
Southeastern Oakland County Resource Recovery Authority

**Financial Report
with Supplemental Information
June 30, 2018**

Southeastern Oakland County Resource Recovery Authority

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Independent Auditor's Report

To the Board of Trustees
Southeastern Oakland County Resource Recovery Authority

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Southeastern Oakland County Resource Recovery Authority (the "Authority") as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Southeastern Oakland County Resource Recovery Authority as of June 30, 2018 and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the basic financial statements, during the year ended June 30, 2018, the Authority adopted provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. This new standard established accounting and financial reporting requirements for employers providing OPEB benefits to their employees. Our opinion is not modified with respect to this matter.

To the Board of Trustees
Southeastern Oakland County Resource Recovery Authority

Other Matters

Required Supplemental Information

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

Other Information

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

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

Plante & Moran, PLLC

October 30, 2018

Southeastern Oakland County Resource Recovery Authority

Management's Discussion and Analysis

As management of the Southeastern Oakland County Resource Recovery Authority (the "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 June 30, 2018. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- The Authority's net position decreased in the amount of \$709,616 for the year ended June 30, 2018.
- The liability for landfill closure and postclosure costs decreased by \$102,853.
- The Authority's working capital at year end was \$833,394, which represents approximately 3.7 percent of the Authority's annual expenditures before depreciation. This was a decrease from working capital at the end of the previous fiscal year, which was \$2,774,884.

Overview of the Basic Financial Statements

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

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

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

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

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

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

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

Southeastern Oakland County Water Authority

Management's Discussion and Analysis (Continued)

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the Authority's financial position. In the case of the Authority, assets and deferred outflows exceed liabilities and deferred inflows by \$4,149,868 at the close of the most recent fiscal year.

By far the largest portion of the Authority's net position is invested in capital assets (e.g., land, buildings, vehicles, and equipment). The Authority uses these capital assets to provide services to its member communities; consequently, these assets are not available for future spending. Unrestricted net position is (\$1,562,537) at year end. The primary driver of the negative unrestricted net position is the net pension liability of \$2,198,684.

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

	June 30	
	2018	2017
Assets		
Other assets	\$ 7,387,409	\$ 15,212,594
Capital assets - Net	<u>16,647,249</u>	<u>10,574,608</u>
Total assets	24,034,658	25,787,202
Deferred Outflows of Resources	211,177	541,522
Liabilities		
Current liabilities	4,507,764	1,873,926
Noncurrent liabilities	<u>15,401,609</u>	<u>19,281,479</u>
Total liabilities	19,909,373	21,155,405
Deferred Inflows of Resources	<u>186,594</u>	<u>106,032</u>
Net Position		
Net investment in capital assets	5,712,405	4,953,087
Unrestricted	<u>(1,562,537)</u>	<u>114,200</u>
Total net position	<u>\$ 4,149,868</u>	<u>\$ 5,067,287</u>

Note: 2017 amounts have not been adjusted for the implementation of GASB 75.

Southeastern Oakland County Water Authority

Management's Discussion and Analysis (Continued)

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

	Year Ended June 30	
	2018	2017
Revenue		
Municipal solid waste	\$ 21,248,536	\$ 21,350,563
Compost material	86,221	145,340
Recyclable materials	865,521	1,086,744
Interest income	93,373	66,342
Other income	352,623	316,017
Loss on sale of assets	<u>(276,336)</u>	-
Total revenue	22,369,938	22,965,006
Expenses		
Madison Heights transfer station	287,324	144,782
Household hazardous waste	739,728	572,179
Troy transfer station operation	3,494,796	4,098,647
Material recovery facility	2,345,807	1,288,437
Compost operation	629,513	523,372
Administrative and general	1,379,310	1,924,043
Collection contract operations	13,678,901	12,375,257
Interest expense	95,443	7,207
Depreciation	<u>428,732</u>	429,450
Total expenses	<u>23,079,554</u>	21,363,374
Change in Net Position		
	<u>(709,616)</u>	1,601,632
Net Position - Beginning of year, as restated	<u>4,859,484</u>	3,465,655
Net Position - End of year	<u>\$ 4,149,868</u>	<u>\$ 5,067,287</u>

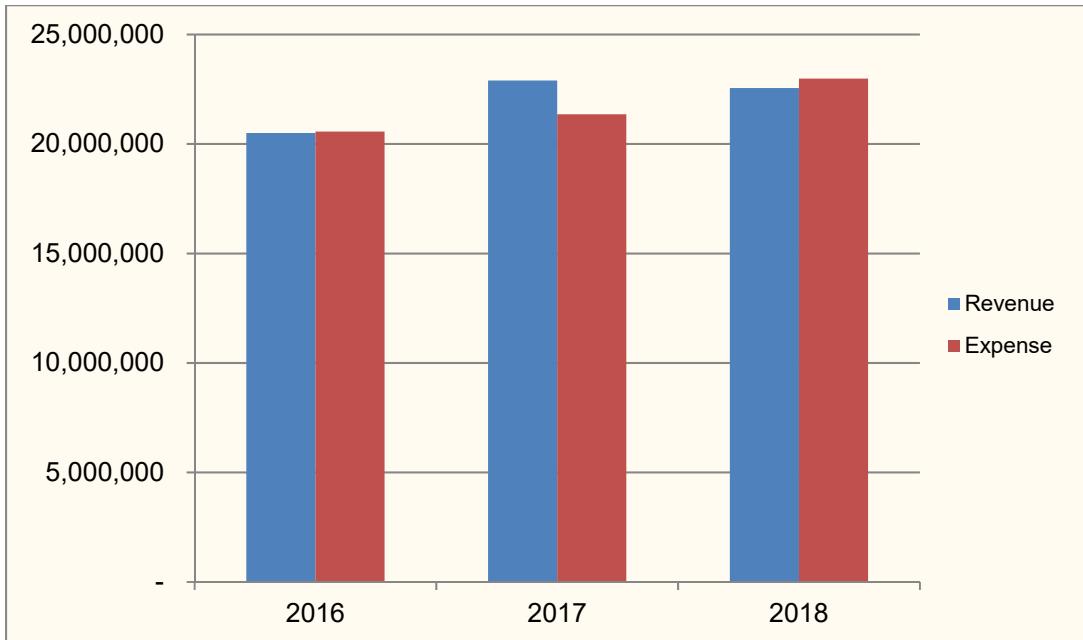
Note: 2017 amounts have not been adjusted for the implementation of GASB 75.

Municipal solid waste (MSW) revenue was lower for 2018 due to a decrease in non-member tonnage due to our facilities being unavailable due to the MRF construction. Revenue from the sale of recycled materials was also lower for 2018 due to the closure of the MRF for construction for over half the year. The MRF closure also increased the costs for collection contract expenses and MRF expenses due to a third party processing SOCRRA's recyclables.

Southeastern Oakland County Water Authority

Management's Discussion and Analysis (Continued)

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



Capital Asset and Debt Administration

Capital Assets – The Authority's investment in capital assets for its activities as of June 30, 2018 amounted to \$16,647,249 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, rental properties, buildings, equipment, and organizational costs. In the current fiscal year, the Authority's total investment in capital assets increased by \$6,072,641, or 57.4 percent.

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

- Expenses of \$6,200,000 for the conversion of the MRF to single stream operation
- Purchase of recycling carts for \$4,200,000
- The replacement of a compactor at the Troy Transfer Station for \$94,000
- Renovation of the Madison Heights Transfer Station for \$16,000

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

Long-term Debt - During the current fiscal year, the Authority made scheduled principal payments of \$930,062. The outstanding principal balance of all equipment financing as of June 30, 2017 is \$11,833,724. Additional information on the Authority's long-term debt can be found in Note 5 of this report.

