

Ypsilanti Community Utilities Authority

Environmental Leaders



**Dedicated to Providing Top Quality, Cost Effective, and Environmentally Safe
Water and Wastewater Services to our Customers**

ANNUAL REPORT

Year Ended August 31, 2003



REHMANN ROBSON

Certified Public Accountants

YPSILANTI COMMUNITY UTILITIES AUTHORITY
Comprehensive Annual Financial Report
For the Fiscal Year Ended August 31, 2003

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YPSILANTI COMMUNITY UTILITIES AUTHORITY

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November 26, 2003

**To the Commissioners of the Ypsilanti Community
Utilities Authority and Citizens of the Member Communities:**

State law requires that all local governments, subject to certain size criteria, publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the Ypsilanti Community Utilities Authority (“YCUA” or the “Authority”) for the fiscal year ended August 31, 2003.

This report consists of management’s representations concerning the finances of the Authority. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, YCUA management has established a comprehensive internal control framework that is designed both to protect the government’s assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Authority’s financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Authority’s comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The Authority’s financial statements have been audited by Rehmann Robson, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Authority for the fiscal year ended August 31, 2003 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that YCUA’s financial statements for the fiscal year ended August 31, 2003 are fairly presented in conformity with GAAP. The independent auditor’s report is presented as the first component of the financial section of this report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The Authority's MD&A can be found immediately following the report of the independent auditors.

Profile of the Authority

YCUA provides water and wastewater services to the Ypsilanti area. The Authority is governed by a Board of Commissioners comprised of two representatives from the City of Ypsilanti (the "City") and three from the Charter Township of Ypsilanti (the "Township").

The Authority provides water and sewage services to the City and Township, as well as the townships of Pittsfield, Augusta and Superior. YCUA also contracts with Sumpter Township for wastewater treatment and the Western Townships Utility Authority to provide wastewater treatment services for the townships of Canton, Northville and Plymouth.

The Authority was formed in 1974 by the Township and City in response to a number of factors occurring at that time. The need for a new wastewater treatment facility was the most significant driving force to bring about the creation of YCUA. By combining the water and sewer departments of both the City and Township, economic benefits through the elimination the staff duplication and economies of scale could be achieved. The fact that the City is almost completely surrounded by the Township makes the combination of the two systems an obvious economic advantage.

The new wastewater plant was opened in 1982 with a capacity of 28.9 million gallons per day (MGD). The wastewater treatment consists of primary screening, grit removal, primary clarification, and secondary and tertiary treatment utilizing the activated sludge process. A permit is issued from the Michigan Department of Environmental Quality (MDEQ) that regulates the discharge from the wastewater treatment plant. This permit requires stable effluent treatment levels and the plant currently is in compliance with its permit.

Growth in the Wayne County townships of Plymouth, Canton and Northville has resulted in a request by the Western Townships Utilities Authority (WTUA), the organization that represents the three townships, to expand our plant to treat the wastewater generated by these communities. Presently, the wastewater from the three communities is divided between the YCUA and Wayne County systems.

Construction on the plant expansion and improvements project, which will add 17 MGD to the YCUA wastewater facility, began in 2002 and will continue through 2006. The plant will then be able to handle all of the sewage of Northville, Plymouth and Canton Townships. The plan calls for plant updating, more odor controls, safer disinfection equipment and a more efficient incinerator for burning sewage sludge, which will replace our current unit. Engineers estimate air pollution will be reduced by more than 80%. Eight MGD capacity has been leased to WTUA, which will help pay for many of these improvements.

Construction has begun on the plant expansion/improvements project and is approximately 25% completed. The remainder of the \$112 million project will be completed by 2006 and will include improvements to the administration building, maintenance building, filter building, disinfection systems, grit and screening building, clarifiers and basins. Major modifications will also be made to the plant's solids processing building. WTUA's share of the project cost is currently estimated to be 71.6%; the Authority will be responsible for the remaining portion. At completion, WTUA will have rights to use up to 54% of the total plant capacity.

The first phase of the plant expansion started in June 2002 with construction of an ultraviolet (UV) disinfection facility. The UV disinfection facility is complete, online and working, allowing for the removal of liquid chlorine and sulfur dioxide from the plant site.

Cash management policies and practices. The Authority is very conservative in its approach to cash management. Generally, cash is deposited in receiving bank accounts and then transferred to and between a variety of other bank accounts, many of which are interest bearing including money market and cash management accounts and certificates of deposit. These transfers are made to satisfy various requirements/restrictions imposed, or interpreted to be imposed, by the member governments and/or bond ordinances, but have led to extreme inefficiencies in the Authority's administrative operations. Accordingly, remedial actions to address the inefficiencies will be taken this next fiscal year, while maintaining conservatism in cash management.

Cash received from WTUA for the wastewater treatment plant construction project was placed in a separate trust account and invested in U.S. government securities and money market funds. As construction costs are invoiced, WTUA's share of these costs is drawn from the trust account.

Pension and other postemployment benefits. The Authority participates in an agent multiple-employer plan that provides pension benefits for all full-time employees. The annual actuarial valuation for this plan shows that it is 68% funded as of December 31, 2002 (the date of the latest actuarial valuation). The remaining unfunded amount is being systematically funded over 29 to 37 years as part of the annual required contribution calculated by the actuary.

The Authority also provides postretirement health care benefits to all full-time employees upon retirement. As of the end of the current fiscal year, there were 39 retired employees receiving these benefits, which are financed on a pay-as-you-go basis. GAAP do not require governments to report a liability in the financial statements in connection with an employer's obligation to provide these benefits.

Additional information on the Authority's retirement plan and postemployment benefits can be found in Notes 4-C and 4-D in the notes to the financial statements.

Acknowledgements

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Ypsilanti Community Utilities Authority. We would like to express our appreciation to all members of the departments who assisted and contributed to the preparation of this report. Credit also must be given to the Board of Commissioners for their support in maintaining the highest standards of professionalism in the management of the Authority's finances.

Larry R. Thomas
Executive Director

FINANCIAL SECTION



REHMANN ROBSON

Certified Public Accountants

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BAKER TILLY
INTERNATIONAL

INDEPENDENT AUDITORS' REPORT

November 26, 2003

To the Board of Commissioners of the
Ypsilanti Community Utilities Authority
Ypsilanti, Michigan

We have audited the accompanying basic financial statements of the *Ypsilanti Community Utilities Authority* as of and for the year ended August 31, 2003, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. 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 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Ypsilanti Community Utilities Authority as of August 31, 2003, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2-8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The introductory section, supplementary financial schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary financial schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Rehmann Robson

MANAGEMENT'S DISCUSSION and ANALYSIS



Management's Discussion and Analysis

As management of the *Ypsilanti Community Utilities Authority* we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended August 31, 2003. We encourage readers to consider the information presented herein conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i-iv of this report.

Financial Highlights

- The assets of the Authority exceeded its liabilities at the close of the most recent fiscal by \$130,988,151 (*net assets*). Of this amount, \$3,039,435 (*unrestricted net assets*) may be used to meet the Authority's ongoing obligations to citizens and creditors.
- The Authority's total net assets increased by \$30,205,298.
- The Authority's total long-term debt (i.e., bonds and capital leases) increased by \$26,902,922 during the current fiscal year; \$33.3 million of new debt was incurred during the year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The basic financial statements are comprised of:

- The *statement of net assets* presents information on all of the Authority's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.
- The *statement of activities* presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

- The *statement of cash flows* presents the change in the Authority's cash and investments for the most recent fiscal year.
- The *notes to the financial statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

This report also contains other supplementary information in addition to the basic financial statements themselves. Generally, these schedules provide a breakdown of revenue and expenses between the political subdivisions (i.e., the City and Township) and/or the primary operating functions (i.e., water and wastewater), along with a comparison of planned and actual expenses.

The Authority presents its supplementary financial information classified into the components of city, township, water and wastewater. The city and township divisions together comprise the activity of the Authority in total. The water and wastewater divisions together also comprise the activity of the Authority in total. The water and wastewater divisions assist management in assessing the financial activity of the Authority's principal functions. The city and township divisions assist the member communities in assessing the impact of operations on their constituents.

The Authority operates a single wastewater treatment plant, obtains its water from a single source and maintains a single group of related supporting functions. It is not possible to directly associate the cost of these activities to the city or township divisions. Instead, the reporting by division is achieved by allocating particular revenue and expense account balances using relevant objective measures. Similar allocations are used to produce financial information for the water and wastewater divisions.

Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of YCUA, assets exceeded liabilities by \$130,988,151 at the close of the most recent fiscal year.

By far the largest portion of the Authority's net assets (72.2 percent) is its investment in capital assets (e.g., land, buildings, systems, equipment and construction in process), less any related debt used to acquire those assets that is still outstanding. The Authority uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although YCUA's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Authority's net assets (25.5 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the Authority's ongoing obligations to system users and creditors.

At the end of the current fiscal year, the Authority is able to report positive balances in all three categories of net assets. The same situation held true for the prior fiscal year.

YCUA's Net Assets

	2003	2002
Current and other assets	\$ 20,387,983	\$ 16,345,210
Restricted assets	33,352,321	14,940,786
Capital assets	152,786,027	117,026,043
Total assets	206,526,331	148,312,039
Long-term liabilities outstanding	62,849,974	36,631,176
Other liabilities	12,688,206	10,928,010
Total liabilities	75,538,180	47,559,186
Net assets:		
Invested in capital assets, net of related debt	94,596,395	79,821,659
Restricted	33,352,321	14,940,786
Unrestricted	3,039,435	5,990,408
Total net assets	\$130,988,151	\$100,752,853

The Authority's net assets increased by \$30,205,298 during the current fiscal year. Key elements of this increase include:

- Capital contributions in excess of \$29.2 million were made to the Authority.
- Water sales increased by \$576,498 or 6.7 percent; total water usage decreased by 6.3 percent.
- Sewage disposal sales increased by \$326,488 or 2.5 percent. Total wastewater generated by the City and Township decreased by 3.5 percent, whereas wastewater treated for WTUA increased 0.1 percent.
- Total operating expenses declined by \$1,441,419 or 5.6 percent primarily through cost control measures implemented by management including layoffs and early retirements, although the full impact of these staff reductions will be recognized until fiscal 2003-04.

- Both the city and township divisions increased rates during the fiscal year. The increased rates, like the staff reductions, had minimal impact, on current year and will have greater impact next year.

The city division increased water rates 8 percent, sewer rates 3 percent and the surcharge from 32 percent to 54 percent, and eliminated the 5 percent discount for early payment. These increases all became effective July 1, 2003.

The township division increased water rates 15 percent and sewer rates 3 percent, instituted a surcharge of 5 percent, and eliminated the 10 percent discount for early payment. These increases were effective June 1, 2003, except for the sewer rate increase, which was effective July 1, 2003. The Township also passed on ordinance during the year providing for an automatic water rate increase if the water supplier (i.e., the City of Detroit) increases its rates.

YCUA's Changes in Net Assets

	<u>2003</u>	<u>2002</u>
Operating revenue	\$ 25,897,929	\$ 24,353,571
Expenses:		
Water distribution	9,627,598	8,844,051
Wastewater treatment	<u>16,145,090</u>	<u>15,487,218</u>
Total expenses	<u>25,772,688</u>	<u>24,331,269</u>
Operating income	125,241	22,302
Non-operating revenue (expense)	<u>273,549</u>	<u>(165,089)</u>
Net income (loss)	398,790	(142,787)
Capital contributions	<u>29,806,508</u>	<u>3,923,438</u>
Change in net assets	30,205,298	3,780,651
Net assets - beginning	<u>100,782,853</u>	<u>97,002,202</u>
Net assets - end of year	<u><u>\$130,988,151</u></u>	<u><u>\$100,782,853</u></u>

Capital Asset and Debt Administration

Capital assets. YCUA's investment in capital assets as of August 31, 2003, amounted to \$152.8 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, plants, transmission lines, vehicles and other equipment. Total net capital assets increased by \$35.8 million or 30.6 percent. The vast majority of the increase is attributable to the wastewater treatment plant expansion and improvements.

