

East Lansing - Meridian Water and Sewer Authority

**Financial Report
June 30, 2003**

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Independent Auditor's Report

To the Board of Trustees
East Lansing - Meridian Water and Sewer Authority

We have audited the accompanying basic financial statements of East Lansing - Meridian Water and Sewer Authority (the Authority) as of June 30, 2003 and 2002, and for the years then ended, as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of East Lansing - Meridian Water and Sewer Authority at June 30, 2003 and 2002, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis (identified in the table of contents) is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

October 15, 2003

East Lansing - Meridian Water and Sewer Authority

Management's Discussion and Analysis

Using This Annual Report

This annual report consists of the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. Along with the footnotes, they provide detailed financial information concerning the Authority. This section, the Management's Discussion and Analysis is intended to provide an overview of the Authority's financial condition, result of operations, and other key information.

Financial Overview

In analyzing the Authority's financial position, it is important to recognize the mission of the Authority. From a financial perspective, the Authority's core objective is to manage the long-term costs of providing purified water to the Municipalities. In essence, the Authority acts as a conduit for its two Municipalities. The amounts charged to the Municipalities approximate the operating costs incurred by the Authority in providing purified water. The key financial statistics for the Authority, therefore, relate to measurement of the ability to reduce total costs to the Municipalities (as opposed to the ability to accumulate financial resources).

	2003	2002	2001
Total operating expenses	\$ 2,407,119	\$ 2,600,137	\$ 2,084,073
Total water production (in thousands of gallons)	2,676,870	2,590,140	2,388,547
Cost per thousand gallons	0.90	1.00	0.87

The cost per thousands of gallons during 2002 is higher due to the spent lime maintenance project in the amount of \$424,829 which was completed in 2002 and is performed every third year.

East Lansing - Meridian Water and Sewer Authority

Management's Discussion and Analysis (Continued)

Financial Overview (Continued)

The Authority's total net assets increased by \$306,758 from the prior year. This is due to the funding from the Municipalities of the spent lime removal maintenance project which occurs every third year. As the Municipalities desire to keep their operating contributions consistent from year to year, the Municipalities contribute annually to support the costs of the project rather than contributing every third year.

	2003	2002	% Change
Capital assets	\$ 7,934,758	\$ 8,289,139	-4%
Other assets	1,570,166	1,511,306	4%
Total assets	9,504,924	9,800,445	-3%
Long term liabilities	359,721	699,061	-49%
Other liabilities	768,331	1,031,270	-25%
Total liabilities	1,128,052	1,730,331	-35%
Net assets:			
Invested in capital assets net of related debt	7,235,377	7,074,673	2%
Restricted assets	437,324	438,610	0%
Unrestricted	704,171	556,831	26%
Total net assets	<u>\$ 8,376,872</u>	<u>\$ 8,070,114</u>	

The total assets of the Authority decreased \$295,521 from one year ago. This is a result of annual depreciation and the related decreased net carrying amount of the Authority's capital assets. In 2002 the Authority also had a receivable due from the City of East Lansing in the amount of \$138,679. This receivable was paid in fiscal year 2003 which reimbursed the Authority for costs associated with a Board of Water and Light interconnect.

The decrease in other liabilities is a result of two circumstances. The 2002 accounts payable balance includes \$138,679 of costs associated with the Board of Water and Light interconnects and there were no costs incurred with any Board of Water and Light interconnect during 2003. Secondly, bonds payable due within one year decreased as the System Improvement bond issue was paid off in the current fiscal year. The payoff of this bond issue also caused a decrease in the bond payable due beyond one year category.

East Lansing - Meridian Water and Sewer Authority

Management's Discussion and Analysis (Continued)

Financial Overview (Continued)

Intergovernmental billings are the contributions from the Municipalities to fund operating expenses. Because of this relationship, excluding the effect of the spent lime removal maintenance project, the operating expenses and intergovernmental billings should have a direct relationship as demonstrated in the prior year. In the current year, operating expenses decreased while intergovernmental billings increased as a result of the funding of the spent lime removal maintenance projects, as discussed earlier. Any excess intergovernmental billings contributed to the Authority are reimbursed back to the Municipalities and are included in nonoperating revenue (expense).