Southeastern Oakland County Water Authority

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the Authority's budget for the 2018-2019 fiscal year:

- Wages were increased by 2 percent for union employees and by 3 percent for salaried employees.
- Health insurance costs were increased by 5 percent for active employees and by 2 percent for retirees.
- The number of salaried and union employees remained unchanged from the 2017-2018 budget.
- Recycling tonnage contributed by member communities was estimated at the actual tonnage from September 2017 through January 2018 (when the recycling carts were in service) plus the actual tonnage from February 2017 to August 2017 (before the recycling carts were in service) increased by 20 percent.
- Refuse tonnage contributed by member communities was estimated at the two-year average for the actual tonnage for 2016/17 and estimated tonnage for 2017/18.
- Costs for the collection contracts and the disposal contract were based on the existing contracts and include fuel and CPI surcharges that are effective as of July 1, 2018.
- A monthly surcharge was continued to help fund the Authority's bond principal and interest expenses.

Request for Information

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

Southeastern Oakland County Resource Recovery Authority

Statement of Net Position

June 30, 2018

Assets

Current assets:	
Cash and cash equivalents (Note 2)	\$ 3,245,550
Accounts receivable	1,936,698
Other current assets	<u>158,910</u>
Total current assets	5,341,158
Noncurrent assets:	
Restricted cash (Notes 2 and 4)	2,046,251
Capital assets: (Note 3)	
Assets not subject to depreciation	4,035,551
Assets subject to depreciation - Net	<u>12,611,698</u>
Total noncurrent assets	18,693,500
Total assets	24,034,658

Deferred Outflows of Resources

Deferred pension costs (Note 11)	209,558
Deferred OPEB costs (Note 10)	<u>1,619</u>
Total deferred outflows of resources	211,177

Liabilities

Current liabilities:	
Accounts payable	3,538,042
Deposits	32,010
Accrued liabilities and other:	
Due to related party (Note 7)	265,496
Other current liabilities	10,718
Accrued compensated absences (Note 5)	54,281
Landfill postclosure care costs (Note 9)	107,095
Current portion of long-term debt (Note 5)	<u>500,122</u>
Total current liabilities	4,507,764
Noncurrent liabilities:	
Accrued compensated absences (Note 5)	74,932
Accounts payable from restricted assets	580,887
Landfill postclosure care costs (Note 9)	1,112,298
Net pension liability (Note 11)	2,198,684
Net OPEB liability (Note 10)	101,206
Long-term debt, net of current portion (Note 5)	<u>11,333,602</u>
Total noncurrent liabilities	15,401,609
Total liabilities	19,909,373

Deferred Inflows of Resources

Deferred pension cost reductions (Note 11)	183,557
Deferred OPEB cost reductions (Note 10)	<u>3,037</u>
Total deferred inflows of resources	186,594

Net Position

Net investment in capital assets	5,712,405
Unrestricted	<u>(1,562,537)</u>
Total net position	\$ 4,149,868

Southeastern Oakland County Resource Recovery Authority

Statement of Revenue, Expenses, and Changes in Net Position

Year Ended June 30, 2018

Operating Revenue

Municipal solid waste	\$ 21,248,536
Compost material	86,221
Recyclable materials	865,521
Rental income	129,379
Miscellaneous	223,244

Total operating revenue 22,552,901

Operating Expenses

Madison Heights transfer station	287,324
Household hazardous waste	739,728
Troy transfer station operation	3,494,796
Material recovery facility	2,345,807
Compost operation	629,513
Administrative and general	1,379,310
Collection contract expenses	13,678,901
Depreciation	428,732

Total operating expenses 22,984,111

Operating Loss

(431,210)

Nonoperating Revenue (Expense)

Investment income	93,373
Loss on disposal of assets	(276,336)
Interest expense	(95,443)

Total nonoperating expense (278,406)

Change in Net Position

(709,616)

Net Position - Beginning of year, as restated (Note 1)

4,859,484

Net Position - End of year

\$ 4,149,868

Southeastern Oakland County Resource Recovery Authority

Statement of Cash Flows

Year Ended June 30, 2018

Cash Flows from Operating Activities

Receipts from customers	\$ 22,201,904
Payments to related parties	(448,372)
Payments to suppliers	(19,008,853)
Payments to employees and fringes	<u>(3,049,578)</u>
Net cash and cash equivalents used in operating activities	(304,899)

Cash Flows from Capital and Related Financing Activities

Purchase of capital assets	(6,777,709)
Principal and interest paid on capital debt	<u>(1,130,643)</u>
Net cash and cash equivalents used in capital and related financing activities	(7,908,352)

Cash Flows Provided by Investing Activities - Interest received on investments

93,373

Net Decrease in Cash and Cash Equivalents

(8,119,878)

Cash and Cash Equivalents - Beginning of year

13,411,679

Cash and Cash Equivalents - End of year

\$ 5,291,801

Classification of Cash and Cash Equivalents

Cash and investments	\$ 3,245,550
Restricted cash	<u>2,046,251</u>
Total cash and cash equivalents	<u>\$ 5,291,801</u>

Reconciliation of Operating Loss to Net Cash from Operating Activities

Operating loss	\$ (431,210)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation	428,732
Changes in assets and liabilities:	
Accounts receivable	(350,997)
Related party payable	146,490
Net OPEB liability and related deferred inflows and outflows	(53,318)
Net pension liability and related deferred inflows and outflows	(281,544)
Other assets	4,467
Accrued wages	(36,780)
Accounts payable	418,738
Other current liabilities	(46,877)
Deposits	10,961
Accrued landfill liabilities	(102,853)
Accrued compensated absences	<u>(10,684)</u>
Total adjustments	<u>126,335</u>
Net cash and cash equivalents used in operating activities	<u>\$ (304,875)</u>

Southeastern Oakland County Resource Recovery Authority

Notes to Financial Statements

June 30, 2018

Note 1 - Significant Accounting Policies

Reporting Entity

Southeastern Oakland County Resource Recovery Authority (the "Authority") was created in 1953 as a Michigan Public Corporation under Act Number 179 of the Michigan Public Acts of 1947 (as amended by Act Number 92 of the Michigan Public Acts of 1955 and by Act Number 598 of the Michigan Public Acts of 2002) under the original title of Southeastern Oakland County Incinerator Authority. The Authority provides waste disposal and recycling services to municipal communities in Oakland County, Michigan. The Authority is governed by a board of trustees, with one member representing each constituent municipality. Principal funding for the Authority is derived from waste disposal charges to the member municipalities.

The Authority has followed the guidelines of the Governmental Accounting Standards Board's Statement No. 14 (as amended by Statement Nos. 39, 61, and 80) and has determined that no entities should be consolidated into its financial statements as component units, entities for which the government is considered to be financially accountable. Therefore, the reporting entity consists of the primary government financial statements only.

Accounting and Reporting Principles

The Authority follows accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board.

Report Presentation

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

Fund Accounting

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

Basis of Accounting

Proprietary funds use the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when a liability is incurred regardless of the timing of related cash flows.

Specific Balances and Transactions

Cash and Investments

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

Other Assets

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as other assets in the financial statements.

Restricted Assets

Certain resources of the Authority are set aside for landfill postclosure costs and court order mandates and are classified as restricted assets on the statement of net position because their use is limited to those types of expenses.

Southeastern Oakland County Resource Recovery Authority

Notes to Financial Statements

June 30, 2018

Note 1 - Significant Accounting Policies (Continued)

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the financial statements. Capital assets are defined by the Authority as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

	Depreciable Life - Years
Land improvements	5 to 50
Rental properties	5 to 30
Buildings	10 to 50
Equipment	5 to 25

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense) until then. The Authority reports deferred outflows related to deferred OPEB and pension costs, as detailed in Notes 10 and 11, respectively.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The Authority reports deferred inflows related to deferred OPEB and pension costs reductions, as detailed in Notes 10 and 11, respectively.