YCUA's Capital Assets (net of depreciation)

	<u>2003</u>	<u>2002</u>
Land	\$ 1,298,704	\$ 1,298,704
Buildings and improvements	1,472,611	1,527,011
Wastewater treatment plan	32,769,159	34,386,519
Water and wastewater systems	64,692,036	53,669,374
Vehicles	833,685	724,820
Equipment	1,973,455	1,699,803
Construction in process	<u>49,746,377</u>	<u>23,719,812</u>
Total	<u>\$152,786,027</u>	<u>\$117,026,043</u>

Additional information on the Authority's capital assets can be found in Note 3-D on page 20 of this report.

Long-term debt. At year-end, the Authority had \$62,457,217 of long-term debt including limited tax obligation bonds, capital leases and other obligations as summarized below.

YCUA's Outstanding Debt

	<u>2003</u>	<u>2002</u>
Limited tax obligation bonds	\$ 31,290,755	\$ 15,307,056
Capital leases	30,016,462	19,097,239
Environmental liability	<u>1,150,000</u>	<u>1,150,000</u>
Total	<u>\$ 62,457,217</u>	<u>\$ 35,554,295</u>

Additional information on the Authority's long-term debt can be found in Note 3-E on pages 21-26 of this report.

Economic Factors Affecting Next Year's Operations and Rates

The City and Township independently set their own water rates. Wastewater operation and maintenance rates are the same for each community, a requirement imposed by the federal government when it provided funds to build the original wastewater treatment plant.

Water and wastewater revenues fluctuate from year-to-year depending on factors such as consumer behavior, population growth, industrial usage and rate changes. Consumer behavior is affected by local economic conditions, the weather, conservation education efforts and imposition of water restrictions.

Other factors also affect the Authority's operating plan for fiscal 2004. The most significant among them are changes in consumer behavior in response to local economic conditions, the effects of inflation on the local labor market and health care costs, and the rates charged by the Authority's water supplier (i.e., the City of Detroit Water Board).

YCUA's plan reflects a belief that local economic conditions will not change significantly from those during fiscal 2003. Inflation in the local labor markets will remain moderate, whereas inflation in Detroit water rates and health care costs will be significant. In response to these factors and prior year operating losses, ordinances have been passed to increase water and wastewater rates as previously described.

The Authority's operating budget for fiscal 2004 is approximately \$30 million; key provisions include:

- An increase of roughly 10 percent in operating revenue attributable to rate increases.
- A net increase of 2.8 percent in operating expenses due to escalating costs for purchased water, sludge disposal during plant expansion project and health care costs. There are no scheduled wage increases for fiscal 2004.

The capital budget for fiscal 2004 totals approximately \$25 million due to the large investment in the expansion and rehabilitation at the wastewater treatment plant. Delivering water to our customers and collecting and treating the wastewater generated are the primary functions of the Authority. In addition, planning for the future water and wastewater needs of our communities is a vital function. Other capital asset activity scheduled to occur in addition to the plant expansion includes:

- Construction of an additional water connection from the Detroit water distribution system. As the municipalities to which YCUA provides water continue to grow, an additional connection is needed for redundancy, so that if our present connection is down for repairs or other emergency, we can continue to supply uninterrupted water to our customers.

- Many water and sewer mains within the City and Township have been identified as needing replacement, either because of age or inadequate size. These replacements are being scheduled as time and funds permit. In fiscal 2004, about 8 miles of water main in the City are scheduled for replacement.

These projects will be funded primarily through debt. The City expects to issue bonds in the amount of \$8.0 million through the Michigan Drinking Water Revolving Fund at an interest rate of 2.5 percent.

Requests for Information

This financial report is designed to provide a general overview of YCUA'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 Ypsilanti Community Utilities Authority, Accounting Department, 2777 State Road, Ypsilanti, Michigan 48198.

BASIC FINANCIAL STATEMENTS

YPSILANTI COMMUNITY UTILITIES AUTHORITY
Statement of Net Assets
August 31, 2003

Assets

Current assets:

Cash and investments	\$ 8,136,360
Receivables, net	10,564,060
Inventories	616,513
Prepaid items	87,126
Total current assets	19,404,059

Noncurrent assets:

Restricted assets:

Cash and investments	31,582,218
Funds on deposit with City of Ypsilanti	1,770,103
Receivables, long-term portion	510,087
Capital assets not being depreciated	51,045,081
Capital assets being depreciated, net	101,740,946
Unamortized bond issuance costs	473,837
Total noncurrent assets	187,122,272

Total assets	206,526,331
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Liabilities

Current liabilities:

Accounts payable	9,320,162
Retentions, deposits and other liabilities	2,912,466
Accrued interest payable	455,578
Current maturities of long-term liabilities	2,295,842
Current maturities of accrued compensated absences	572,569
Total current liabilities	15,556,617

Long-term liabilities:

Bonds payable	30,556,880
Capital leases payable	28,482,086
Environmental liability	350,000
Accrued compensated absences	592,597
Total long-term liabilities	59,981,563

Total liabilities	75,538,180
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Net assets

Investment in capital assets, net of related debt	94,596,395
Restricted	33,352,321
Unrestricted	3,039,435
Total net assets	\$ 130,988,151

The accompanying notes are an integral part of these financial statements.

YPSILANTI COMMUNITY UTILITIES AUTHORITY
Statement of Activities
For the Year Ended August 31, 2003

Operating revenue	
Water sales	\$ 8,616,377
Sewage disposal sales	13,235,087
Surcharges and other usage fees:	
Capital improvement surcharge	1,770,749
Construction reserve	352,915
Environmental reserve	93,542
Capital cost recovery	286,431
Other operating revenue	2,248,813
Sales discounts	(705,985)
Total operating revenue	<u>25,897,929</u>
 Operating expenses	
Water distribution	5,282,942
Wastewater treatment	10,882,313
Wastewater pump stations	805,890
Industrial surveillance	146,967
Transmission and distribution	5,049,571
Meter service	1,121,564
Customer accounting and collections	651,361
General and administration	1,832,080
Total operating expenses	<u>25,772,688</u>
 Operating income	<u>125,241</u>
 Non-operating income (expense)	
Investment earnings	21,493
Connection fees	1,066,491
Debt service contribution from City of Ypsilanti	211,511
Interest and amortization expense	(1,023,113)
Gain (loss) on disposal of capital assets	(2,833)
Total non-operating income (expense)	<u>273,549</u>
 Net income	398,790
 Capital contributions	<u>29,806,508</u>
 Change in net assets	30,205,298
 Net assets, beginning of year, as restated	<u>100,782,853</u>
 Net assets, end of year	<u><u>\$ 130,988,151</u></u>

The accompanying notes are an integral part of these financial statements.

YPSILANTI COMMUNITY UTILITIES AUTHORITY

Statement of Cash Flows For the Year Ended August 31, 2003

Cash flows from operating activities	
Receipts from customers and users	\$ 25,689,269
Payments to suppliers	(10,879,939)
Payments to employees and employee benefits	(10,576,744)
Net cash provided by operating activities	<u>4,232,586</u>
Cash flows from capital and related financing activities	
Proceeds from issuance of long-term debt	32,691,332
Payment of bond issuance costs	(224,420)
Bond reserve funds deposited with the City of Ypsilanti	(1,381,448)
Acquisition and construction of capital assets	(30,944,910)
Principal payments on long-term debt	(6,403,879)
Interest payments on long-term debt	(2,345,969)
Receipts for debit service costs	211,511
Receipts from capital contributions	18,624,072
Receipts from connection fees	1,066,491
Net cash provided by capital and related financing activities	<u>11,292,780</u>
Cash flows from investing activities	
Interest received on investments	<u>293,890</u>
Net increase in cash and cash equivalents	15,819,256
Cash and investments, beginning of year	<u>23,899,322</u>
Cash and investments, end of year	<u>\$ 39,718,578</u>
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 125,241
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation	4,296,311
Changes in current assets and liabilities:	
Receivables	(208,660)
Inventories	123,659
Prepaid items	42,999
Accounts payable	(807,928)
Retentions, deposits and other liabilities	741,053
Accrued compensated absences	(80,089)
Net cash provided by operating activities	<u>\$ 4,232,586</u>

The accompanying notes are an integral part of these financial statements.

NOTES to the FINANCIAL STATEMENTS

YPSILANTI COMMUNITY UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

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YPSILANTI COMMUNITY UTILITIES AUTHORITY

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1-A. Reporting Entity

The accompanying financial statements present the activities of the Ypsilanti Community Utilities Authority (the “Authority”). The Authority has no component units – i.e., separately legal entities for which the Authority is financially accountable – nor is it reported as a component unit of another government.

The Authority was formed on March 19, 1974, when the City of Ypsilanti (the “City”) and Ypsilanti Township (the “Township”) entered into an agreement to create a utility authority pursuant to Public Act 233 of 1995, as amended. The two governments approved the Authority’s Articles of Incorporation on September 3, 1974.

On October 1, 1974, a contract was executed between the Authority and the two governments giving the Authority the responsibility for providing water distribution and wastewater treatment services to residents of the City and Township. This responsibility includes all activities necessary to provide such services including but not limited to: administration, operations, maintenance, financing, debt service, billing and collections. The contract also permits the Authority to expand and improve both the water and wastewater systems.

A five-member board of commissioners governs the Authority. Three of the members are appointed by the Township, the other two are appointed by the City.

In addition to serving residents of the City and Township, the Authority also sells water distribution and wastewater treatment services capacity to neighboring governments under contractual agreements.

1-B. Basis of Presentation / Measurement Focus / Basis of Accounting

The Authority’s uses a single proprietary or enterprise fund to account for and report its financial activities, which are limited to *business-type activities* – i.e., activities that are financed in whole or in part by fees charged to external parties and are operated in a manner similar to private business where the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

The Authority follows private-sector standards of accounting and financial reporting issued prior to December 1, 1989, unless those standards conflict with guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

YPSILANTI COMMUNITY UTILITIES AUTHORITY

Notes to Financial Statements

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations, which for the Authority is water distribution and wastewater treatment. Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

1-C. Assets, Liabilities and Equity

Deposits and Investments

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize local governments to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

Investments, if any, are stated at fair value.

Receivables

Trade receivables are shown net of an allowance for uncollectible non-residential accounts; an allowance is not made for residential accounts since any such delinquencies may be added to the City and/or Township property tax rolls for collection.

The receivable from the Western Townships Utility Authority (WTUA) represents amounts due from that entity for its agreed-upon capital contributions to the Authority's wastewater treatment plant expansion project.

Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Restricted Assets

The proceeds of certain bond issues or capital lease agreements with the City and/or Township, as well as certain other resources, are classified as restricted assets on the statement of net assets to indicate that their use is limited as stipulated by contract or ordinance.

YPSILANTI COMMUNITY UTILITIES AUTHORITY

Notes to Financial Statements

Capital Assets

Capital assets, which include property, plant and equipment, are recorded at cost. The Authority defines capital assets as: assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of two years. Donated capital assets, if any, are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets, if any, is included as part of the capitalized value of the assets constructed. During the year, \$1,448,499 of net interest costs were capitalized.

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

<u>Assets</u>	<u>Years</u>
Buildings and building improvements	40
Water and wastewater system infrastructure	5-50
Vehicles and heavy equipment	5-20
Machinery and equipment	5-20

Compensated Absences

It is the Authority's policy to permit employees to accumulate earned but unused vacation and sick leave pay benefits, subject to certain limitations. All vacation and sick pay are accrued when incurred since 100 percent of the unused benefits are payable upon employee separation from service with the Authority.

Long-term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the debt using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

YPSILANTI COMMUNITY UTILITIES AUTHORITY

Notes to Financial Statements

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

2-A. Budgetary Information

State statutes provide that local units shall adopt budget appropriations for general and special revenue funds (i.e., governmental fund types); as such, the Authority is not required to adopt a budget for State compliance purposes. However, under its contract with the City and Township the Authority is required to prepare an annual operating budget that is subject to review and approval by the Authority Board, as well as the governing boards of the City and Township.

2-B. Rate Setting

Any rate changes, including increases, must be approved by the Authority Board, as well as the governing board of either the City or Township depending on the particular service and service area. That is, the Ypsilanti City Council has the ultimate rate setting responsibility for users located in the City, whereas the Ypsilanti Township Board has the ultimate responsibility for users located in the Township.