	2003	2002	% Change
Intergovernmental billings	\$ 2,497,258	\$ 2,353,774	6%
Other operating revenue	326,470	300,066	9%
Operating expenses	2,407,119	2,600,137	-7%
Net income from operations	416,609	53,703	
Nonoperating revenue (expense)	(109,851)	(47,575)	131%
Net Income	<u>\$ 306,758</u>	<u>\$ 6,128</u>	

The decrease in nonoperating revenue (expense) is a result of the decrease in the contributions from Municipalities for the Board of Water and Light interconnects. This activity is a component of nonoperating revenue (expense) and is described in the financial statements as contributions from Municipalities for construction of the BWL interconnect facility. As addressed above, there were no interconnect facilities constructed in 2003 as there were in the fiscal year 2002. Because of this, contributions from the Municipalities were not necessary.

Capital Asset and Debt Administration

The Authority incurred costs in fiscal years 2002 and 2001 related to the construction of two storage facilities and interconnect sites by the Board of Water and Light. These interconnect sites will allow the Board of Water and Light to provide water production to the Authority. There was no construction in 2003 related to the interconnect sites. The Authority has plans to complete one additional interconnect site with the Board of Water and Light in the near future.

The Authority had two outstanding debt issues of which proceeds were used for renovations and system improvements. One of these debt issues was paid off in fiscal year 2003. The Authority has no definite plans to incur additional debt financing in the near future.

East Lansing - Meridian Water and Sewer Authority

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Rates

The expected production of water by the Authority for the next fiscal year is not expected to significantly change. As a result the related operating expenses and amounts contributed by the Municipalities should not substantially change.

Contacting the Authority's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact Lisa Rober, CPA, Treasurer, East Lansing - Meridian Water and Sewer Authority, at 517-319-6892.

East Lansing - Meridian Water and Sewer Authority

Statement of Net Assets

	June 30	
	2003	2002
Assets		
Cash and cash equivalents administered by the City of East Lansing (Note 2)	\$ 1,083,385	\$ 872,889
Inventory	34,284	38,662
Receivable due from East Lansing	-	138,679
Receivable due from Meridian Township	4,292	22,466
Receivable due from the State of Michigan	10,881	-
Assets limited to use (Notes 1 and 2)	437,324	438,610
Capital assets (Note 3)	7,934,758	8,289,139
Total assets	9,504,924	9,800,445
Liabilities		
Accounts payable	111,508	286,881
Accrued payroll and related items	53,075	46,523
Accrued interest payable	12,954	23,380
Due to municipalities	251,134	159,081
Bonds payable (Note 4):		
Due within one year	339,660	515,405
Due beyond one year	359,721	699,061
Total liabilities	1,128,052	1,730,331
Net Assets		
Invested in capital assets - Net of related debt	7,235,377	7,074,673
Restricted for debt service and other purposes	437,324	438,610
Unrestricted	704,171	556,831
Total net assets (Note 8)	\$ 8,376,872	\$ 8,070,114

East Lansing - Meridian Water and Sewer Authority

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended June 30	
	2003	2002
Operating Revenue		
Intergovernmental billings from sale of water:		
City of East Lansing	\$ 1,198,684	\$ 1,035,661
Meridian Township	1,298,574	1,318,113
Contribution from municipalities for BWL contract (Note 5)	262,333	260,066
State wellhead grant	64,137	40,000
Total operating revenue	2,823,728	2,653,840
Operating Expenses		
Salaries and wages	541,186	511,171
Fringe benefits	154,246	130,917
Pension (Note 6)	33,482	39,817
Utilities	346,338	347,022
Operating supplies	279,305	228,631
Purchase of water from BWL	384,830	383,538
State wellhead grant	74,465	54,466
Spent lime removal	-	424,989
Repairs and maintenance	289,421	312,819
Outside services	167,758	42,602
Rentals	21,268	23,452
Administrative fees	25,000	25,000
Insurance	63,205	53,369
Communications	7,512	9,547
Miscellaneous	19,103	12,797
Total operating expenses	2,407,119	2,600,137
Net Income from Operations	416,609	53,703
Nonoperating Revenue (Expenses)		
Interest income	12,166	44,411
Contributions from municipalities:		
for payment of principal and interest on bonds	591,065	580,180
for construction of BWL interconnect facility	-	138,679
Return of excess billings to municipalities	(251,134)	(308,350)
Depreciation	(396,394)	(384,338)
Interest on bonds	(65,554)	(118,157)
Total nonoperating revenue (expense)	(109,851)	(47,575)
Net Income	306,758	6,128
Net Assets - Beginning of year	8,070,114	8,063,986
Net Assets - End of year	\$ 8,376,872	\$ 8,070,114