Net Position Flow Assumption

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

Pension

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

Southeastern Oakland County Resource Recovery Authority

Notes to Financial Statements

June 30, 2018

Note 1 - Significant Accounting Policies (Continued)

Other Postemployment Benefit Costs

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

Compensated Absences (Vacation and Sick Leave)

It is the Authority's policy to permit employees to accumulate earned but unused vested sick leave. Once an employee has accumulated at least 320 hours (40 days), he or she shall receive payment at the end of the next fiscal year for all unused sick leave credits earned in excess of 48 hours during the immediately preceding fiscal year. At no time may an employee accumulate over 960 hours (120 days). Employees forfeit all rights to vacation time earned if not used within the year following accrual, unless carried over with the consent of management.

Proprietary Funds Operating Classification

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of proprietary funds is charges to customers for services. Operating expenses for the Authority include the cost of services, administrative expenses, and may include depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Adoption of New Accounting Pronouncement

During the current year, the Authority adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which replaces GASB Statement No. 45. As a result, the statement of net position now includes a liability for the Authority's estimated unfunded other postemployment benefit (OPEB) costs. Some of the changes in this net OPEB liability will be recognized immediately as part of the OPEB expense measurement and part will be deferred and recognized over future years. Refer to the other postemployment benefit plan disclosure (see Note 10) for further details.

The financial statements for the year ended June 30, 2017 have been restated in order to adopt GASB Statement No. 75. The effect of this new standard was a decrease in net position to record the net OPEB liability at June 30, 2017. Additionally, the net OPEB asset previously recorded in accordance with GASB Statement No. 45 has been eliminated, and the overall result was a decrease of \$207,803 in net position as of the beginning of the current fiscal year.

Southeastern Oakland County Resource Recovery Authority

Notes to Financial Statements

June 30, 2018

Note 1 - Significant Accounting Policies (Continued)

Upcoming Accounting Pronouncements

In January 2017, the Governmental Accounting Standards Board issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. The Authority is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Authority's financial statements for the year ending June 30, 2020.

In June 2017, the Governmental Accounting Standards Board issued GASB Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The Authority is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Authority's financial statements for the year ending June 30, 2021.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which simplifies accounting for interest cost incurred before the end of construction and requires those costs to be expensed in the period incurred. As a result, interest cost incurred before the end of a construction period will not be capitalized and included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This statement also reiterates that, in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of the standard will be applied prospectively and result in increased interest expense during periods of construction. The provisions of this statement are effective for the Authority's financial statements for the June 30, 2021 fiscal year.

Note 2 - Deposits and Investments

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

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

Southeastern Oakland County Resource Recovery Authority

Notes to Financial Statements

June 30, 2018

Note 2 - Deposits and Investments (Continued)

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

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. At year end, the Authority had \$1,165,893 of bank deposits (certificates of deposit and checking and savings accounts) that were uninsured and uncollateralized. The Authority believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Authority's investment policy minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and by investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools. At year end, the Authority held \$764,659 in an investment pool with a weighted-average maturity of 1.03 years.

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Authority's investment policy further limits credit risk by limiting investment to the safest type of securities; prequalifying the financial institution, brokers, dealers, intermediaries, and advisors with which the Authority will do business; and diversifying the investment portfolio so that potential losses on individual securities will be minimized. As of June 30, 2018, the Authority held no investments subject to credit risk.

Concentration of Credit Risk

The Authority places no limit on the amount it may invest in any one issuer, except for the Oakland County Local Government Investment Pool (the "LGIP"), for which there is a \$1 million limit. More than 15 percent of the Authority's investments are in the LGIP.

The Authority has also invested in the Morgan Stanley Institutional Liquidity Funds, which comprise more than 29 percent of the Authority's investments.

Fair Value Measurements

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

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

Southeastern Oakland County Resource Recovery Authority

Notes to Financial Statements

June 30, 2018

Note 2 - Deposits and Investments (Continued)

At June 30, 2018 the Authority has \$1,479,767 of pooled fixed-income investments valued using quoted market prices (Level 1 inputs).

Investments in Entities that Calculate Net Asset Value per Share

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

For the year ended June 30, 2018, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

	<u>Carrying Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency, if Eligible</u>	<u>Redemption Notice Period</u>
Oakland County Local Government Investment Pool	\$ 764,659	\$ -	No restrictions	None

The Oakland County Local Government Investment Pool (LGIP) is not registered with the SEC and does not issue a separate report. The pool does not meet the requirements under GASB 79 to report its value for financial reporting purposes at amortized costs. Accordingly, the investment is reported at fair value. The fair value of the position in the pool is not the same as the value of the pool shares, because the pool redeems shares at \$1 per share, regardless of current fair value. The LGIP invests assets in a manner that will seek the highest investment return consistent with the preservation of principal and meet the daily liquidity needs of participants.

Note 3 - Capital Assets

Capital asset activity of the Authority was as follows:

	<u>Balance July 1, 2017</u>	<u>Reclassifications</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Balance June 30, 2018</u>
Capital assets not being depreciated:					
Land	\$ 1,354,022	\$ -	\$ -	\$ -	\$ 1,354,022
Construction in progress	5,280,744	(8,971,949)	6,558,154	(185,420)	2,681,529
Subtotal	6,634,766	(8,971,949)	6,558,154	(185,420)	4,035,551
Capital assets being depreciated:					
Buildings and improvements	7,459,268	8,971,949	73,638	-	16,504,855
Machinery and equipment	3,927,209	-	145,917	-	4,073,126
Rental properties	1,085,441	-	-	(146,877)	938,564
Land improvements	3,587,218	-	-	-	3,587,218
Subtotal	16,059,136	8,971,949	219,555	(146,877)	25,103,763
Accumulated depreciation	12,119,294	-	428,732	(55,961)	12,492,065
Net capital assets being depreciated	3,939,842	8,971,949	(209,177)	(90,916)	12,611,698
Net business-type activity capital assets	\$ 10,574,608	\$ -	\$ 6,348,977	\$ (276,336)	\$ 16,647,249

Southeastern Oakland County Resource Recovery Authority

Notes to Financial Statements

June 30, 2018

Note 4 - Restricted Assets

Restricted assets on the statement of net position are legally restricted for specific purposes as imposed by sources outside the Authority.

At June 30, 2018, restricted assets are composed of the following:

Landfill postclosure	\$ 466,484
Landfill end use	100,000
Unspent bond proceeds	<u>1,479,767</u>
Total	\$ 2,046,251

Note 5 - Long-term Debt

Long-term debt activity for the year ended June 30, 2018 can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds and contracts payable:							
2016 revenue bonds Series A - Amount of issue - \$2,595,000	1.3% - 1.8%	2020	\$ 1,780,000	\$ -	\$ (870,000)	\$ 910,000	\$ 450,000
Series B - Amount of issue - \$9,875,000	3.0% - 4.0%	2028	9,875,000	-	-	9,875,000	-
2014 purchase agreement SCARAB - Amount of issue - \$222,032	4.0%	2018	13,027	-	(13,027)	-	-
2014 purchase agreement John Deere - Amount of issue - \$237,749	3.0%	2019	<u>97,157</u>	-	(47,035)	<u>50,122</u>	<u>50,122</u>
Total principal outstanding			11,765,184	-	(930,062)	10,835,122	500,122
Unamortized bond premium on Series B bonds		2028	<u>1,103,718</u>	-	(105,116)	<u>998,602</u>	-
Total bonds and contracts payable			12,868,902	-	(1,035,178)	11,833,724	500,122
Compensated absences			<u>139,897</u>	<u>46,894</u>	(57,578)	<u>129,213</u>	<u>54,281</u>
Total business-type activities long-term debt			<u>\$ 13,008,799</u>	<u>\$ 46,894</u>	<u>\$ (1,092,756)</u>	<u>\$ 11,962,937</u>	<u>\$ 554,403</u>

The accrued compensated absences represent the estimated liability to be paid to employees under the Authority's sick, vacation, and longevity pay policies.