NOTE 3 – DETAILED NOTES

3-A. Deposits and Investments

Following is a summary of deposit and investment balances as of August 31, 2003:

Statement of Net Assets:

Cash and investments	\$ 8,136,360
Restricted cash and investments	<u>31,582,218</u>

Total **\$ 39,718,578**

Deposits and Investments:

Bank deposits (checking accounts, savings accounts and certificates of deposit)	\$ 7,343,301
Investments in securities and money market accounts	32,374,227
Cash on hand	<u>1,050</u>

Total **\$ 39,718,578**

YPSILANTI COMMUNITY UTILITIES AUTHORITY

Notes to Financial Statements

Deposits. At year-end, the carrying amount of deposits was \$7,343,301. The bank balance was \$8,785,087. Of the bank balance, \$706,592 was covered by federal depository insurance. The remaining balance of \$8,078,495 was 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 bank deposits. As a result, the Authority evaluates each financial institution with which it deposits Authority funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments. The Authority's investments have been classified into the following three categories of credit risk: (1) insured or registered, or securities held by the Authority or its agent in the Authority's name; (2) uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Authority's name; or (3) uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Authority's name.

The following schedule classifies the Authority's investments as of August 31, 2003, into the above noted categories:

	<u>Category</u>			<u>Carrying Amount (Fair Value)</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Uncategorized</u>
U.S. government securities	<u>\$ -</u>	<u>\$ 19,004,717</u>	<u>\$ -</u>	\$ 19,004,717
Cash management funds (uncategorized as to risk)				<u>\$ 13,369,510</u>
Total investments				<u>\$ 32,374,227</u>

YPSILANTI COMMUNITY UTILITIES AUTHORITY

Notes to Financial Statements

3-B. Receivables

Receivables as of August 31, 2003 are summarized as follows:

Accounts	\$ 4,987,787
Due from Western Townships Utility Authority	5,228,410
Due from City of Ypsilanti	38,746
Accrued investment interest	183,963
Benefit charges	380,399
Special assessments	125,596
Note	<u>129,246</u>
	11,074,147
Less long-term portion of benefit charges, special assessments and note	<u>(510,087)</u>
	<u>\$ 10,564,060</u>

The benefit charges are amounts that certain property owners owe the Authority in lieu of special assessments to cover construction costs of water and wastewater line extensions. Such amounts are payable over 30 equal bi-monthly installments plus interest at annual rate of 7.0%. The special assessments, which represent liens against the applicable properties, mature in December 2010 and are due in equal annual installments plus interest at 5.0% of the outstanding balance. The note receivable, which is due from Willow Run Airport, is unsecured and matures in December 2008 with monthly installments of \$2,613 including interest at 9.5% per annum.

YPSILANTI COMMUNITY UTILITIES AUTHORITY

Notes to Financial Statements

3-C. Restricted Assets

Restricted cash and investments as of August 31, 2003 are summarized as follows:

<u>Description / Reference</u>	<u>Amount</u>
Township bond and interest redemption reserve	
Ordinance No. 11, section 13;	\$ 5
Township bond and interest reserve	
Ordinance No. 11, section 13; amended by Ordinance No. 47	304,452
Township construction reserve surcharge	
Ordinance No. 124, sections A(10) and B(9)	1,438,639
City construction reserve surcharge	
Ordinance No. 697, section 2.137	666,269
City debt retirement and capital improvements surcharge	
Ordinance No. 696, amended by Ordinance No. 959	694,483
Wastewater treatment plant improvement reserve	
WTUA wastewater disposal agreement, as amended	386,432
EPA replacement reserve	
EPA regulatory requirements	1,625,079
Township environmental reserve surcharge	
Ordinance No. 11, section 9; amended by Ordinance No. 134	1,440,912
WTUA construction trust account	
WTUA wastewater disposal agreement, as amended	22,680,771
Construction project bond/capital lease proceeds	
Bond ordinances	<u>2,345,176</u>
	<u>\$ 31,582,218</u>

YPSILANTI COMMUNITY UTILITIES AUTHORITY

Notes to Financial Statements

3-D. Capital Assets

Capital assets activity for the year ended August 31, 2003 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 1,298,704	\$ -	\$ -	\$ 1,298,704
Construction in progress	23,719,812	36,707,645	(10,681,080)	49,746,377
Total capital assets not being depreciated	25,018,516	36,707,645	(10,681,080)	51,045,081
Capital assets being depreciated:				
Buildings and improvements	2,169,923	-	-	2,169,923
Wastewater treatment plant	66,026,776	172,808	-	66,199,584
Water and wastewater systems	86,521,713	12,914,490	(813)	99,435,390
Vehicles	2,263,345	274,393	(63,847)	2,473,891
Equipment	2,444,540	671,991	(94,250)	3,022,281
Total capital assets being depreciated	159,426,297	14,033,682	(158,910)	173,301,069
Less accumulated depreciation for:				
Buildings and improvements	642,912	54,400	-	697,312
Wastewater treatment plant	31,640,257	1,834,314	(44,146)	33,430,425
Water and wastewater systems	32,852,339	1,891,828	(813)	34,743,354
Vehicles	1,538,525	165,528	(63,847)	1,640,206
Equipment	744,737	350,241	(46,152)	1,048,826
Total accumulated depreciation	67,418,770	4,296,311	(154,958)	71,560,123
Total capital assets being depreciated, net	92,007,527	9,737,371	(3,952)	101,740,946
Total capital assets, net	\$ 117,026,043	\$ 46,445,016	\$ (10,685,032)	\$ 152,786,027

The Authority has active construction projects as of August 31, 2003. The primary projects include the expansion and renovation of the wastewater treatment plant and a second water connection to the supplier. At year-end, the Authority had spent roughly \$29.3 million with contractors and its remaining commitments were approximately \$85.7 million

These projects are being financed through a combination of bond issues, capital lease agreements (with underlying bond issues generally through the City), and capital contributions from other governments under agreements to lease system capacity.

YPSILANTI COMMUNITY UTILITIES AUTHORITY

Notes to Financial Statements

3-E. Long-term Debt

Limited tax obligation bonds. The Authority issues bonds that are backed by the full faith and credit of the City or Township, but where the income derived from the acquired or constructed assets is intended to pay debt service. These bonds are issued as 10 to 20-year serial bonds with varying amounts of principal maturing each year. The original amount of bonds issued in prior years for the items listed below was \$17,313,677. During the year, bonds totaling \$20,005,000 were issued, although the cash draws against the 2003 Drinking Water Revolving Fund bond were limited to \$228,699, which was the amount of project construction costs incurred through year end. The total amount authorized under this issue is \$3,355,000; accordingly, \$3,126,301 is still available and expected to be drawn.

Limited tax obligation bonds outstanding at year-end are as follows:

	<u>Credit</u>	<u>Interest Rates</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
1994B refunding	City	2.75%	\$ 455,000	\$ -	\$ (220,000)	\$ 235,000	\$ -
1998 water (DWRF)	Twp	2.50%	3,147,056	-	(365,000)	2,782,056	-
1999 water (DWRF)	City	2.50%	875,000	-	(80,000)	795,000	-
1999 sewer	Twp	4.90-5.35%	1,350,000	-	(50,000)	1,300,000	50,000
2000 sewer	Twp	5.00-5.10%	2,480,000	-	(75,000)	2,405,000	80,000
2001 sewer	Twp	4.875-5.10%	7,000,000	-	(105,000)	6,895,000	115,000
2002 sewer	Twp	3.00-5.00%	-	14,800,000	-	14,800,000	175,000
2003 water	Twp	3.00-4.35%	-	1,850,000	-	1,850,000	-
2003 water (DWRF)	Twp	2.50%	-	228,699	-	228,699	-
			<u>\$15,307,056</u>	<u>\$16,878,699</u>	<u>\$ (895,000)</u>	<u>\$ 31,290,755</u>	<u>\$ 420,000</u>

DWRF - Drinking Water Revolving Fund sponsored/administered by the Michigan Municipal Bond Authority.

Because certain principal and interest payments on the above bonds are due September 1, the Authority made payment on those obligations on or before August 31, 2003. As such, since the amounts *due within one year* for the first three issues above were already paid, no amounts are shown as payable within one year. A similar situation holds true for certain of the lease payable obligations shown on page 27.

YPSILANTI COMMUNITY UTILITIES AUTHORITY

Notes to Financial Statements

Annual debt service requirements to maturity for limited tax obligation bonds are as follows:

Year Ended August 31,	Principal	Interest
2004	\$ 420,000	\$ 1,322,574
2005	925,000	1,363,971
2006	800,000	1,331,890
2007	835,000	1,303,542
2008	880,000	1,273,978
2009-2013	5,040,000	5,842,546
2014-2018	5,912,056	4,751,147
2019-2023	5,630,000	3,444,385
2024-2028	5,640,000	2,110,058
2029-2032	4,980,000	605,105
	31,062,056	\$ 23,349,196
Unscheduled amortization	228,699	
	\$ 31,290,755	

The “unscheduled amortization” amount shown above represents the project-to-date cash draws on the 2003 Drinking Water Revolving Fund project. Once the final cash draw is made on the project, the debt amortization schedule with principal and interest repayments will be finalized. Currently, the planned principal maturities for this issue are as follows:

Year Ended August 31,	Principal
2004	\$ -
2005	130,000
2006	135,000
2007	140,000
2008	140,000
2009-2013	760,000
2014-2018	865,000
2019-2023	975,000
2024	210,000
	\$ 3,355,000

YPSILANTI COMMUNITY UTILITIES AUTHORITY

Notes to Financial Statements

Capital leases. The Authority has entered into various agreements, primarily with the City, for the construction and operation of system expansions and improvements, which constitute capital leases under Financial Accounting Standards Board Statements No. 13. With the exception of the building capital lease below (which is an agreement between the Authority and the Township), each lease represents a limited tax obligation or revenue bond issued by the City and for which income derived from the capital assets is pledged to pay debt service. Accordingly, the Authority's obligation to pay principal and interest under each lease is equal to the City's obligation for the related bond. When the debt is retired, title to the related capital asset will vest with the Authority.

The original amount of capital lease obligations entered into in prior years for the items listed below was \$15,793,163. During the year, new capital leases totaling \$21,530,000 were entered into, although the cash draws against certain of those agreements (two of which were financed through the Drinking Water Revolving Fund and a third the City is holding the related bond proceeds) was limited to \$2,483,102, which was the amount of project construction costs incurred through year end. The total amount authorized under these three capital leases is \$7,585,000; accordingly, \$5,101,898 is still available and expected to be drawn to finance project construction costs.

Capital leases outstanding at year-end are as follows:

	Credit	Interest Rates	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Building	n/a	10.70%	\$ 1,067,239	\$ -	\$ (108,879)	\$ 958,360	\$ 120,842
1994 sewer	County	5.10%	3,690,000	-	(865,000)	2,825,000	855,000
1999 sewer	County	4.00-4.20%	650,000	-	(85,000)	565,000	100,000
1995 water and sewer	City	5.375%	4,690,000	-	(4,185,000)	505,000	-
2001 water and sewer	City	4.00-6.00%	4,000,000	-	(20,000)	3,980,000	-
2002A water and sewer	City	4.00-5.00%	5,000,000	-	(30,000)	4,970,000	-
2002B water (DWRF)	City	2.50%	-	485,000	(25,000)	460,000	-
2002C water and sewer	City	4.00-5.00%	-	8,660,000	(190,000)	8,470,000	-
2003A water and sewer	City	1.20-4.10%	-	4,800,000	-	4,800,000	-
2003B water and sewer	City	3.50-4.25%	-	204,444	-	204,444	-
2003C water (DWRF)	City	2.50%	-	95,921	-	95,921	-
2003D water (DWRF)	City	2.50%	-	2,182,737	-	2,182,737	-
			<u>\$19,097,239</u>	<u>\$16,428,102</u>	<u>\$ (5,508,879)</u>	<u>\$ 30,016,462</u>	<u>\$ 1,075,842</u>

DWRF - Drinking Water Revolving Fund sponsored/administered by the Michigan Municipal Bond Authority.