East Lansing - Meridian Water and Sewer Authority

Statement of Cash Flows

	Year Ended June 30	
	2003	2002
Cash Flows From Operating Activities		
Cash received from customers	\$ 2,997,616	\$ 3,327,285
Cash received from grants	64,137	40,000
Cash payments to employees for services rendered	(688,878)	(637,484)
Cash payments to suppliers for goods and services	<u>(1,882,682)</u>	<u>(2,464,461)</u>
Net cash provided by operating activities	490,193	265,340
Cash Flows From Capital and Related Financing Activities		
Principal and interest paid on long-term debt	(591,065)	(580,180)
Payments for the acquisition or construction of capital assets	(42,015)	(218,293)
Collection from municipalities for debt service and BWL interconnects	591,065	718,859
Return of excess billings to municipalities	<u>(251,134)</u>	<u>(308,350)</u>
Net cash used in capital and related financing activities	(293,149)	(387,964)
Cash Flows From Investing Activities		
Interest received on investments	12,166	44,411
Sale (purchase) of investments	<u>3,349</u>	<u>(16,506)</u>
Net cash from investing activities	<u>15,515</u>	<u>27,905</u>
Net Increase (Decrease) in Cash and Cash Equivalents	212,559	(94,719)
Cash and Cash Equivalents - Beginning of year	<u>1,077,075</u>	<u>1,171,794</u>
Cash and Cash Equivalents - End of year	<u>\$ 1,289,634</u>	<u>\$ 1,077,075</u>
Reconciliation of Operating Income to Cash Flows From Operating Activities		
Operating income	\$ 416,609	\$ 53,703
Adjustments to reconcile operating income to net cash from operating activities - Changes in assets and liabilities:		
(Increase) decrease in inventory	4,378	(16,668)
Increase in receivable due from Meridian Township	18,174	693,043
(Increase) decrease in receivable due from East Lansing	138,679	(138,679)
Decrease in receivable due from State of Michigan	(10,881)	-
Decrease in accounts payable	(175,373)	(489,744)
Increase in accrued payroll and related items	6,554	4,604
Increase in due to municipalitites	<u>92,053</u>	<u>159,081</u>
Net cash provided by operating activities	<u>\$ 490,193</u>	<u>\$ 265,340</u>
Balance Sheet Classification of Cash and Cash Equivalents		
Cash and cash equivalents administered by the City of East Lansing	\$ 1,083,385	\$ 872,889
Assets limited as to use	<u>206,249</u>	<u>204,186</u>
Total cash and cash equivalents	<u>\$ 1,289,634</u>	<u>\$ 1,077,075</u>

There were no significant noncash capital and related financing or investing activities during the years ending June 30, 2003 and 2002, respectively.

East Lansing - Meridian Water and Sewer Authority

Notes to Financial Statements June 30, 2003 and 2002

Note 1 - Significant Accounting Policies

The East Lansing - Meridian Water and Sewer Authority (the Authority) was jointly incorporated by the City of East Lansing and Meridian Township (the Municipalities) for the purpose of obtaining financing to construct water processing and purification facilities and selling purified water to the Municipalities.

Contributions from the Municipalities for principal payments on bonds and acquisition of capital assets are credited to nonoperating revenue. The Municipalities' share of the Authority's operating costs is based on their respective annual water consumption. Depreciation, which is allocated principally in proportion to the Municipalities' share of certain debt service requirements (Note 3), is not included as a reimbursable operating cost but is charged to income and then added back and charged to contributed capital. Assets limited as to use and interest accrued thereon are to be used for equipment replacement, renovation, and construction of certain improvements.