The Authority incurred \$199,128 for interest expense during the year, including \$103,685 of capitalized interest.

Revenue Bonds

The Authority has pledged the net revenue of the Authority, pursuant to certain contracts, to repay the above recycling revenue bonds. Proceeds from the bonds provided financing the improvement of the existing recycling facilities and the acquisition of over 100,000 new recycling containers. The bonds are payable from the net revenue of the Authority. The remaining principal and interest to be paid on the bonds is \$13,169,965. During the current year, net revenue of the Authority was \$90,895 compared to the annual debt service of \$1,067,085.

Southeastern Oakland County Resource Recovery Authority

Notes to Financial Statements

June 30, 2018

Note 5 - Long-term Debt (Continued)

Debt Service Requirements to Maturity

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

Years Ending June 30	Principal	Interest	Total
2019	\$ 500,122	\$ 384,701	\$ 884,823
2020	930,000	368,890	1,298,890
2021	980,000	343,375	1,323,375
2022	1,035,000	313,600	1,348,600
2023	1,090,000	282,100	1,372,100
2024-2028	6,300,000	692,800	6,992,800
Total	<u>\$ 10,835,122</u>	<u>\$ 2,385,466</u>	<u>\$ 13,220,588</u>

Note 6 - Risk Management

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

Note 7 - Related Party Transactions

The Authority has developed a cost-sharing strategy for certain administrative salaries, operating expenses, and capital asset expenses with the Southeastern Oakland County Water Authority (SOCWA). The cost-sharing arrangements resulted in the Authority paying SOCWA \$554,862 for the year ended June 30, 2018. In addition to these shared costs the Authority is also charged and pays an annual office rental fee to SOCWA in the amount of \$40,000. As of June 30, 2018, the amount of payables due to SOCWA was \$265,496.

Note 8 - Contingent Liabilities

Madison Heights Property (Old Royal Oak Township Dump Site)

The Authority has been identified as a potentially liable party, along with three other entities, by the Michigan Department of Environmental Quality with respect to environmental contamination on the site formerly used by Royal Oak Township as a refuse disposal area. The Authority has conducted soil testing to determine the presence of contamination, performed minor debris cleanup, and added soil as necessary to increase the thickness of the protective cap that covers the area. The Authority incurred no expenses for the year ended June 30, 2018 for site-related costs incurred for environmental analysis and cap improvement.

The Authority, in conjunction with the three other parties, has submitted a remedial action plan to the State of Michigan wherein it requests that the State certify the remediation work performed to date and approve a continuing maintenance program. The plan provides that the Authority will complete its cap improvement work and obtain certain agreements from property leases regarding use restrictions on the site. The Authority estimates that it has completed substantially all of the remedial action plan items.

Southeastern Oakland County Resource Recovery Authority

Notes to Financial Statements

June 30, 2018

Note 8 - Contingent Liabilities (Continued)

City of Rochester Hills versus the Authority

The City of Rochester Hills filed a motion in June 2002 related to the end use of the landfill property. After several hearings, the parties agreed to the following:

1. The Authority shall maintain an escrow account in the amount of \$100,000 that will be held until Rochester Hills and the Authority have agreed on an end use to the landfill property. On December 3, 2008, the Authority received a court order allowing the release of \$90,000 from the escrow account. Under the terms of the court order, the Authority was allowed to withdraw \$90,000 from the account in 2009 and will deposit \$10,000 into the account on an annual basis until the balance once again reaches \$100,000. The balance in this account at June 30, 2018 is \$100,000, which complies with the 2008 court order.
2. The Authority will continue to maintain a postclosure liability account. The balance in this account as of June 30, 2018 is \$466,484.

All of the remaining issues in this case have been resolved.

City of Madison Heights versus the Authority

This case involves the City of Madison Heights' allegations that the Authority owes it an equity payment under a law purporting to govern a member's withdrawal from the Authority. The Authority filed counterclaims for unpaid invoices for environmental liabilities previously tendered to the City of Madison Heights. The parties reached a settlement agreement on March 16, 2005 that resolved all of the outstanding issues in this case. The City of Madison Heights agreed to assume responsibility for 8.75 percent of the Authority's environmental liabilities from July 1, 2004 forward for all the Authority's properties used during the membership of the City of Madison Heights in the Authority. The Authority and the City of Madison Heights have also resolved several property issues following the City of Madison Heights' preparation of the required easements and property descriptions.

Note 9 - Closure and Postclosure Care Costs

State and federal laws and regulations require the Authority to place a final cover on its Rochester Hills landfill site when it stopped accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. The postclosure period started on December 10, 2005.

A liability for landfill closure and postclosure care in the amount of \$1,219,393 is reported at June 30, 2018. This amount represents the cumulative remaining amount reported to date based on the use of 100 percent of the estimated capacity of the landfill as of June 30, 2018, less amounts expended toward the liability. For the year ended June 30, 2018, \$148,341 was actually expended in postclosure costs. In the current year, there was a decrease of \$102,853 in the liability for postclosure care costs. These amounts are based on what it would cost to perform all closure and postclosure care as of June 30, 2018. Actual cost may be higher because of inflation, changes in technology, or changes in regulations.

Note 10 - Other Postemployment Benefit Plan

Plan Description

The Authority provides OPEB to eligible union and salaried employees and their beneficiaries. There are separate plans for union and salaried employees. The Authority and SOCWA are joint participants in the salaried plan that operates under SOCWA's name. The amounts disclosed represent the Authority's share of the plan, which is estimated to be 44 percent of the salaried plan. Both plans are administered by the Municipal Employees' Retirement System of Michigan Health Funding Vehicle.

Southeastern Oakland County Resource Recovery Authority

Notes to Financial Statements

June 30, 2018

Note 10 - Other Postemployment Benefit Plan (Continued)

Benefits Provided

The union and salaried plans provide healthcare benefits for retirees and their dependents. Benefits are provided through a third-party insurer, and the full cost of the benefits is covered by the plan. The Authority's board has the authority to establish and amend benefit provisions.

Employees Covered by Benefit Terms

The following members were covered by the benefit terms:

	Union Plan	Salaried Plan
Date of member count	June 30, 2018	June 30, 2018
Inactive plan members or beneficiaries currently receiving benefits	9	11
Active plan members	<u>4</u>	<u>3</u>
Total plan members	<u><u>13</u></u>	<u><u>14</u></u>

Contributions

Retiree healthcare costs are paid by the Authority on a "pay-as-you-go" basis. The Authority has no obligation to make contributions in advance of when the insurance premiums are due for payment. However, the Authority has made contributions to advance-fund these benefits, as determined by the board through annual budget resolutions and through specific board actions. For the fiscal year ended June 30, 2018, the Authority made total contributions of \$48,365 and \$26,646 to the union and salaried plans, respectively. Union employees are not required to make contributions, but certain participants are required to pay co-pays. Since the salaried plan became effective January 1, 2002, eligible employees have been required to contribute to the plan based on eligible payroll. The contribution percentage for the year ended June 30, 2018 was 5 percent.

Net OPEB Liability

The Authority chooses a date for each OPEB plan to measure its net OPEB liability. This is based on the measurement date of each OPEB plan, which may be based on a comprehensive valuation as of that date or based on an earlier valuation that has used procedures to roll the information forward to the measurement date.