YPSILANTI COMMUNITY UTILITIES AUTHORITY

Notes to Financial Statements

Capital leases debt service requirements to maturity are as follows:

Year Ended August 31,	Principal	Interest
2004	\$ 1,075,842	\$ 902,987
2005	1,609,122	1,277,398
2006	1,928,859	1,187,377
2007	1,445,217	1,091,918
2008	1,033,372	1,025,187
2009-2013	5,010,948	4,484,481
2014-2018	5,095,000	3,448,734
2019-2023	5,770,000	2,250,436
2024-2028	<u>6,065,000</u>	<u>746,263</u>
	29,033,360	<u>\$ 16,414,781</u>
Unscheduled amortization	2,278,658	
Scheduled, not drawn	<u>(1,295,556)</u>	
	<u>\$ 30,016,462</u>	

The “unscheduled amortization” amount shown above represents the project-to-date cash draws on the two Drinking Water Revolving Fund projects. Once the final cash draws are made on the projects, the debt amortization schedules with principal and interest repayments will be finalized. Currently, the planned principal maturities for these obligations are as follows:

Year Ended August 31,	Principal
2004	\$ -
2005	235,000
2006	240,000
2007	250,000
2008	260,000
2009-2013	1,385,000
2014-2018	1,560,000
2019-2023	1,775,000
2024	<u>380,000</u>
	<u>\$ 6,085,000</u>

YPSILANTI COMMUNITY UTILITIES AUTHORITY

Notes to Financial Statements

Finally, the “scheduled, not drawn” amount shown above represents the bond proceeds balance of \$1,295,556 (total proceeds of \$1,500,000 less cash draws of \$204,444) being held by the City at year-end. In this instance, the debt principal and interest repayment requirements are known and included in the schedule of maturities, but the held bond proceeds are deducted until the capital costs are incurred and the monies drawn.

Environmental liability. In fiscal 1988, the U.S. Environmental Protection Agency (EPA) notified the Authority that it had been named a potential responsible party (PRP) for contaminated sites commonly known as the Willow Run Sludge Lagoon, Tyler Pond, and Willow Creek. The other entities named as PRP’s in this matter included the Township, Wayne County, Ford Motor Company, General Motors Corporation, the University of Michigan and the federal government.

In fiscal 1995, the named PRP’s entered into an agreement to fund the cost of the clean up. Based on this agreement, the Authority recorded a liability totaling \$1,150,000 and provided that it will: (1) make three annual payments of \$250,000 each beginning in 2002; and (2) pay up to an additional \$500,000 for certain water treatment costs over a period of not more than 30 years with no more than \$50,000 payable in any one year. Through August 31, 2003, the Authority made two payments of \$50,000 each in fiscal 1997 and 1998. Since that time, the Authority has not been invoiced or otherwise instructed to make any payments.

Nevertheless, until the Authority is officially notified of its release from liability, the obligation for this matter will be carried on the financial statements. Of the total liability, \$800,000 is reported as a current liability (i.e., two payments of \$250,000 each and six payments of \$50,000 each) and \$350,000 is reported as long-term.

Compensated absences. The Authority records a liability for accrued compensated absences, which includes earned but unused vacation and sick leave. The liability is classified between current and long-term portions based on estimated usage.

Advance refundings. In prior years, the Authority defeased certain bonds by placing the proceeds of a new bond issue in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority’s financial statements. At August 31, 2003, \$240,000 of bonds outstanding is considered defeased.

Lease adjustment. During the year, the City completed a partial advance refunding of a bond issue that was the underlying obligation for one of the Authority’s capital leases with the City. As a result of this transaction, \$4,060,000 of debt related to the 1995 water and sewer lease was removed from the Authority’s financial statements and replaced by the 2003A water and sewer lease in the amount of \$4,800,000. Accordingly, a deferred loss of \$458,534 on the lease adjustment (i.e., the difference between the new lease obligation and the old, net of a bond reserve held by the City in the amount of \$281,466) was recorded by the Authority and will be amortized over the term of the related lease agreement.

YPSILANTI COMMUNITY UTILITIES AUTHORITY

Notes to Financial Statements

Changes in long-term debt. Following is a summary of long-term debt activity for the year ended August 31, 2003:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Limited tax obligation bonds	\$ 15,307,056	\$ 16,878,699	\$ (895,000)	\$ 31,290,755	\$ 420,000
Capital leases	19,097,239	16,428,102	(5,508,879)	30,016,462	1,075,842
Environmental liability	1,150,000	-	-	1,150,000	800,000
Compensated absences	1,245,255	-	(80,089)	1,165,166	572,569
	<u>36,799,550</u>	<u>33,306,801</u>	<u>(6,483,968)</u>	<u>63,622,383</u>	<u>2,868,411</u>
Deduct deferred amounts:					
For issuance discounts	(168,374)	(156,935)	11,434	(313,875)	-
For lease adjustment	-	(458,534)	-	(458,534)	-
	<u>\$ 36,631,176</u>	<u>\$ 32,691,332</u>	<u>\$ (6,472,534)</u>	<u>\$ 62,849,974</u>	<u>\$ 2,868,411</u>

3-F. Capital Contributions

The sources of capital contributions for the year ended August 31, 2003 are summarized as follows:

Western Townships Utility Authority	\$ 20,697,128
Superior Township	6,350,000
Ypsilanti Township	2,549,524
City of Ypsilanti	114,532
Other	<u>95,324</u>
	<u>\$ 29,806,508</u>

NOTE 4 – OTHER INFORMATION

4-A. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; employee injuries; and natural disasters, as well as medical and death benefits provided to employees. The Authority purchases commercial insurance to cover all risks of losses. The Authority has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

YPSILANTI COMMUNITY UTILITIES AUTHORITY

Notes to Financial Statements

4-B. Contingent Liabilities

Amounts received or receivable from grantor agencies, including amounts borrowed under the Drinking Water Revolving Fund program, are subject to audit and potential adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Authority expects such amounts, if any, to be immaterial.

The Authority is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the Authority's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the Authority.

4-C. Postemployment Benefits

The Authority provides certain health care benefits to all full-time employees upon retirement, in accordance with the applicable labor agreements. These benefits are integrated with Medicare to provide benefits comparable to those received at date of retirement for the employee's life. For the current year, 39 retirees received benefits at a cost to the Authority of \$444,640.

4-D. Defined Benefit Pension Plan

The Authority participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the Retirement Board of MERS. The Plan provides retirement and disability benefits, annual cost of living adjustments, and death benefits to Plan members and beneficiaries. The MERS Retirement Board establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917, or by calling (800) 767-6377.

The Authority is required to contribute at an actuarially determined rate; the current rate is 12.15% of annual covered payroll. The Authority's unionized employees are required to contribute 1.0% of their annual covered payroll to the plan, whereas non-union employees are required to contribute 4.0%. The contribution requirements of the Authority are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the Authority, subject to collective bargaining agreements and depending on the MERS contribution program adopted by the Authority.

YPSILANTI COMMUNITY UTILITIES AUTHORITY

Notes to Financial Statements

For the year ended August 31, 2003, the Authority's annual pension cost of \$906,741 for MERS was equal to the Authority's required and actual contributions. The required contribution was determined as part of the December 31, 2000 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 8.0%; (b) projected salary increase of 4.5% per year compounded annually, attributable to inflation; and (c) additional projected salary increases of 0.0% to 4.2% per year, depending on age, attributable to seniority/merit.

The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Authority's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2002, the date of the latest actuarial valuation, ranged from 29 to 37 years.

Three-Year Trend Information

<u>Annual Years Ended August 31,</u>	<u>Pension Cost (APC)</u>	<u>Percentage Contributed</u>	<u>Net Pension Obligation</u>
2001	\$867,426	100%	\$ -
2002	775,426	100	-
2003	906,741	100	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>(a) Actuarial Value of Assets</u>	<u>(b) Actuarial Accrued Liability (AAL) Entry Age</u>	<u>(b-a) Unfunded AAL (UAAL)</u>	<u>Funded Ratio Total</u>	<u>(c) Covered Payroll</u>	<u>((b-a)/c) UAAL as a Percentage of Covered Payroll</u>
12/31/00	\$17,401,215	\$24,096,539	\$6,695,324	72%	\$6,647,962	101%
12/31/01	18,719,673	25,379,376	6,659,703	74%	6,878,141	97%
12/31/02	19,401,776	28,385,781	8,984,005	68%	7,465,357	120%

YPSILANTI COMMUNITY UTILITIES AUTHORITY

Notes to Financial Statements

4-E. Restatements

The Authority's beginning net assets as of September 1, 2002, were restated as follows:

Beginning net assets, as previously reported	\$ 105,079,691
Increased (decreased) to properly recognize:	
Lease payable to Washtenaw County	(4,340,000)
Usage fees from capital cost recovery surcharge	247,201
Salary-related costs for:	
Accrued compensated absences	(180,204)
Accrued payroll	<u>(23,835)</u>
Beginning net assets, as restated	<u>\$ 100,752,853</u>

4-F. Supplementary Schedules and Allocation Methods

The supplementary schedules as listed in the table of contents present financial information of the Authority separated by component or division. For such purposes, the City and Township divisions together comprise the Authority, in aggregate, as is the same for the Water and Wastewater divisions. In certain instances, revenues and expenses are directly attributable to the respective divisions, whereas other revenues and expenses are shared or not directly attributable. For these latter items, the Authority uses a variety of objectively measurable allocation methods to equitably distribute the account balances between the applicable divisions. These methods include metered water and sewage flows, work orders, time and attendance, number of meters and so on.

* * * * *

SUPPLEMENTARY FINANCIAL INFORMATION

YPSILANTI COMMUNITY UTILITIES AUTHORITY
Schedule of Revenues, Expenses and Changes in Net Assets
City and Township Allocation
For the Year Ended August 31, 2003

	<u>City</u>	<u>Township</u>	<u>Total</u>
Operating revenues			
Water sales	\$ 1,875,979	\$ 6,740,398	\$ 8,616,377
Sewage disposal sales	3,155,582	10,079,505	13,235,087
Surcharges and other usage fees:			
Capital improvement surcharge	1,584,949	185,800	1,770,749
Construction reserve	92,208	260,707	352,915
Environmental reserve	-	93,542	93,542
Capital cost recovery	100,455	185,976	286,431
Other operating revenue	380,495	1,868,318	2,248,813
Sales discounts	(126,303)	(579,682)	(705,985)
	<u>7,063,365</u>	<u>18,834,564</u>	<u>25,897,929</u>
Operating expenses			
Water distribution	926,213	4,356,729	5,282,942
Wastewater treatment	2,510,603	8,371,710	10,882,313
Wastewater pump stations	160,684	645,206	805,890
Industrial surveillance	33,173	113,794	146,967
Transmission and distribution	1,416,512	3,633,059	5,049,571
Meter service	284,344	837,220	1,121,564
Customer accounting and collections	167,210	484,151	651,361
General and administration	440,901	1,391,179	1,832,080
	<u>5,939,640</u>	<u>19,833,048</u>	<u>25,772,688</u>
Total operating expenses	<u>5,939,640</u>	<u>19,833,048</u>	<u>25,772,688</u>
Operating income (expense)	<u>1,123,725</u>	<u>(998,484)</u>	<u>125,241</u>
Non-operating income (expense)			
Investment earnings	(12,884)	34,377	21,493
Connection fees	11,406	1,055,085	1,066,491
Debt service contribution from City of Ypsilanti	211,511	-	211,511
Interest and amortization expense	(496,504)	(526,609)	(1,023,113)
Gain (loss) on disposal of capital assets	(1,416)	(1,417)	(2,833)
	<u>(287,887)</u>	<u>561,436</u>	<u>273,549</u>
Non-operating expense	<u>(287,887)</u>	<u>561,436</u>	<u>273,549</u>
Net income (loss)	835,838	(437,048)	398,790
Capital contributions	<u>6,785,841</u>	<u>23,020,667</u>	<u>29,806,508</u>
Change in net assets	7,621,679	22,583,619	30,205,298
Net assets, beginning of year, as restated	<u>20,448,465</u>	<u>80,334,388</u>	<u>100,782,853</u>
Net assets, end of year	<u>\$ 28,070,144</u>	<u>\$ 102,918,007</u>	<u>\$ 130,988,151</u>