Basis of Accounting - The Authority utilizes the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Private-sector standards of accounting issued prior to December 1, 1989, are generally followed, unless those standards conflict with standards of the Governmental Accounting Standards Board; the Authority has elected not to follow private-sector standards issued after November 30, 1989.

Cash and Cash Equivalents - The Authority considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Inventories - Inventories are valued at cost, on a first-in, first-out basis, which approximates market value.

Property, Plant, and Equipment - Property, plant, and equipment are recorded at cost. Depreciation is computed by the straight-line method based on the estimated useful lives, which range from 10 to 50 years, except for wells that have an estimated useful life of 80 years.

Return of Reserve to Municipalities - Pursuant to a decision by the Board, the Authority reviews the contributions by the respective Municipalities. The contributions are analyzed, and a return to the Municipalities in excess of operating expenses occurs.

East Lansing - Meridian Water and Sewer Authority

Notes to Financial Statements June 30, 2003 and 2002

Note 2 - Deposits and Investments

The Authority's deposits and investments are included on the balance sheet under the following classifications:

	<u>2003</u>	<u>2002</u>
Cash and cash equivalents administered by the City of East Lansing for operations	\$ 1,083,385	\$ 872,889
Limited as to use:		
Cash and cash equivalents	206,249	204,186
Investments, at fair value	<u>231,075</u>	<u>234,424</u>
Total limited as to use	<u>437,324</u>	<u>438,610</u>
Total	<u>\$ 1,520,709</u>	<u>\$ 1,311,499</u>

The above amounts are classified by Governmental Accounting Standards Board Statement # 3 in the following categories:

Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 437,324	\$ 438,610
Cash and cash equivalents administered by the City of East Lansing	<u>1,083,385</u>	<u>872,889</u>
Total	<u>\$ 1,520,709</u>	<u>\$ 1,311,499</u>

Deposits - The above deposits were reflected in the accounts of the bank of the Authority (without recognition of checks written but not yet cleared or of deposits-in-transit) at \$430,573 and \$423,520 on June 30, 2003 and 2002, respectively. Of these amounts, \$200,000 was covered by federal depository insurance at June 30, 2003 and 2002, and \$230,573 and \$223,520 were uninsured and uncollateralized at June 30, 2003 and 2002, respectively. The Authority believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution it deposits Authority funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

East Lansing - Meridian Water and Sewer Authority

Notes to Financial Statements June 30, 2003 and 2002

Note 3 - Capital Assets

Capital asset activity for the year ended June 30, 2003, was as follows:

	2002	Additions	2003	Depreciable Life-Years
Land	\$ 277,812	\$ -	\$ 277,812	-
Equity in BWL interconnect facility	854,188	-	854,188	10
Water treatment plant	6,876,105	32,471	6,908,576	10-40
Wells, mains, and equipment	<u>5,538,144</u>	<u>9,544</u>	<u>5,547,688</u>	10-80
Total	13,546,249	42,015	13,588,264	
Less accumulated depreciation	<u>(5,257,110)</u>	<u>(396,396)</u>	<u>(5,653,506)</u>	
Net carrying amount	<u>\$ 8,289,139</u>	<u>\$ (354,381)</u>	<u>\$ 7,934,758</u>	

Note 4 - Long-Term Debt

The Authority issues bonds to provide for the acquisition and construction of capital facilities. Long-term debt activity can be summarized as follows:

	Outstanding at June 30, 2002	Paid During Year Ended June 30, 2003	Outstanding at June 30, 2003	Due Within one Year
Water Supply System Improvement Bonds, dated July 1, 1988, maturing in the amount of \$200,000 in 2003 with the interest rate at 7.0%	\$ 195,405	\$ 195,405	\$ -	\$ -
System Improvement Bonds, dated December 1, 1992, and maturing serially in amounts progressing from \$340,000 to \$360,000 in 2005 with interest rates ranging from 5.5% to 5.6%	<u>1,019,061</u>	<u>319,680</u>	<u>699,381</u>	<u>339,660</u>
Total	<u>\$ 1,214,466</u>	<u>\$ 515,085</u>	<u>\$ 699,381</u>	<u>\$ 339,660</u>