	Union Plan	Salaried Plan
Measurement date used for the Authority's net OPEB liability	June 30, 2018	June 30, 2018
Based on a comprehensive actuarial valuation as of	June 30, 2017	June 30, 2017

Southeastern Oakland County Resource Recovery Authority

Notes to Financial Statements

June 30, 2018

Note 10 - Other Postemployment Benefit Plan (Continued)

Changes in the net OPEB liability of the union plan during the measurement year were as follows:

Changes in Net OPEB Liability	Increase (Decrease)		
	Total OPEB Liability	Plan Net Position	Net OPEB Liability
Balance at June 30, 2017	\$ 602,989	\$ 474,491	\$ 128,498
Changes for the year:			
Service cost	6,361	-	6,361
Interest	41,264	-	41,264
Differences between expected and actual experience	2,459	-	2,459
Contributions - Employer	-	48,365	(48,365)
Net investment income	-	36,220	(36,220)
Benefit payments, including refunds	(33,365)	(33,365)	-
Net changes	16,719	51,220	(34,501)
Balance at June 30, 2018	\$ 619,708	\$ 525,711	\$ 93,997

The plan's fiduciary net position represents 84.8 percent of the total OPEB liability.

At June 30, 2018, the Authority reported a liability of \$7,209 for its proportionate share of the salaried net OPEB liability. The Authority's proportion of the net OPEB liability was based on the Authority's actuarially required contribution for the year ended June 30, 2018 relative to other contributing employers. At June 30, 2018, the Authority's proportion was 44 percent, which was consistent with its proportion measured as of June 30, 2017.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the Authority recognized OPEB expense of \$21,850 from all plans.

At June 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 1,619	-
Net difference between projected and actual earnings on OPEB plan investments	-	3,037
Total	\$ 1,619	\$ 3,037

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (note that employer contributions subsequent to the measurement date will reduce the net OPEB liability and, therefore, will not be included in future OPEB expense):

Years Ending June 30	Amount
2019	\$ 274
2020	(170)
2021	(757)
2022	(765)

Southeastern Oakland County Resource Recovery Authority

Notes to Financial Statements

June 30, 2018

Note 10 - Other Postemployment Benefit Plan (Continued)

Actuarial Assumptions

The total OPEB liability in each actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

	Union	Salaried
Inflation	2.5%	2.5%
Salary increases (including inflation)	4.0% - 17.0%	4.0% - 17.0%
Investment rate of return (net of investment expenses)	7.0%	7.0%
Healthcare cost trend rate	9.0%, gradually decreasing to 4.0% in year 10	9.0%, gradually decreasing to 4.0% in year 10
Mortality rates	RP-2000 Mortality Combined Healthy Tables projected 20 years	RP-2000 Mortality Combined Healthy Tables projected 20 years

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for MERS presented in a report dated March 2, 2010.

Discount Rate

As shown below, the discount rate used to measure the total OPEB liability was determined after considering a projection of the cash flows to determine whether the future contributions (made at the current contribution rates) will be sufficient to allow the OPEB plans' fiduciary net position to make all projected future benefit payments of current active and inactive employees.

	Union	Salaried
Assumed investment rate of return	7.0%	7.0%
Are contributions expected to be sufficient to allow fiduciary net position to pay future benefits?	Yes	Yes
Discount rate used to measure TOL	7.0%	7.0%

Investment Rate of Return

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and adding expected inflation. Best estimates of arithmetic real rates of return as of the June 30, 2018 measurement date for each major asset class included in the OPEB plan's target asset allocation, as disclosed in the investment footnote, are summarized in the following tables:

Union and Salaried Plans

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global equity	55.50 %	6.65 %
Global fixed income	18.50	1.76
Real assets	13.50	7.72
Diversifying strategies	12.50	5.50

Southeastern Oakland County Resource Recovery Authority

Notes to Financial Statements

June 30, 2018

Note 10 - Other Postemployment Benefit Plan (Continued)

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the Authority, calculated using the discount rate of 7.0 percent, as well as what the Authority's net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (6.0%)	Current Discount Rate (7.0%)	1 Percent Increase (8.0%)
Net OPEB liability of the union plan	\$ 157,930	\$ 93,997	\$ 38,419
Net OPEB liability of the salaried plan	30,591	7,209	(13,130)

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the net OPEB liability of the Authority, calculated using the healthcare cost trend rate of 9.0 percent, gradually decreasing to 4.0 percent, as well as what the Authority's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (8.0%, decreasing to 3.0%)	Current Healthcare Cost Trend Rate (9.0%, decreasing to 4%)	1 Percent Increase (10.0%, decreasing to 5.0%)
Net OPEB liability of the union plan	\$ 28,163	\$ 93,997	\$ 171,410
Net OPEB liability of the salaried plan	(17,290)	7,209	35,601

Note 11 - Pension Plans

Plan Description

The Authority has two plans that participate in the agent multiple-employer defined benefit pension plan administered by the Municipal Employees' Retirement System of Michigan (MERS of Michigan), which cover all union and salaried employees of the Authority. MERS of Michigan was established as a state-wide public employee pension plan by the Michigan Legislature under PA 135 of 1945 and is administered by a nine-member retirement board. MERS of Michigan issues a publicly available financial report, which includes the financial statements and required supplemental information of this defined benefit plan. This report can be obtained at www.mersofmich.com or in writing to MERS of Michigan at 1134 Municipal Way, Lansing, Michigan 48917.

The Authority provides a monthly retirement benefit to employees who meet the eligibility requirements, including age and years of service. The benefits are provided through the union and salaried defined benefit plans. The salaried plan is disclosed because salaried employees of the Authority and SOCWA are participants in the SOCWA plan, and the two authorities are considered joint participants. The amounts disclosed represent the Authority's share of salaried participants. The Authority's share of the total pension liability is estimated to be approximately 38 percent.

Benefits Provided

The plans provide certain retirement, disability, and death benefits to the plan members and beneficiaries. PA 427 of 1984, as amended, established and amends the benefit provisions of the participants in MERS of Michigan.

The MERS of Michigan plan covers all salaried and union full-time Authority employees.

Southeastern Oakland County Resource Recovery Authority

Notes to Financial Statements

June 30, 2018

Note 11 - Pension Plans (Continued)

Retirement benefits for union employees are calculated as 2.0 percent of the employee's final three-year average salary times the employee's credited years of service for nonsupervisory employees and 2.25 percent for supervisory employees. Nonsupervisory employees hired after July 1, 2010 are eligible for a hybrid defined benefit-defined contribution plan. These benefits are established by resolution of the Authority and negotiation with the collective bargaining unit representing union employees. Retirement benefits for employees participating in the hybrid plan are calculated as 1.0 percent of the employee's final three-year average salary times the employee's credited years of service.

Normal retirement age for union employees is 60 with early retirement at 55 with 25 years of service. A reduced early retirement benefit is available at 50 with 25 years of service and at 55 with 15 years of service. The retirement allowance is reduced 0.5 percent for each complete month that the retirement date precedes 60. There is no early retirement option for nonsupervisory employees hired after July 1, 2010. The vesting period is 10 years for employees hired prior to July 1, 2010 and six years for employees that are participating in the hybrid plan.

Retirement benefits for salaried employees are calculated as 2.5 percent of the employee's final three-year average salary times the employee's years of service. Employees hired after July 1, 2010 are eligible for a hybrid defined benefit-defined contribution plan. These benefits are established by resolution of the Authority. Retirement benefits for employees participating in the hybrid plan are calculated as 1.5 percent of the employee's final three-year average salary times the employee's credited years of service.

Normal retirement age for salaried employees is 60 with early retirement at 55 with 25 years of service. A reduced early retirement benefit is available at 50 with 25 years of service and at 55 with 15 years of service. The retirement allowance is reduced 0.5 percent for each complete month that the retirement date precedes 60. There is no early retirement option for nonsupervisory employees hired after July 1, 2010. The vesting period is 10 years for salaried employees hired before July 1, 2010 and six years for employees that are participating in the hybrid plan.

Benefit terms, within the parameters established by MERS, are generally established and amended by authority of the board of trustees, generally after negotiations of these terms with the affected unions, if applicable.