YPSILANTI COMMUNITY UTILITIES AUTHORITY
Schedule of Revenues, Expenses and Changes in Net Asset
Water and Wastewater Allocation
For the Year Ended August 31, 2003

	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
Operating revenues			
Water sales	\$ 8,616,377	\$ -	\$ 8,616,377
Sewage disposal sales	-	13,235,087	13,235,087
Surcharges and other usage fees:			
Capital improvement surcharge	885,375	885,374	1,770,749
Construction reserve	194,721	158,194	352,915
Environmental reserve	-	93,542	93,542
Capital cost recovery	-	286,431	286,431
Other operating revenue	298,296	1,950,517	2,248,813
Sales discounts	(346,173)	(359,812)	(705,985)
	<u>9,648,596</u>	<u>16,249,333</u>	<u>25,897,929</u>
Operating expenses			
Water distribution	5,282,942	-	5,282,942
Wastewater treatment	-	10,882,313	10,882,313
Wastewater pump stations	-	805,890	805,890
Industrial surveillance	-	146,967	146,967
Transmission and distribution	2,582,776	2,466,795	5,049,571
Meter service	546,947	574,617	1,121,564
Customer accounting and collections	325,683	325,678	651,361
General and administration	889,250	942,830	1,832,080
	<u>9,627,598</u>	<u>16,145,090</u>	<u>25,772,688</u>
Operating income	<u>20,998</u>	<u>104,243</u>	<u>125,241</u>
Non-operating income (expense)			
Investment earnings	5,805	15,688	21,493
Connection fees	533,246	533,245	1,066,491
Debt service contribution from City of Ypsilanti	-	211,511	211,511
Interest and amortization expense	(420,946)	(602,167)	(1,023,113)
Gain (loss) on disposal of capital assets	(1,416)	(1,417)	(2,833)
	<u>116,689</u>	<u>156,860</u>	<u>273,549</u>
Non-operating expense	<u>116,689</u>	<u>156,860</u>	<u>273,549</u>
Net income	137,687	261,103	398,790
Capital contributions	<u>77,754</u>	<u>29,728,754</u>	<u>29,806,508</u>
Change in net assets	<u>\$ 215,441</u>	<u>\$ 29,989,857</u>	<u>\$ 30,205,298</u>

YPSILANTI COMMUNITY UTILITIES AUTHORITY
Schedule of Revenues and Expenses
Water and Wastewater Allocation by Member
For the Year Ended August 31, 2003

	City		
	Water	Wastewater	Total
Operating revenues			
Water sales	\$ 1,875,979	\$ -	\$ 1,875,979
Sewage disposal sales	-	3,155,582	3,155,582
Surcharges and other usage fees:			
Capital improvement surcharge	792,475	792,474	1,584,949
Construction reserve	47,074	45,134	92,208
Environmental reserve	-	-	-
Capital cost recovery	-	100,455	100,455
Other operating revenue	11,224	369,271	380,495
Sales discounts	(59,810)	(66,493)	(126,303)
	<u>2,666,942</u>	<u>4,396,423</u>	<u>7,063,365</u>
Operating expenses			
Water distribution	926,213	-	926,213
Wastewater treatment	-	2,510,603	2,510,603
Wastewater pump stations	-	160,684	160,684
Industrial surveillance	-	33,173	33,173
Transmission and distribution	776,022	640,490	1,416,512
Meter service	139,401	144,943	284,344
Customer accounting and collections	83,605	83,605	167,210
General and administration	214,306	226,595	440,901
	<u>2,139,547</u>	<u>3,800,093</u>	<u>5,939,640</u>
Total operating expenses	<u>2,139,547</u>	<u>3,800,093</u>	<u>5,939,640</u>
Operating income (expense)	<u>527,395</u>	<u>596,330</u>	<u>1,123,725</u>
Non-operating income (expense)			
Investment earnings	(3,553)	(9,331)	(12,884)
Connection fees	5,703	5,703	11,406
Debt service contribution	-	211,511	211,511
Interest and amortization expense	(286,221)	(210,283)	(496,504)
Gain (loss) on disposal of capital assets	(708)	(708)	(1,416)
	<u>(284,779)</u>	<u>(3,108)</u>	<u>(287,887)</u>
Non-operating expense	<u>(284,779)</u>	<u>(3,108)</u>	<u>(287,887)</u>
Net income (loss)	242,616	593,222	835,838
Capital contributions	<u>13,630</u>	<u>6,772,211</u>	<u>6,785,841</u>
Change in net assets	<u>\$ 256,246</u>	<u>\$ 7,365,433</u>	<u>\$ 7,621,679</u>

Water	Township		Total
	Wastewater	Total	
\$ 6,740,398	\$ -	\$ 6,740,398	\$ 8,616,377
-	10,079,505	10,079,505	13,235,087
92,900	92,900	185,800	1,770,749
147,647	113,060	260,707	352,915
-	93,542	93,542	93,542
-	185,976	185,976	286,431
287,072	1,581,246	1,868,318	2,248,813
(286,363)	(293,319)	(579,682)	(705,985)
<u>6,981,654</u>	<u>11,852,910</u>	<u>18,834,564</u>	<u>25,897,929</u>
4,356,729	-	4,356,729	5,282,942
-	8,371,710	8,371,710	10,882,313
-	645,206	645,206	805,890
-	113,794	113,794	146,967
1,806,754	1,826,305	3,633,059	5,049,571
407,546	429,674	837,220	1,121,564
242,078	242,073	484,151	651,361
674,944	716,235	1,391,179	1,832,080
<u>7,488,051</u>	<u>12,344,997</u>	<u>19,833,048</u>	<u>25,772,688</u>
<u>(506,397)</u>	<u>(492,087)</u>	<u>(998,484)</u>	<u>125,241</u>
9,358	25,019	34,377	21,493
527,543	527,542	1,055,085	1,066,491
-	-	-	211,511
(134,725)	(391,884)	(526,609)	(1,023,113)
(708)	(709)	(1,417)	(2,833)
<u>401,468</u>	<u>159,968</u>	<u>561,436</u>	<u>273,549</u>
(104,929)	(332,119)	(437,048)	398,790
<u>64,124</u>	<u>22,956,543</u>	<u>23,020,667</u>	<u>29,806,508</u>
<u>\$ (40,805)</u>	<u>\$ 22,624,424</u>	<u>\$ 22,583,619</u>	<u>\$ 30,205,298</u>

YPSILANTI COMMUNITY UTILITIES AUTHORITY
Detailed Schedule of Operating Expenses
City and Township Allocation
For the Year Ended August 31, 2003

	<u>City</u>	<u>Township</u>	<u>Total</u>
Water distribution			
Wages	\$ 64,248	\$ 292,685	\$ 356,933
Benefits allocation	28,449	129,840	158,289
Purchased water	792,086	3,608,394	4,400,480
Utilities	3,632	157,378	161,010
Maintenance and supplies	6,307	28,489	34,796
Engineering	(1,199)	26,938	25,739
Depreciation	3,906	17,795	21,701
Other	3,697	16,840	20,537
Fleet allocation	2,107	8,427	10,534
Maintenance allocation	22,980	69,943	92,923
	<u>926,213</u>	<u>4,356,729</u>	<u>5,282,942</u>
Wastewater treatment			
Wages	405,161	1,373,421	1,778,582
Benefits allocation	179,405	609,274	788,679
Utilities	426,190	1,444,706	1,870,896
Sludge removal	99,543	337,432	436,975
Maintenance	133,170	451,425	584,595
Engineering	572	1,941	2,513
Laboratory	2,148	7,280	9,428
Chemicals	140,768	477,178	617,946
Depreciation	472,506	1,601,704	2,074,210
Other	3,556	12,052	15,608
Fleet allocation	49,517	197,998	247,515
Maintenance allocation	491,837	1,497,021	1,988,858
Laboratory allocation	106,230	360,278	466,508
	<u>2,510,603</u>	<u>8,371,710</u>	<u>10,882,313</u>
Wastewater pump stations			
Wages	47,342	160,483	207,825
Benefits allocation	20,963	71,193	92,156
Utilities	67,137	320,470	387,607
Maintenance and supplies	24,525	83,137	107,662
Engineering	-	7,494	7,494
Depreciation	661	2,239	2,900
Other	56	190	246
	<u>160,684</u>	<u>645,206</u>	<u>805,890</u>

Continued...

YPSILANTI COMMUNITY UTILITIES AUTHORITY
Detailed Schedule of Operating Expenses (Continued)
City and Township Allocation
For the Year Ended August 31, 2003

	<u>City</u>	<u>Township</u>	<u>Total</u>
Industrial surveillance			
Wages	\$ 20,989	\$ 71,149	\$ 92,138
Benefits allocation	9,294	31,563	40,857
Depreciation	427	1,447	1,874
Other	356	1,208	1,564
Fleet allocation	2,107	8,427	10,534
	<u>33,173</u>	<u>113,794</u>	<u>146,967</u>
Transmission and distribution			
Wages	537,370	1,038,033	1,575,403
Benefits allocation	237,947	460,490	698,437
Utilities	17,653	34,098	51,751
Sewer overflow settlements	62,199	132,922	195,121
Maintenance:			
Shop and office	6,452	12,462	18,914
Water and sewer mains	201,609	253,500	455,109
Engineering	12,962	31,784	44,746
Depreciation	285,278	1,456,675	1,741,953
Other	1,547	2,988	4,535
Fleet allocation	49,517	197,998	247,515
Maintenance allocation	3,978	12,109	16,087
	<u>1,416,512</u>	<u>3,633,059</u>	<u>5,049,571</u>
Meter service			
Wages	143,469	415,209	558,678
Benefits allocation	63,528	184,194	247,722
Utilities	3,047	8,817	11,864
Maintenance and supplies	2,430	7,037	9,467
Meter parts	4,785	13,848	18,633
Depreciation	53,355	154,412	207,767
Other	1,086	3,144	4,230
Fleet allocation	12,644	50,559	63,203
	<u>284,344</u>	<u>837,220</u>	<u>1,121,564</u>
			Continued...

YPSILANTI COMMUNITY UTILITIES AUTHORITY
Detailed Schedule of Operating Expenses (Continued)
City and Township Allocation
For the Year Ended August 31, 2003

	<u>City</u>	<u>Township</u>	<u>Total</u>
Customer accounting and collections			
Wages	\$ 97,166	\$ 281,208	\$ 378,374
Benefits allocation	43,025	124,749	167,774
Utilities	4,744	13,729	18,473
Maintenance and supplies	5,554	16,073	21,627
Postage	12,550	36,320	48,870
Depreciation	3,867	11,190	15,057
Other	304	882	1,186
	<u>167,210</u>	<u>484,151</u>	<u>651,361</u>
General and administrative			
Wages	55,578	188,398	243,976
Benefits allocation	24,610	83,577	108,187
Maintenance and supplies	14,447	48,972	63,419
Building and liability insurance	77,770	263,624	341,394
Legal and settlements	17,432	57,152	74,584
Other professional services	456	1,544	2,000
Depreciation	6,375	21,611	27,986
Other	1,722	3,801	5,523
Bad debt expense	6,278	6,743	13,021
Fleet allocation	3,169	12,662	15,831
Maintenance allocation	4,659	14,180	18,839
Human resource allocation	103,960	298,632	402,592
Accounting allocation	124,445	390,283	514,728
	<u>440,901</u>	<u>1,391,179</u>	<u>1,832,080</u>
Fleet			
Wages	43,880	114,416	158,296
Benefits allocation	19,430	50,757	70,187
Radio maintenance	1,178	3,071	4,249
Maintenance parts and supplies	29,377	76,600	105,977
Gas, oil and grease	14,532	37,891	52,423
Insurance	9,891	25,792	35,683
Depreciation	-	165,528	165,528
Other	773	2,016	2,789
Allocated to various departments	(119,061)	(476,071)	(595,132)
	<u>-</u>	<u>-</u>	<u>-</u>

Continued...