East Lansing - Meridian Water and Sewer Authority

Notes to Financial Statements June 30, 2003 and 2002

Note 4 - Long-Term Debt (Continued)

The full faith and credit of the Municipalities are pledged for payment of their respective shares of the System Improvement Bonds. As additional collateral for the payments on each bond issue, the Municipalities have pledged up to 25 percent of their annual sales tax proceeds from the State of Michigan. Proceeds from the System Improvement Bonds were used for renovations and system improvements. Corresponding interest and principal payments are shared by the City of East Lansing (50.3 percent) and Meridian Township (49.7 percent).

The Water Supply System Improvement Bonds of 1988 are not a general obligation of the Authority, but are payable solely from contractual payments from Meridian Township. The contract between the Authority and Meridian Township provides that Meridian Township will pay to the Authority amounts sufficient to fund the principal and interest requirements on the bonds.

Debt Service Requirements - The annual requirement to service all debt outstanding as of June 30, 2003, including both principal and interest are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 339,660	\$ 39,200	\$ 378,860
2005	<u>359,721</u>	<u>20,439</u>	<u>380,160</u>
Total	<u>\$ 699,381</u>	<u>\$ 59,639</u>	<u>\$ 759,020</u>

East Lansing - Meridian Water and Sewer Authority

Notes to Financial Statements June 30, 2003 and 2002

Note 5 - BWL Wholesale Water Service Agreement

The Authority has entered into various agreements throughout the years with the Board of Water and Light of the City of Lansing (BWL) to provide connection and water services to both the City of East Lansing and Meridian Township. In conjunction with these agreements, certain interconnect fees are charged to the Municipalities.

Note 6 - Defined Benefit Pension Plan and Postretirement Benefits

Plan Description - The Authority participates in the Michigan Municipal Employees' Retirement System (MERS), an agent, multiple-employer defined benefit pension plan that covers all employees of the Authority. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Authority represents a division within the actuarial report of the City of East Lansing. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1147 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by the Authority's Board of Trustees and requires no contribution from the employees.

Annual Pension Costs - For the year ended 2003, the Authority's annual pension cost of \$33,482 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2001, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8.0 investment rate of return, and (b) projected salary increases of 4.5 percent per year. Both (a) and (b) include an inflation assumption of 4.5 percent per year. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 year.

East Lansing - Meridian Water and Sewer Authority

Notes to Financial Statements June 30, 2003 and 2002

Note 6 - Defined Benefit Pension Plan and Postretirement Benefits (Continued)

Three-year trend information as of June 30 follows:

	Fiscal Year Ended December 31		
	2001	2002	2003
General Employees' Retirement System:			
Annual pension costs (APC)	\$ 39,605	\$ 39,817	\$ 33,482
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

Postretirement Benefits - The Authority will provide health care benefits to various employees in accordance with the personnel rules upon retirement. Currently, the Authority has no retirees. The Authority includes retirees and their spouses in a commercial health insurance policy, with no contribution required by the participant. During the year, there were no premiums paid as there are no retirees. There is also no advance funding of health insurance for retirees.

Note 7 - Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The Authority has purchased commercial insurance for property loss, torts, errors and omissions, and medical benefits provided to employees claims, and participates in the Michigan Municipal League risk pool program for claims relating to employee injuries (workers' compensation). Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

East Lansing - Meridian Water and Sewer Authority

Notes to Financial Statements June 30, 2003 and 2002

Note 8 - Allocation of Net Assets

Allocation of Net Assets is as follows:

	<u>2003</u>	<u>2002</u>
City of East Lansing	\$ 2,345,054	\$ 2,349,124
Meridian Township	4,284,791	4,157,115
Unallocated	<u>1,747,027</u>	<u>1,563,875</u>
Total	<u>\$ 8,376,872</u>	<u>\$ 8,070,114</u>