Employees Covered by Benefit Terms

The following members were covered by the benefit terms:

	Union Plan	Salaried Plan
Date of member count	December 31, 2017	December 31, 2016
Inactive plan members or beneficiaries currently receiving benefits	28	23
Inactive plan members entitled to but not yet receiving benefits	4	1
Active plan members	<hr/> 16	<hr/> 17
Total employees covered by the plan	<hr/> 48	<hr/> 41

Contributions

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

Southeastern Oakland County Resource Recovery Authority

Notes to Financial Statements

June 30, 2018

Note 11 - Pension Plans (Continued)

For the year ended June 30, 2018, the average active employee contribution rate for the union plan was 2.5 percent of annual pay for supervisory and nonsupervisory employees, and 0 percent for employees hired after July 1, 2010 who were participating in the hybrid plan; the Authority's average contribution rate was 34.27 percent of annual pay for supervisory employees, \$9,792 per month for nonsupervisory employees, and 4.76 percent for employees participating in the hybrid plan. Total contributions for the year were \$393,398.

For the year ended June 30, 2018, the average active employee contribution rate for the salaried plan was 6.0 percent of annual pay for salaried employees and 0 percent for employees hired after July 1, 2010 who were participating in the hybrid plan; the Authority's average contribution rate was \$8,636 per month for salaried employees and 9.25 percent for employees participating in the hybrid plan. The Authority's share of contribution for the year was \$362,831.

Net Pension Liability

The net pension liability reported at June 30, 2018 was determined using a measure of the total pension liability and the pension net position as of December 31, 2017. The December 31, 2017 total pension liability was determined by an actuarial valuation performed as of that date.

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

Union Plan

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
Balance at December 31, 2016	\$ 5,630,520	\$ 3,411,780	\$ 2,218,740
Changes for the year:			
Service cost	74,160	-	74,160
Interest	437,526	-	437,526
Differences between expected and actual experience	(10,907)	-	(10,907)
Contributions - Employer	-	378,778	(378,778)
Contributions - Employee	-	18,370	(18,370)
Net investment income	-	441,423	(441,423)
Benefit payments, including refunds	(397,050)	(397,050)	-
Administrative expenses	-	(6,997)	6,997
Net changes	103,729	434,524	(330,795)
Balance at December 31, 2017	\$ 5,734,249	\$ 3,846,304	\$ 1,887,945

Salaried Plan

At June 30, 2018, the Authority reported a liability of \$310,739 for its proportionate share of the salaried net pension liability, which was estimated to be 38 percent of the total. The Authority's proportionate share of the liability was 33 percent as of June 30, 2017.

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

For the year ended June 30, 2018, the Authority recognized pension expense of \$407,331 from all plans.

Southeastern Oakland County Resource Recovery Authority

Notes to Financial Statements

June 30, 2018

Note 11 - Pension Plans (Continued)

At June 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 6,890	\$ 77,732
Changes in assumptions	55,765	-
Net difference between projected and actual earnings on pension plan investments	-	105,825
Employer contributions to the plan subsequent to the measurement date	146,903	-
Total	\$ 209,558	\$ 183,557

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (note that employer contributions subsequent to the measurement date will reduce the net pension liability and, therefore, will not be included in future pension expense):

Years Ending June 30	Amount
2019	\$ 26,292
2020	12,458
2021	(97,967)
2022	(61,685)

Actuarial Assumptions

The total pension liability in each actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

	Union Plan	Salaried Plan
Inflation	2.50%	2.50%
Salary increases (including inflation)	3.75%	3.75%
Investment rate of return (gross of pension plan investment expense, including inflation)	8.00%	8.00%

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

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

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

The actuarial assumptions used in the December 31, 2017 actuarial valuation date valuation were based on the results of an actuarial experience study for the period 2009-2013.

Southeastern Oakland County Resource Recovery Authority

Notes to Financial Statements

June 30, 2018

Note 11 - Pension Plans (Continued)

Discount Rate

As shown below, the discount rate used to measure the total pension liability was determined after considering a projection of the cash flows to determine whether the future contributions (made at the current contribution rates) will be sufficient to allow the pension plans' fiduciary net position to make all projected future benefit payments of current active and inactive employees.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

	Union Plan	Salaried Plan
Assumed investment rate of return	8.0%	8.0%
Are contributions expected to be sufficient to allow fiduciary net position to pay future benefits?	Yes	Yes
Discount rate used to measure TPL	8.0%	8.0%

Investment Rate of Return

Best estimates of arithmetic real rates of return as of the December 31, 2017 measurement date for each major asset class included in the pension plan's target asset allocation, as disclosed in the investment footnote, are summarized in the following tables:

Union and Salaried Plans

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global equity	55.50 %	6.65 %
Global fixed income	18.50	1.76
Real assets	13.50	7.72
Diversifying strategies	12.50	6.50

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Authority, calculated using the discount rate of 8.0 percent, as well as what the Authority's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (7.0%)	Current Discount Rate (8.0%)	1 Percent Increase (9.0%)
Net pension liability of the Union Plan	\$ 2,507,124	\$ 1,887,945	\$ 1,361,433
Net pension liability of the Salaried Plan	651,236	310,739	14,795

Southeastern Oakland County Resource Recovery Authority

Notes to Financial Statements

June 30, 2018

Note 11 - Pension Plans (Continued)

Pension Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in the separately issued financial report found at www.mersofmich.com. For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the plan's fiduciary net position and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the plan. The plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments and refunds of employee contributions are recognized as expense when due and payable in accordance with the benefit terms.

Required Supplemental Information

Southeastern Oakland County Resource Recovery Authority

Required Supplemental Information Schedule of Changes in the Net Pension Liability and Related Ratios Union Plan

	Last Four Fiscal Years			
	2018	2017	2016	2015
Total Pension Liability				
Service cost	\$ 74,160	\$ 78,325	\$ 82,868	\$ 80,047
Interest	437,526	426,725	428,156	419,489
Differences between expected and actual experience	(10,907)	20,669	(201,235)	-
Changes in assumptions	-	-	223,060	-
Benefit payments, including refunds	(397,050)	(380,202)	(392,361)	(399,419)
Net Change in Total Pension Liability	103,729	145,517	140,488	100,117
Total Pension Liability - Beginning of year	<u>5,630,520</u>	<u>5,485,003</u>	<u>5,344,515</u>	<u>5,244,398</u>
Total Pension Liability - End of year	<u>\$ 5,734,249</u>	<u>\$ 5,630,520</u>	<u>\$ 5,485,003</u>	<u>\$ 5,344,515</u>
Plan Fiduciary Net Position				
Contributions - Employer	\$ 378,778	\$ 165,711	\$ 165,865	\$ 149,837
Contributions - Employee	18,370	21,342	18,919	20,705
Net investment income (loss)	441,423	360,509	(50,323)	220,253
Administrative expenses	(6,997)	(7,127)	(7,501)	(9,918)
Benefit payments, including refunds	(397,050)	(380,202)	(392,361)	(399,419)
Net Change in Plan Fiduciary Net Position	434,524	160,233	(265,401)	(18,542)
Plan Fiduciary Net Position - Beginning of year	<u>3,411,780</u>	<u>3,251,547</u>	<u>3,516,948</u>	<u>3,535,490</u>
Plan Fiduciary Net Position - End of year	<u>\$ 3,846,304</u>	<u>\$ 3,411,780</u>	<u>\$ 3,251,547</u>	<u>\$ 3,516,948</u>
Authority's Net Pension Liability - Ending	<u>\$ 1,887,945</u>	<u>\$ 2,218,740</u>	<u>\$ 2,233,456</u>	<u>\$ 1,827,567</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	67.08 %	60.59 %	59.28 %	65.80 %
Covered Employee Payroll	\$ 965,419	\$ 1,017,901	\$ 1,070,624	\$ 1,003,517
Authority's Net Pension Liability as a Percentage of Covered Employee Payroll	195.56 %	217.97 %	208.61 %	182.12 %