YPSILANTI COMMUNITY UTILITIES AUTHORITY
Detailed Schedule of Operating Expenses (Continued)
City and Township Allocation
For the Year Ended August 31, 2003

	<u>City</u>	<u>Township</u>	<u>Total</u>
Human resources			
Wages	\$ 53,765	\$ 154,383	\$ 208,148
Benefits allocation	23,807	68,487	92,294
Safety program	707	2,029	2,736
Travel and training	12,926	37,116	50,042
Legal and professional	4,116	11,819	15,935
Physicals	3,548	10,187	13,735
Office supplies	423	1,215	1,638
Depreciation	281	805	1,086
Other	4,387	12,591	16,978
Allocated to general and administrative	(103,960)	(298,632)	(402,592)
	-	-	-
Benefits and payroll taxes			
Health insurance	406,338	1,166,788	1,573,126
Life insurance	3,757	10,789	14,546
Disability insurance	17,873	51,323	69,196
Social security	148,670	426,902	575,572
Workers compensation	16,169	46,429	62,598
Pension contribution	257,492	739,379	996,871
Unemployment	1,880	5,397	7,277
Uniforms	4,914	14,111	19,025
Allocated to various departments	(857,093)	(2,461,118)	(3,318,211)
	-	-	-
Maintenance			
Wages	354,893	1,079,599	1,434,492
Benefits allocation	157,147	478,930	636,077
Office and supplies	7,924	24,106	32,030
Depreciation	2,934	8,925	11,859
Other	556	1,693	2,249
Allocated to various departments	(523,454)	(1,593,253)	(2,116,707)
	-	-	-
			Continued...

YPSILANTI COMMUNITY UTILITIES AUTHORITY
Detailed Schedule of Operating Expenses (Concluded)
City and Township Allocation
For the Year Ended August 31, 2003

	<u>City</u>	<u>Township</u>	<u>Total</u>
Laboratory			
Wages	\$ 63,643	\$ 215,739	\$ 279,382
Benefits allocation	28,181	95,706	123,887
Maintenance and supplies	7,900	26,780	34,680
Contractual services	2,681	9,088	11,769
Depreciation	3,825	12,965	16,790
Allocated to wastewater treatment	(106,230)	(360,278)	(466,508)
	<u>-</u>	<u>-</u>	<u>-</u>
Accounting			
Wages	48,117	163,108	211,225
Benefits allocation	21,307	72,358	93,665
Office supplies	1,749	5,929	7,678
Audit and accounting services	46,574	126,182	172,756
Depreciation	1,358	4,603	5,961
Other	5,340	18,103	23,443
Allocated to general and administrative	(124,445)	(390,283)	(514,728)
	<u>-</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>\$ 5,939,640</u>	<u>\$ 19,833,048</u>	<u>\$ 25,772,688</u>

YPSILANTI COMMUNITY UTILITIES AUTHORITY
Detailed Schedule of Operating Expenses
Water and Wastewater Allocation
For the Year Ended August 31, 2003

	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
Water distribution			
Wages	\$ 356,933	\$ -	\$ 356,933
Benefits allocation	158,289	-	158,289
Purchased water	4,400,480	-	4,400,480
Utilities	161,010	-	161,010
Maintenance and supplies	34,796	-	34,796
Engineering	25,739	-	25,739
Depreciation	21,701	-	21,701
Other	20,537	-	20,537
Fleet allocation	10,534	-	10,534
Maintenance allocation	92,923	-	92,923
	<u>5,282,942</u>	<u>-</u>	<u>5,282,942</u>
Wastewater treatment			
Wages	-	1,778,582	1,778,582
Benefits allocation	-	788,679	788,679
Utilities	-	1,870,896	1,870,896
Sludge removal	-	436,975	436,975
Maintenance	-	584,595	584,595
Engineering	-	2,513	2,513
Laboratory	-	9,428	9,428
Chemicals	-	617,946	617,946
Depreciation	-	2,074,210	2,074,210
Other	-	15,608	15,608
Fleet allocation	-	247,515	247,515
Maintenance allocation	-	1,988,858	1,988,858
Laboratory allocation	-	466,508	466,508
	<u>-</u>	<u>10,882,313</u>	<u>10,882,313</u>
Wastewater pump stations			
Wages	-	207,825	207,825
Benefits allocation	-	92,156	92,156
Utilities	-	387,607	387,607
Maintenance and supplies	-	107,662	107,662
Engineering	-	7,494	7,494
Depreciation	-	2,900	2,900
Other	-	246	246
	<u>-</u>	<u>805,890</u>	<u>805,890</u>

Continued...

YPSILANTI COMMUNITY UTILITIES AUTHORITY
Detailed Schedule of Operating Expenses (Continued)
Water and Wastewater Allocation
For the Year Ended August 31, 2003

	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
Industrial surveillance			
Wages	\$ -	\$ 92,138	\$ 92,138
Benefits allocation	-	40,857	40,857
Depreciation	-	1,874	1,874
Other	-	1,564	1,564
Fleet allocation	-	10,534	10,534
	<u>-</u>	<u>146,967</u>	<u>146,967</u>
Transmission and distribution			
Wages	746,268	829,135	1,575,403
Benefits allocation	330,849	367,588	698,437
Utilities	24,514	27,237	51,751
Sewer overflow settlements	92,429	102,692	195,121
Maintenance:			
Shop and office	8,960	9,954	18,914
Water and sewer mains	215,585	239,524	455,109
Engineering	18,001	26,745	44,746
Depreciation	1,073,610	668,343	1,741,953
Other	2,149	2,386	4,535
Fleet allocation	69,576	177,939	247,515
Maintenance allocation	835	15,252	16,087
	<u>2,582,776</u>	<u>2,466,795</u>	<u>5,049,571</u>
Meter service			
Wages	279,339	279,339	558,678
Benefits allocation	123,861	123,861	247,722
Utilities	5,932	5,932	11,864
Maintenance and supplies	4,733	4,734	9,467
Meter parts	9,318	9,315	18,633
Depreciation	103,883	103,884	207,767
Other	2,115	2,115	4,230
Fleet allocation	17,766	45,437	63,203
	<u>546,947</u>	<u>574,617</u>	<u>1,121,564</u>
			Continued...

YPSILANTI COMMUNITY UTILITIES AUTHORITY
Detailed Schedule of Operating Expenses (Continued)
Water and Wastewater Allocation
For the Year Ended August 31, 2003

	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
Customer accounting and collections			
Wages	\$ 189,187	\$ 189,187	\$ 378,374
Benefits allocation	83,887	83,887	167,774
Utilities	9,237	9,236	18,473
Maintenance and supplies	10,815	10,812	21,627
Postage	24,435	24,435	48,870
Depreciation	7,529	7,528	15,057
Other	593	593	1,186
	<u>325,683</u>	<u>325,678</u>	<u>651,361</u>
General and administrative			
Wages	121,988	121,988	243,976
Benefits allocation	54,094	54,093	108,187
Maintenance and supplies	31,709	31,710	63,419
Building and liability insurance	170,697	170,697	341,394
Legal and settlements	37,293	37,291	74,584
Other professional services	1,000	1,000	2,000
Depreciation	13,993	13,993	27,986
Other	2,761	2,762	5,523
Bad debt expense	6,511	6,510	13,021
Fleet allocation	69,415	(53,584)	15,831
Maintenance allocation	16,099	2,740	18,839
Human resource allocation	106,325	296,267	402,592
Accounting allocation	257,365	257,363	514,728
	<u>889,250</u>	<u>942,830</u>	<u>1,832,080</u>
Fleet			
Wages	44,497	113,799	158,296
Benefits allocation	19,730	50,457	70,187
Radio maintenance	1,194	3,055	4,249
Maintenance parts and supplies	29,790	76,187	105,977
Gas, oil and grease	14,736	37,687	52,423
Insurance	10,030	25,653	35,683
Depreciation	46,530	118,998	165,528
Other	784	2,005	2,789
Allocated to various departments	<u>(167,291)</u>	<u>(427,841)</u>	<u>(595,132)</u>
	-	-	-

Continued...

YPSILANTI COMMUNITY UTILITIES AUTHORITY
Detailed Schedule of Operating Expenses (Continued)
Water and Wastewater Allocation
For the Year Ended August 31, 2003

	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
Human resources			
Wages	\$ 54,972	\$ 153,176	\$ 208,148
Benefits allocation	24,375	67,919	92,294
Safety program	723	2,013	2,736
Travel and training	13,216	36,826	50,042
Legal and professional	4,208	11,727	15,935
Physicals	3,627	10,108	13,735
Office supplies	433	1,205	1,638
Depreciation	287	799	1,086
Other	4,484	12,494	16,978
Allocated to general and administrative	<u>(106,325)</u>	<u>(296,267)</u>	<u>(402,592)</u>
	<u>-</u>	<u>-</u>	<u>-</u>
Benefits and payroll taxes			
Health insurance	415,462	1,157,664	1,573,126
Life insurance	3,842	10,704	14,546
Disability insurance	18,275	50,921	69,196
Social security	152,008	423,564	575,572
Workers compensation	16,532	46,066	62,598
Pension contribution	263,274	733,597	996,871
Unemployment	1,922	5,355	7,277
Uniforms	5,025	14,000	19,025
Allocated to various departments	<u>(876,340)</u>	<u>(2,441,871)</u>	<u>(3,318,211)</u>
	<u>-</u>	<u>-</u>	<u>-</u>
Maintenance			
Wages	74,450	1,360,042	1,434,492
Benefits allocation	33,012	603,065	636,077
Office and supplies	1,663	30,367	32,030
Depreciation	615	11,244	11,859
Other	117	2,132	2,249
Allocated to various departments	<u>(109,857)</u>	<u>(2,006,850)</u>	<u>(2,116,707)</u>
	<u>-</u>	<u>-</u>	<u>-</u>
			Continued...

YPSILANTI COMMUNITY UTILITIES AUTHORITY
Detailed Schedule of Operating Expenses (Concluded)
Water and Wastewater Allocation
For the Year Ended August 31, 2003

	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
Laboratory			
Wages	\$ -	\$ 279,382	\$ 279,382
Benefits allocation	-	123,887	123,887
Maintenance and supplies	-	34,680	34,680
Contractual services	-	11,769	11,769
Depreciation	-	16,790	16,790
Allocated to wastewater treatment	-	(466,508)	(466,508)
	<u>-</u>	<u>-</u>	<u>-</u>
Accounting			
Wages	105,613	105,612	211,225
Benefits allocation	46,833	46,832	93,665
Office supplies	3,839	3,839	7,678
Audit and accounting services	86,378	86,378	172,756
Depreciation	2,981	2,980	5,961
Other	11,721	11,722	23,443
Allocated to general and administrative	(257,365)	(257,363)	(514,728)
	<u>-</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>\$ 9,627,598</u>	<u>\$ 16,145,090</u>	<u>\$ 25,772,688</u>

YPSILANTI COMMUNITY UTILITIES AUTHORITY
Detailed Schedule of Operating Expenses -
Budget and Actual
For the Year Ended August 31, 2003

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
Water distribution				
Wages	\$ 395,659	\$ 395,659	\$ 356,933	\$ (38,726)
Benefits allocation	159,765	145,803	158,289	12,486
Purchased water	4,742,319	4,763,971	4,400,480	(363,491)
Utilities	125,250	148,294	161,010	12,716
Maintenance and supplies	79,000	30,982	34,796	3,814
Engineering	62,000	31,613	25,739	(5,874)
Depreciation	8,240	8,240	21,701	13,461
Other	38,500	31,543	20,537	(11,006)
Fleet allocation	7,277	5,939	10,534	4,595
Maintenance allocation	126,914	122,761	92,923	(29,838)
	<u>5,744,924</u>	<u>5,684,805</u>	<u>5,282,942</u>	<u>(401,863)</u>
Wastewater treatment				
Wages	1,770,719	1,812,669	1,778,582	(34,087)
Benefits allocation	715,006	667,979	788,679	120,700
Utilities	1,944,840	1,786,975	1,870,896	83,921
Sludge removal	557,000	409,663	436,975	27,312
Maintenance	713,500	620,498	584,595	(35,903)
Engineering	30,000	2,287	2,513	226
Laboratory	32,500	11,933	9,428	(2,505)
Chemicals	575,000	624,002	617,946	(6,056)
Depreciation	2,173,300	2,173,300	2,074,210	(99,090)
Other	35,000	24,834	15,608	(9,226)
Fleet allocation	320,171	261,321	247,515	(13,806)
Maintenance allocation	1,909,478	1,846,988	1,988,858	141,870
Laboratory allocation	414,944	400,784	466,508	65,724
	<u>11,191,458</u>	<u>10,643,233</u>	<u>10,882,313</u>	<u>239,080</u>
Wastewater pump stations				
Wages	312,953	312,953	207,825	(105,128)
Benefits allocation	126,369	115,325	92,156	(23,169)
Utilities	425,600	386,047	387,607	1,560
Maintenance and supplies	183,500	144,449	107,662	(36,787)
Engineering	12,000	7,900	7,494	(406)
Depreciation	2,266	2,266	2,900	634
Other	1,000	383	246	(137)
	<u>1,063,688</u>	<u>969,323</u>	<u>805,890</u>	<u>(163,433)</u>

Continued...

