operating Expenses Analysis (Continued) Year Ended June 30, 2016

	Budget	Actual	(Under) Over Budget
Samoset tank operations:			
Labor and supervision	\$ 9,000	\$ 5,688	\$ (3,312)
Utilities	1,150	882	(268)
Maintenance of equipment	1,000	-	(1,000)
Maintenance of building	1,000	640	(360)
Maintenance of property and grounds	1,000	-	(1,000)
Maintenance of reservoir	250	-	(250)
Total Samoset tank operations	13,400	7,210	(6,190)
Buchanan pump station:			
Labor and supervision	10,500	6,857	(3,643)
Utilities	1,600	961	(639)
Maintenance of equipment	2,000	169	(1,831)
Maintenance of building	1,000	-	(1,000)
Maintenance of reservoir	600	-	(600)
Total Buchanan pump station	15,700	7,987	(7,713)
Administrative and general:			
Labor and supervision	183,400	190,151	6,751
Administrative and office	27,000	27,537	537
Personnel improvement	3,000	6,055	3,055
Travel and conferences	5,000	2,153	(2,847)
Telephone - Office	20,000	19,449	(551)
Legal	5,000	11,006	6,006
Audit	17,200	17,200	-
Social Security	69,000	62,982	(6,018)
Retirement plan	142,000	277,300	135,300
General insurance	33,000	(12,218)	(45,218)
Group insurance	244,000	255,335	11,335
Workers' compensation	18,800	12,775	(6,025)
Life insurance	2,800	2,618	(182)
Retiree healthcare funding	110,000	41,976	(68,024)
Permit and bonds	1,000	-	(1,000)
Grant expense	5,000	-	(5,000)
Consulting	50,000	10,498	(39,502)
Paying agent	500	-	(500)
Miscellaneous expense	5,000	5,299	299
Total administrative and general	941,700	930,116	(11,584)
Total operating expenses, excluding depreciation	<b>\$ 25,154,650</b>	<b>\$ 24,722,622</b>	<b>\$ (432,028)</b>

# Southeastern Oakland County Water Authority

## Other Supplemental Information Schedule of Accounts Receivable and Analysis of Charges Year Ended June 30, 2016

	Accounts Receivable Balance July 1, 2015	Water Consumption (1M Cubic Feet)	Total Water Charges	Amount Due at Beginning of Year Plus Billing For Year	Total Paid	Accounts Receivable Balance June 30, 2016
Member municipalities:						
Berkley	\$ 58,155	51,593	\$ 845,056	\$ 903,211	\$ 816,038	\$ 87,173
Beverly Hills	48,282	42,109	695,500	743,782	651,069	92,713
Bingham Farms	15,602	11,548	189,543	205,145	176,091	29,054
Birmingham	156,876	118,409	1,952,114	2,108,990	1,863,709	245,281
Clawson	44,957	37,128	613,556	658,513	597,163	61,350
Huntington Woods	30,363	23,593	389,435	419,798	371,945	47,853
Lathrup Village	19,824	19,055	311,599	331,423	303,496	27,927
Pleasant Ridge	14,675	11,824	193,977	208,652	182,392	26,260
Royal Oak	309,829	246,847	4,079,174	4,389,003	3,959,114	429,889
Southfield	562,682	444,007	7,344,015	7,906,697	7,119,888	786,809
American Golf	1,762	2,470	45,861	47,623	33,710	13,913
Detroit Zoo	19,679	14,276	228,543	248,222	221,848	26,374
Total member municipalities	1,282,686	1,022,859	16,888,373	18,171,059	16,296,463	1,874,596
Bloomfield Hills	140,030	58,143	1,695,900	1,835,930	1,616,047	219,883
Bloomfield Township	535,414	253,295	7,341,200	7,876,614	6,727,929	1,148,685
Total	<u>\$ 1,958,130</u>	<u>1,334,297</u>	<u>\$ 25,925,473</u>	<u>\$ 27,883,603</u>	<u>\$ 24,640,439</u>	<u>\$ 3,243,164</u>

# Southeastern Oakland County Water Authority

## Schedule of Working Capital Analysis

	June 30	
	2016	2015
Total current unrestricted assets	\$ 9,837,097	\$ 7,849,487
Less current unrestricted liabilities	<u>6,163,611</u>	<u>5,158,913</u>
Total working capital	<u>\$ 3,673,486</u>	<u>\$ 2,690,574</u>
Annual operating expenses, excluding depreciation	<u>\$ 24,722,622</u>	<u>\$ 21,586,441</u>
Percentage of working capital to annual operating expense	14.86%	12.46%