Southeastern Oakland County Resource Recovery Authority

Required Supplemental Information Schedule of Pension Contributions - Union

	Last Ten Fiscal Years Years Ended June 30									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined contribution	\$ 193,398	\$ 173,006	\$ 165,232	\$ 161,998	\$ 135,955	\$ 110,343	\$ 88,987	\$ 93,237	\$ 87,668	\$ 99,232
Contributions in relation to the actuarially determined contribution	393,398	173,006	165,232	161,998	135,955	110,343	88,987	93,237	87,668	99,232
Contribution Excess	\$ 200,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Employee Payroll	\$ 965,419	\$ 1,017,901	\$ 1,070,624	\$ 1,003,517	\$ 850,431	\$ 844,295	\$ 858,062	\$ 832,002	\$ 890,794	\$ 895,173
Contributions as a Percentage of Covered Employee Payroll	40.75 %	17.00 %	15.43 %	16.14 %	15.99 %	13.07 %	10.37 %	11.21 %	9.84 %	11.09 %

Notes to Schedule of Pension Contributions - Union Plan

Actuarial valuation information relative to the determination of contributions:

Valuation date Actuarially determined contribution rates are calculated as of December 31 each year, which is 18 months prior to the beginning of the fiscal year in which the contributions are required.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay, open
Remaining amortization period	23 years
Asset valuation method	10-year smoothed market
Inflation	2.5 percent
Salary increase	3.75 percent, including inflation
Investment rate of return	8.00 percent
Retirement age	Experienced-based tables of rates that are specific to the type of eligibility condition
Mortality	50 percent male - 50 percent female blend of the RP-2014 Group Mortality Tables.
Other information	None

Southeastern Oakland County Resource Recovery Authority

Required Supplemental Information Schedule of the Authority's Proportionate Share of the Net Pension Liability Salaried Plan

	Last Four Fiscal Years For the Plan Years Ended June 30			
	2018	2017	2016	2015
Authority's proportion of the net pension liability	38.00000 %	33.00000 %	33.00000 %	33.00000 %
Authority's proportionate share of the net pension liability	\$ 310,739	\$ 670,977	\$ 913,502	\$ 725,468
Authority's covered employee payroll	\$ 386,936	\$ 324,380	\$ 355,325	\$ 367,048
Authority's proportionate share of the net pension liability as a percentage of its covered employee payroll	80.31 %	206.85 %	257.09 %	197.65 %
Plan fiduciary net position as a percentage of total pension liability	91.50 %	78.90 %	70.20 %	74.70 %

Southeastern Oakland County Resource Recovery Authority

Required Supplemental Information Schedule of Pension Contributions - Salaried

	Last Ten Fiscal Years Years Ended June 30									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined contribution	\$ 82,446	\$ 64,069	\$ 70,297	\$ 82,282	\$ 76,867	\$ 52,275	\$ 45,058	\$ 69,160	\$ 61,992	\$ 66,354
Contributions in relation to the actuarially determined contribution	290,000	263,171	266,112	236,155	233,393	52,275	45,058	69,160	61,992	66,354
Contribution Excess	\$ 207,554	\$ 199,102	\$ 195,815	\$ 153,873	\$ 156,526	\$ -				
Covered Employee Payroll	\$ 386,936	\$ 324,380	\$ 355,325	\$ 367,048	\$ 385,513	\$ 354,755	\$ 361,103	\$ 420,065	\$ 425,257	\$ 453,623
Contributions as a Percentage of Covered Employee Payroll	74.95 %	81.13 %	74.89 %	64.34 %	60.54 %	14.74 %	12.48 %	16.46 %	14.58 %	14.63 %

Notes to Schedule of Pension Contributions - Salaried Plan

Actuarial valuation information relative to the determination of contributions:

Valuation date Actuarially determined contribution rates are calculated as of December 31 each year, which is 18 months prior to the beginning of the fiscal year in which the contributions are required.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level percentage of pay, open
Remaining amortization period	23 years
Asset valuation method	10-year smoothed market
Inflation	2.5 percent
Salary increase	3.75 percent, including inflation
Investment rate of return	8.00 percent
Retirement age	Experienced-based tables of rates that are specific to the type of eligibility condition
Mortality	50 percent male - 50 percent female blend of the RP-2014 Group Mortality Tables.
Other information	Because salaried employees of the Authority and SOCWA are participants in the SOCWA plan, the two authorities are considered joint participants. The amounts disclosed above represent the Authority's share of the plan's total activity. The Authority's share is estimated to be approximately 38 percent.

Southeastern Oakland County Resource Recovery Authority

Required Supplemental Information Schedule of Changes in the Net OPEB Liability and Related Ratios - Union

	<u>Last Fiscal Year</u>
	<u>2018</u>
Total OPEB Liability	
Service cost	\$ 6,361
Interest	41,264
Differences between expected and actual experience	2,459
Benefit payments, including refunds	<u>(33,365)</u>
Net Change in Total OPEB Liability	16,719
Total OPEB Liability - Beginning of year	<u>602,989</u>
Total OPEB Liability - End of year	\$ 619,708
Plan Fiduciary Net Position	
Contributions - Employer	\$ 48,365
Net investment income	36,220
Benefit payments, including refunds	<u>(33,365)</u>
Net Change in Plan Fiduciary Net Position	51,220
Plan Fiduciary Net Position - Beginning of year	<u>474,491</u>
Plan Fiduciary Net Position - End of year	\$ 525,711
Net OPEB Liability - Ending	\$ 93,997
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	84.83 %
Covered Payroll	\$ 260,770
Net OPEB Liability as a Percentage of Covered Payroll	36.05 %

Schedule is built prospectively upon implementation of GASB Statement No. 75

Southeastern Oakland County Resource Recovery Authority

Required Supplemental Information Schedule of OPEB Contributions - Union

	Last Nine Fiscal Years Years Ended June 30								
	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarially determined contribution	\$ 28,727	\$ 24,647	\$ 37,487	\$ 39,764	\$ 51,220	\$ 53,928	\$ 76,802	\$ 81,870	\$ 112,396
Contributions in relation to the actuarially determined contribution	48,365	47,486	42,842	57,051	46,805	59,303	75,933	86,321	127,420
Contribution Excess (Deficiency)	\$ 19,638	\$ 22,839	\$ 5,355	\$ 17,287	\$ (4,415)	\$ 5,375	\$ (869)	\$ 4,451	\$ 15,024

Notes to Schedule of Contributions

Actuarial valuation information relative to the determination of contributions:

The contribution amounts for the year ended June 30, 2018 were based on the June 30, 2017 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	7 years, closed
Asset valuation method	Four-year smoothed market
Inflation	2.50 percent
Healthcare cost trend rates	Initial trend of 9.0 percent gradually decreasing to 4.0 percent in year 10
Salary increase	4.00 percent to 17.00 percent, including inflation
Investment rate of return	7.00 percent, net of OPEB plan investment expense
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality	The RP-2000 Mortality Combined Healthy Tables projected 20 years with U.S. Projection Scale BB

Southeastern Oakland County Resource Recovery Authority

Required Supplemental Information Schedule of the Authority's Proportionate Share of the Net OPEB Liability Salaried

	Last Fiscal Year
	For the Plan Year Ended June 30
	2018
Authority's proportion of the net OPEB liability (asset)	44.00000 %
Authority's proportionate share of the net OPEB liability (asset)	\$ 7,209
Plan fiduciary net position as a percentage of total OPEB liability	97.51 %

Contributions to the OPEB plan are not based on a measure of pay; therefore, no covered payroll is presented.