YPSILANTI COMMUNITY UTILITIES AUTHORITY
Detailed Schedule of Operating Expenses - (Continued)
Budget and Actual
For the Year Ended August 31, 2003

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
Industrial surveillance				
Wages	\$ 110,531	\$ 110,531	\$ 92,138	\$ (18,393)
Benefits allocation	44,632	40,731	40,857	126
Depreciation	206	206	1,874	1,668
Other	2,400	2,038	1,564	(474)
Fleet allocation	14,553	11,878	10,534	(1,344)
	<u>172,322</u>	<u>165,384</u>	<u>146,967</u>	<u>(18,417)</u>
Transmission and distribution				
Wages	1,581,283	1,584,826	1,575,403	(9,423)
Benefits allocation	638,513	584,018	698,437	114,419
Utilities	76,700	73,521	51,751	(21,770)
Sewer overflow settlements	95,000	229,037	195,121	(33,916)
Maintenance:				
Shop and office	41,000	18,781	18,914	133
Water and sewer mains	367,100	284,401	455,109	170,708
Engineering	10,100	7,396	44,746	37,350
Depreciation	1,566,630	1,566,630	1,741,953	175,323
Other	11,000	3,502	4,535	1,033
Fleet allocation	276,511	225,686	247,515	21,829
Maintenance allocation	25,795	24,951	16,087	(8,864)
	<u>4,689,632</u>	<u>4,602,749</u>	<u>5,049,571</u>	<u>446,822</u>
Meter service				
Wages	582,800	603,846	558,678	(45,168)
Benefits allocation	235,331	222,521	247,722	25,201
Utilities	13,700	11,780	11,864	84
Maintenance and supplies	11,500	10,298	9,467	(831)
Meter parts	505,000	575,398	18,633	(556,765)
Depreciation	9,270	9,270	207,767	198,497
Other	5,500	4,950	4,230	(720)
Fleet allocation	72,767	59,392	63,203	3,811
	<u>1,435,868</u>	<u>1,497,455</u>	<u>1,121,564</u>	<u>(375,891)</u>

Continued...

YPSILANTI COMMUNITY UTILITIES AUTHORITY
Detailed Schedule of Operating Expenses - (Continued)
Budget and Actual
For the Year Ended August 31, 2003

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
Customer accounting and collections				
Wages	\$ 408,604	\$ 408,604	\$ 378,374	\$ (30,230)
Benefits allocation	164,992	150,573	167,774	17,201
Utilities	24,800	18,510	18,473	(37)
Maintenance and supplies	33,000	18,211	21,627	3,416
Postage	56,000	49,044	48,870	(174)
Depreciation	12,360	12,360	15,057	2,697
Other	3,500	953	1,186	233
	<u>703,256</u>	<u>658,255</u>	<u>651,361</u>	<u>(6,894)</u>
General and administrative				
Wages	231,229	231,229	243,976	12,747
Benefits allocation	93,369	85,209	108,187	22,978
Maintenance and supplies	87,500	73,854	63,419	(10,435)
Building and liability insurance	294,867	294,867	341,394	46,527
Legal and settlements	125,000	110,967	74,584	(36,383)
Other professional services	4,500	2,400	2,000	(400)
Engineering	79,000	1,212	-	(1,212)
Depreciation	25,750	25,750	27,986	2,236
Other	60,100	5,776	5,523	(253)
Bad debt expense	1,000	8,346	13,021	4,675
Fleet allocation	36,383	29,695	15,831	(13,864)
Maintenance allocation	19,468	18,830	18,839	9
Human resource allocation	445,551	430,158	402,592	(27,566)
Accounting allocation	460,763	525,419	514,728	(10,691)
	<u>1,964,480</u>	<u>1,843,712</u>	<u>1,832,080</u>	<u>(11,632)</u>
Fleet				
Wages	157,248	157,248	158,296	1,048
Benefits allocation	63,496	57,947	70,187	12,240
Radio maintenance	5,500	3,977	4,249	272
Maintenance parts and supplies	198,650	119,234	105,977	(13,257)
Gas, oil and grease	85,600	52,931	52,423	(508)
Insurance	40,000	28,735	35,683	6,948
Depreciation	169,950	169,950	165,528	(4,422)
Other	7,218	3,889	2,789	(1,100)
Allocated to various departments	(727,662)	(593,911)	(595,132)	(1,221)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Continued...

YPSILANTI COMMUNITY UTILITIES AUTHORITY
Detailed Schedule of Operating Expenses - (Continued)
Budget and Actual
For the Year Ended August 31, 2003

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
Human resources				
Wages	\$ 178,077	\$ 233,675	\$ 208,148	\$ (25,527)
Benefits allocation	71,906	86,111	92,294	6,183
Safety program	10,000	3,616	2,736	(880)
Travel and training	110,000	58,128	50,042	(8,086)
Legal and professional	18,000	16,424	15,935	(489)
Physicals	15,000	13,306	13,735	429
Office supplies	3,500	1,819	1,638	(181)
Depreciation	618	618	1,086	468
Other	38,450	16,461	16,978	517
Allocated to general and administrative	(445,551)	(430,158)	(402,592)	27,566
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Benefits and payroll taxes				
Health insurance	1,378,272	1,165,700	1,573,126	407,426
Life insurance	15,062	14,592	14,546	(46)
Disability insurance	66,968	69,264	69,196	(68)
Social security	579,409	584,761	575,572	(9,189)
Workers compensation	98,620	34,019	62,598	28,579
Pension contribution	911,051	962,880	996,871	33,991
Unemployment	-	8,702	7,277	(1,425)
Uniforms	35,000	19,924	19,025	(899)
Allocated to various departments	(3,084,382)	(2,859,842)	(3,318,211)	(458,369)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Maintenance				
Wages	1,435,387	1,435,387	1,434,492	(895)
Benefits allocation	579,601	528,949	636,077	107,128
Office and supplies	50,500	37,765	32,030	(5,735)
Depreciation	9,167	9,167	11,859	2,692
Other	7,000	2,262	2,249	(13)
Allocated to various departments	(2,081,655)	(2,013,530)	(2,116,707)	(103,177)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Continued...

YPSILANTI COMMUNITY UTILITIES AUTHORITY
Detailed Schedule of Operating Expenses - (Concluded)
Budget and Actual
For the Year Ended August 31, 2003

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
Laboratory				
Wages	\$ 250,260	\$ 250,260	\$ 279,382	\$ 29,122
Benefits allocation	101,054	92,222	123,887	31,665
Maintenance and supplies	37,300	31,234	34,680	3,446
Contractual services	15,000	15,738	11,769	(3,969)
Depreciation	11,330	11,330	16,790	5,460
Allocated to wastewater treatment	(414,944)	(400,784)	(466,508)	(65,724)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Accounting				
Wages	223,752	223,752	211,225	(12,527)
Benefits allocation	90,348	82,454	93,665	11,211
Office supplies	6,000	8,222	7,678	(544)
Audit and accounting services	122,000	185,674	172,756	(12,918)
Depreciation	2,163	2,163	5,961	3,798
Other	16,500	23,154	23,443	289
Allocated to general and administrative	(460,763)	(525,419)	(514,728)	10,691
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>\$ 26,965,628</u>	<u>\$ 26,064,916</u>	<u>\$ 25,772,688</u>	<u>\$ (292,228)</u>

STATISTICAL SECTION

YPSILANTI COMMUNITY UTILITIES AUTHORITY
Revenues and Expenses - Unaudited
Last Ten Fiscal Years Ended August 31

	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Operating revenue				
Water sales	\$ 8,616,377	\$ 8,039,879	\$ 7,910,860	\$ 7,456,993
Sewage disposal sales	13,235,087	12,908,599	13,793,007	13,392,790
Surcharges and other usage fees	2,503,637	1,891,240	1,728,426	1,748,046
Other operating revenue	2,248,813	2,380,576	2,293,530	977,080
Sales discounts	(705,985)	(866,723)	(1,098,363)	(1,006,785)
Total operating revenue	<u>25,897,929</u>	<u>24,353,571</u>	<u>24,627,460</u>	<u>22,568,124</u>
Operating expenses				
Water distribution	5,282,942	4,894,966	4,288,716	3,988,979
Wastewater treatment	10,882,313	9,085,357	8,989,004	6,934,835
Wastewater pump stations	805,890	928,166	822,901	836,632
Industrial surveillance	146,967	118,270	87,466	75,711
Transmission and distribution	5,049,571	3,665,838	3,616,432	2,064,652
Meter service	1,121,564	845,806	979,284	907,026
Customer accounting and collections	651,361	523,708	453,677	445,768
General and administration	(1) 1,832,080	4,269,158	4,038,730	3,469,454
Depreciation	(2) -	-	-	3,861,969
Total operating expenses	<u>25,772,688</u>	<u>24,331,269</u>	<u>23,276,210</u>	<u>22,585,026</u>
Operating income (loss)	<u>125,241</u>	<u>22,302</u>	<u>1,351,250</u>	<u>(16,902)</u>
Non-operating income (expense)				
Investment earnings	21,493	1,034,719	1,231,283	718,175
Connection fees	(3) 1,066,491	-	-	-
Debt service contributions	211,511	920,478	220,957	269,970
Interest and amortization expense	(1,023,113)	(1,709,110)	(1,054,325)	(766,721)
Gain (loss) on disposal of capital assets	(2,833)	(66,461)	(465,007)	(32,884)
Debt service transfer to County	(4) -	(1,214,715)	(1,218,710)	(1,226,413)
Total non-operating income (expense)	<u>273,549</u>	<u>(1,035,089)</u>	<u>(1,285,802)</u>	<u>(1,037,873)</u>
Net income (loss)	<u>\$ 398,790</u>	<u>\$ (1,012,787)</u>	<u>\$ 65,448</u>	<u>\$ (1,054,775)</u>

(1) Beginning in fiscal 2003, payroll taxes and employee benefits are allocated to departments.

(2) Beginning in fiscal 2001, depreciation expense is allocated to departments.

(3) Prior to fiscal 2003, connection fees were recorded directly to equity (i.e., contributed capital).

(4) Beginning in fiscal 2003, this debt was properly recognized as lease payable; the portion that is interest is reported as interest expense.

Table 1

	1999	1998	1997	1996	1995	1994
\$	7,024,206	\$ 6,787,909	\$ 6,600,444	\$ 7,012,219	\$ 6,278,728	\$ 5,909,708
	12,107,280	12,133,249	11,717,239	11,332,137	9,617,306	8,071,850
	1,730,655	1,632,408	1,687,246	1,687,527	1,340,263	1,076,667
	1,041,594	1,164,952	934,444	1,215,530	1,290,594	1,331,280
	(1,020,273)	(978,899)	(1,014,850)	(1,028,750)	(952,564)	(875,330)
	20,883,462	20,739,619	19,924,523	20,218,663	17,574,327	15,514,175
	3,923,990	3,578,449	3,670,779	4,254,275	3,433,957	3,553,859
	6,015,882	6,307,108	5,987,307	5,205,660	8,272,945	7,896,903
	799,666	862,732	801,517	866,759	-	-
	74,010	69,642	70,975	111,780	-	-
	2,232,299	1,750,828	1,406,236	1,477,941	769,609	724,296
	815,483	840,605	627,080	431,748	-	-
	368,651	366,087	287,197	236,089	317,079	313,774
	3,044,439	2,935,376	2,517,277	2,817,394	1,015,983	976,123
	3,652,293	3,442,560	3,275,956	3,190,432	3,097,077	3,034,492
	20,926,713	20,153,387	18,644,324	18,592,078	16,906,650	16,499,447
	(43,251)	586,232	1,280,199	1,626,585	667,677	(985,272)
	600,279	725,675	714,319	749,061	560,946	361,274
	-	-	-	-	-	-
	253,615	689,353	254,792	313,190	247,297	249,263
	(622,178)	(678,995)	(725,266)	(744,837)	(719,053)	(673,636)
	18,041	11,801	(86,206)	(11,102)	(195,927)	-
	(1,214,461)	(1,203,847)	(1,191,971)	(1,205,200)	(1,162,053)	(1,221,501)
	(964,704)	(456,013)	(1,034,332)	(898,888)	(1,268,790)	(1,284,600)
\$	(1,007,955)	\$ 130,219	\$ 245,867	\$ 727,697	\$ (601,113)	\$ (2,269,872)

YPSILANTI COMMUNITY UTILITIES AUTHORITY
Revenues and Expenses - City Division - Unaudited
Last Ten Fiscal Years Ended August 31

	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Operating revenue				
Water sales	\$ 1,875,979	\$ 1,844,292	\$ 1,796,994	\$ 1,759,201
Sewage disposal sales	3,155,582	3,155,163	3,294,403	3,368,627
Surcharges and other usage fees	1,777,612	1,362,058	1,035,565	916,656
Other operating revenue	380,495	463,168	479,546	203,254
Sales discounts	(126,303)	(153,336)	(155,773)	(134,272)
Total operating revenue	<u>7,063,365</u>	<u>6,671,345</u>	<u>6,450,735</u>	<u>6,113,466</u>
Operating expenses				
Water distribution	926,213	898,123	834,882	794,632
Wastewater treatment	2,510,603	2,258,154	2,397,946	1,851,516
Wastewater pump stations	160,684	215,444	221,327	224,686
Industrial surveillance	33,173	28,844	22,627	20,333
Transmission and distribution	1,416,512	843,346	899,403	652,277
Meter service	284,344	218,046	259,904	252,586
Customer accounting and collections	167,210	138,154	122,494	124,458
General and administration	(1) 440,901	1,111,971	1,129,497	983,280
Depreciation	(2) -	-	-	863,522
Total operating expenses	<u>5,939,640</u>	<u>5,712,082</u>	<u>5,888,080</u>	<u>5,767,290</u>
Operating income (loss)	<u>1,123,725</u>	<u>959,263</u>	<u>562,655</u>	<u>346,176</u>
Non-operating income (expense)				
Investment earnings	(12,884)	92,213	256,390	235,048
Connection fees	(3) 11,406	-	-	-
Debt service contributions	211,511	236,052	220,957	239,104
Interest and amortization expense	(496,504)	(722,772)	(394,423)	(413,162)
Gain (loss) on disposal of capital assets	(1,416)	(16,660)	(125,087)	(7,951)
Debt service transfer to County	(4) -	(331,253)	(312,721)	(334,933)
Total non-operating income (expense)	<u>(287,887)</u>	<u>(742,420)</u>	<u>(354,884)</u>	<u>(281,894)</u>
Net income (loss)	<u>\$ 835,838</u>	<u>\$ 216,843</u>	<u>\$ 207,771</u>	<u>\$ 64,282</u>

(1) Beginning in fiscal 2003, payroll taxes and employee benefits are allocated to departments.

(2) Beginning in fiscal 2001, depreciation expense is allocated to departments.

(3) Prior to fiscal 2003, connection fees were recorded directly to equity (i.e., contributed capital).

(4) Beginning in fiscal 2003, this debt was properly recognized as lease payable; the portion that is interest is reported as interest expense.

Table 2

	1999	1998	1997	1996	1995	1994
\$	1,694,459	\$ 1,664,645	\$ 1,715,725	\$ 1,788,531	\$ 1,820,048	\$ 1,690,673
	3,030,469	3,087,082	3,032,461	2,878,231	2,501,041	2,182,653
	890,329	889,841	895,035	909,140	657,373	483,158
	206,987	275,640	220,716	229,546	253,585	239,433
	(145,607)	(151,520)	(157,251)	(155,588)	(153,073)	(151,399)
	5,676,637	5,765,688	5,706,686	5,649,860	5,078,974	4,444,518
	793,275	690,779	870,885	1,231,842	883,768	1,052,779
	1,535,176	1,668,487	1,674,038	1,387,883	2,264,712	2,205,995
	203,659	228,227	224,103	229,221	-	-
	18,849	18,423	19,844	29,911	-	-
	786,806	611,780	480,976	469,663	203,888	221,554
	235,709	276,881	184,707	132,849	-	-
	106,613	108,801	84,348	68,338	101,892	89,229
	819,641	819,187	726,404	841,875	376,959	359,455
	1,022,202	981,386	964,202	959,710	915,428	861,344
	5,521,930	5,403,951	5,229,507	5,351,292	4,746,647	4,790,356
	154,707	361,737	477,179	298,568	332,327	(345,838)
	214,676	267,652	334,630	389,463	207,272	121,211
	-	-	-	-	-	-
	224,104	223,987	227,727	239,053	247,297	249,263
	(398,460)	(433,950)	(447,333)	(437,948)	(194,378)	(194,214)
	(3,777)	(1,383)	(749)	(1,612)	(43,543)	-
	(330,091)	(319,742)	(315,317)	(332,437)	(331,491)	(336,626)
	(293,548)	(263,436)	(201,042)	(143,481)	(114,843)	(160,366)
\$	(138,841)	\$ 98,301	\$ 276,137	\$ 155,087	\$ 217,484	\$ (506,204)

YPSILANTI COMMUNITY UTILITIES AUTHORITY
Revenues and Expenses - Township Division - Unaudited
Last Ten Fiscal Years Ended August 31

	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Operating revenue				
Water sales	\$ 6,740,398	\$ 6,195,587	\$ 6,113,866	\$ 5,697,792
Sewage disposal sales	10,079,505	9,753,436	10,498,604	10,024,163
Surcharges and other usage fees	726,025	529,182	692,861	831,390
Other operating revenue	1,868,318	1,917,408	1,813,984	773,826
Sales discounts	(579,682)	(713,387)	(942,590)	(872,513)
Total operating revenue	<u>18,834,564</u>	<u>17,682,226</u>	<u>18,176,725</u>	<u>16,454,658</u>
Operating expenses				
Water distribution	4,356,729	3,996,843	3,453,834	3,194,347
Wastewater treatment	8,371,710	6,827,203	6,591,058	5,083,319
Wastewater pump stations	645,206	712,722	601,574	611,946
Industrial surveillance	113,794	89,426	64,839	55,378
Transmission and distribution	3,633,059	2,822,492	2,717,029	1,412,375
Meter service	837,220	627,760	719,380	654,440
Customer accounting and collections	484,151	385,554	331,183	321,310
General and administration	(1) 1,391,179	3,157,187	2,909,233	2,486,174
Depreciation	(2) -	-	-	2,998,447
Total operating expenses	<u>19,833,048</u>	<u>18,619,187</u>	<u>17,388,130</u>	<u>16,817,736</u>
Operating income (loss)	<u>(998,484)</u>	<u>(936,961)</u>	<u>788,595</u>	<u>(363,078)</u>
Non-operating income (expense)				
Investment earnings	34,377	942,506	974,893	483,127
Connection fees	(3) 1,055,085	-	-	-
Debt service contributions	-	684,426	-	30,866
Interest and amortization expense	(526,609)	(986,338)	(659,902)	(353,559)
Gain (loss) on disposal of capital assets	(1,417)	(49,801)	(339,920)	(24,933)
Debt service transfer to County	(4) -	(883,462)	(905,989)	(891,480)
Total non-operating income (expense)	<u>561,436</u>	<u>(292,669)</u>	<u>(930,918)</u>	<u>(755,979)</u>
Net income (loss)	<u>\$ (437,048)</u>	<u>\$ (1,229,630)</u>	<u>\$ (142,323)</u>	<u>\$ (1,119,057)</u>

(1) Beginning in fiscal 2003, payroll taxes and employee benefits are allocated to departments.

(2) Beginning in fiscal 2001, depreciation expense is allocated to departments.

(3) Prior to fiscal 2003, connection fees were recorded directly to equity (i.e., contributed capital).

(4) Beginning in fiscal 2003, this debt was properly recognized as lease payable; the portion that is interest is reported as interest expense.

Table 3

	1999	1998	1997	1996	1995	1994
\$	5,329,747	\$ 5,123,264	\$ 4,884,719	\$ 5,223,688	\$ 4,458,680	\$ 4,219,035
	9,076,811	9,046,167	8,684,778	8,453,906	7,116,265	5,889,197
	840,326	742,567	792,211	778,387	682,890	593,509
	834,607	889,312	713,728	985,984	1,037,009	1,091,847
	(874,666)	(827,379)	(857,599)	(873,162)	(799,491)	(723,931)
	15,206,825	14,973,931	14,217,837	14,568,803	12,495,353	11,069,657
	3,130,715	2,887,670	2,799,894	3,022,433	2,550,189	2,501,080
	4,480,706	4,638,621	4,313,269	3,817,777	6,008,233	5,690,908
	596,007	634,505	577,414	637,538	-	-
	55,161	51,219	51,131	81,869	-	-
	1,445,493	1,139,048	925,260	1,008,278	565,721	502,742
	579,774	563,724	442,373	298,899	-	-
	262,038	257,286	202,849	167,751	215,187	224,545
	2,224,798	2,116,189	1,790,873	1,975,519	639,024	616,668
	2,630,091	2,461,174	2,311,754	2,230,722	2,181,649	2,173,148
	15,404,783	14,749,436	13,414,817	13,240,786	12,160,003	11,709,091
	(197,958)	224,495	803,020	1,328,017	335,350	(639,434)
	385,603	458,023	379,689	359,598	353,674	240,063
	-	-	-	-	-	-
	29,511	465,366	27,065	74,137	-	-
	(223,718)	(245,045)	(277,933)	(306,889)	(524,675)	(479,422)
	21,818	13,184	(85,457)	(9,490)	(152,384)	-
	(884,370)	(884,105)	(876,654)	(872,763)	(830,562)	(884,875)
	(671,156)	(192,577)	(833,290)	(755,407)	(1,153,947)	(1,124,234)
\$	(869,114)	\$ 31,918	\$ (30,270)	\$ 572,610	\$ (818,597)	\$ (1,763,668)

Table 4

YPSILANTI COMMUNITY UTILITIES AUTHORITY
Water and Wastewater Debt Coverage - Unaudited
Last Ten Fiscal Years Ended August 31

Fiscal Year	(1) Gross Revenue	(2) Operating Expenses	Net Revenue Available for Debt Service	(3) Total Debt Service Requirement	Coverage
2003	\$27,197,424	\$21,476,377	\$ 5,721,047	\$ 4,689,848	1.22
2002	26,308,768	20,241,129	6,067,639	4,335,292	1.40
2001	26,079,700	19,245,962	6,833,738	4,187,246	1.63
2000	23,556,269	18,723,057	4,833,212	3,217,769	1.50
1999	21,737,356	17,274,420	4,462,936	2,803,390	1.59
1998	22,154,647	16,710,827	5,443,820	2,922,489	1.86
1997	20,893,634	15,368,368	5,525,266	2,825,484	1.96
1996	21,280,914	15,401,646	5,879,268	2,717,517	2.16
1995	18,382,570	13,809,573	4,572,997	2,091,106	2.19
1994	16,124,712	13,464,955	2,659,757	2,449,112	1.09

(1) Includes operating revenue, investment earnings, connection fees and debt service contributions.

(2) Excludes depreciation expense.

(3) Includes revenue bonds and capital leases only.