Southeastern Oakland County Resource Recovery Authority

Required Supplemental Information Schedule of OPEB Contributions Salaried

	Last Nine Fiscal Years Years Ended June 30								
	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarially determined contribution	\$ 2,373	\$ 11,917	\$ 18,162	\$ 18,956	\$ 22,455	\$ 21,519	\$ 29,850	\$ 22,320	\$ 28,968
Contributions in relation to the actuarially determined contribution	26,660	27,623	23,169	20,841	30,924	32,398	8,095	12,491	9,840
Contribution (Excess) Deficiency	\$ (24,287)	\$ (15,706)	\$ (5,007)	\$ (1,885)	\$ (8,469)	\$ (10,879)	\$ 21,755	\$ 9,829	\$ 19,128

Other Supplemental Information

Southeastern Oakland County Resource Recovery Authority

Other Supplemental Information Schedule of Budget Analysis

Year Ended June 30, 2018

	Budget	Actual	Variance Favorable (Unfavorable)
Revenue			
Municipal refuse:			
Members	\$ 19,586,740	\$ 19,823,828	\$ 237,088
Others	1,700,000	1,424,708	(275,292)
Total municipal refuse	21,286,740	21,248,536	(38,204)
Compost material - Others	75,000	86,221	11,221
Recyclable materials:			
Cardboard	325,000	287,482	(37,518)
Plastics	250,000	200,614	(49,386)
Scrap metal	30,000	116,293	86,293
Paper	300,000	183,030	(116,970)
Glass	10,000	-	(10,000)
Batteries	4,000	8,262	4,262
Tin cans	28,000	69,840	41,840
Nonferrous metal	15,000	-	(15,000)
Total recyclable materials	962,000	865,521	(96,479)
Other income:			
Compost	130,000	154,696	24,696
Interest on investments	50,000	93,373	43,373
Rental income	110,000	129,379	19,379
Miscellaneous income	25,000	68,548	43,548
Total other income	315,000	445,996	130,996
Total revenue	22,638,740	22,646,274	7,534
Operating Expenses			
Madison Heights transfer station	301,750	287,324	14,426
Household hazardous waste	461,700	739,728	(278,028)
Troy transfer station operation	3,435,450	3,494,796	(59,346)
Material recovery facility	1,630,490	2,345,807	(715,317)
Compost operation	445,430	629,513	(184,083)
Administrative and general	1,514,200	1,379,310	134,890
Collection contract operations	12,594,000	13,678,901	(1,084,901)
Total operating expenses excluding depreciation	20,383,020	22,555,379	(2,172,359)
Funds Available for Transfer	\$ 2,255,720	\$ 90,895	\$ (2,164,825)

Southeastern Oakland County Resource Recovery Authority

Other Supplemental Information

Schedule of Budget Operating Expenses Analysis

Year Ended June 30, 2018

	Budget	Actual	Variance Favorable (Unfavorable)
Madison Heights Transfer Station			
Labor and supervision	\$ 132,550	\$ 88,774	\$ 43,776
Maintenance of equipment	28,200	28,609	(409)
Maintenance of building	6,000	48,732	(42,732)
Maintenance of property and grounds	3,000	7,677	(4,677)
Hauling	40,000	76,985	(36,985)
Supplies	1,200	1,821	(621)
Utilities	39,800	34,480	5,320
Miscellaneous	51,000	246	50,754
Total Madison Heights transfer station	301,750	287,324	14,426
Battery Recycling/Household Special Waste			
Labor and supervision	44,700	39,786	4,914
Household waste transfer hauling	360,000	599,534	(239,534)
Disposal of electrical equipment	55,000	100,408	(45,408)
Disposal of batteries	2,000	-	2,000
Total battery recycling/household special waste	461,700	739,728	(278,028)
Troy Transfer Station			
Labor and supervision	382,200	472,311	(90,111)
Maintenance of equipment	118,500	158,908	(40,408)
Maintenance of building	1,200	9,951	(8,751)
Maintenance of property and grounds	600	8,221	(7,621)
Hauling	20,000	59,766	(39,766)
Supplies	75,950	3,615	72,335
Utilities	37,000	33,737	3,263
Contractual municipal solid waste	2,800,000	2,744,445	55,555
Miscellaneous	-	3,842	(3,842)
Total Troy transfer station	3,435,450	3,494,796	(59,346)
Material Recovery Facility			
Labor and supervision	641,040	1,049,325	(408,285)
Maintenance of equipment	39,000	87,106	(48,106)
Maintenance of building	1,200	44,134	(42,934)
Maintenance of property and grounds	4,000	29,980	(25,980)
Supplies	55,350	42,243	13,107
Rejected recycling materials	28,000	20,484	7,516
Utilities	64,300	64,570	(270)
Miscellaneous	797,600	1,007,965	(210,365)
Total material recovery facility	1,630,490	2,345,807	(715,317)

Southeastern Oakland County Resource Recovery Authority

Other Supplemental Information

Schedule of Budget Operating Expenses Analysis (Continued)

Year Ended June 30, 2018

	Budget	Actual	Variance Favorable (Unfavorable)
Landfill Compost Operation			
Labor and supervision	\$ 180,000	\$ 198,131	\$ (18,131)
Maintenance of equipment	156,000	246,751	(90,751)
Maintenance of building	4,500	3,453	1,047
Maintenance of property and grounds	12,500	22,679	(10,179)
Delivery of compost	37,000	30,940	6,060
Supplies	6,000	3,588	2,412
Utilities	7,430	7,617	(187)
Disposal	39,000	65,948	(26,948)
Closure and postclosure care	3,000	49,060	(46,060)
Miscellaneous	-	1,346	(1,346)
Total landfill compost operation	445,430	629,513	(184,083)
Administrative and General			
Salaries	280,000	262,085	17,915
Administrative and office	15,000	19,275	(4,275)
Office space rental	40,000	41,512	(1,512)
Personnel improvement	3,000	10,997	(7,997)
Travel and conference	10,000	16,505	(6,505)
Recycling education	20,000	3,056	16,944
Consulting	60,000	63,366	(3,366)
Legal	50,000	50,776	(776)
Audit	17,200	17,200	-
Social Security	95,000	101,538	(6,538)
Postemployment health care	20,000	15,000	5,000
Retirement plan	245,000	399,126	(154,126)
Insurance:			
General	66,000	63,221	2,779
Group	451,000	188,790	262,210
Workers' compensation	32,000	31,991	9
Life	9,000	8,283	717
Service fee - Madison Heights	17,000	17,052	(52)
Property taxes	29,000	29,212	(212)
Rental properties	25,000	12,360	12,640
Miscellaneous recycling	20,000	(8,278)	28,278
Miscellaneous	10,000	36,243	(26,243)
Total administrative and general	1,514,200	1,379,310	134,890
Collection Contract Operations			
Contracted city collections	12,283,432	13,089,822	(806,390)
Brush chipping	310,568	589,079	(278,511)
Total collection contract operations	12,594,000	13,678,901	(1,084,901)
Total operating expenses, excluding depreciation	\$ 20,383,020	\$ 22,555,379	\$ (2,172,359)

Southeastern Oakland County Resource Recovery Authority

Other Supplemental Information Schedule of Accounts Receivable and Analysis of Charges

Year Ended June 30, 2018

	Accounts										Accounts		
	Receivable Balance July 1, 2017	Refuse Number of Tons	Compost Number of Tons	Recyclable Number of Tons	Total Number of Tons	Monthly Bills	Special Charge	Late Charge	Total Charges	Payments Applied to Charges	Receivable Balance June 30, 2018		
Municipalities													
Berkley	\$ 84,324	5,720	2,172	1,518	9,410	\$ 950,304	\$ 94,595	\$ -	\$ 1,044,899	\$ 1,032,597	\$ 96,626		
Beverly Hills	31,086	3,766	1,638	1,369	6,773	663,336	50,864	-	714,200	713,420	31,866		
Birmingham	129,856	9,532	4,056	2,664	16,252	1,487,040	113,337	-	1,600,377	1,596,912	133,321		
Clawson	72,848	5,446	1,749	967	8,162	799,152	106,913	-	906,065	900,388	78,525		
Ferndale	81,535	9,886	2,138	1,875	13,899	1,763,544	178,000	-	1,941,544	1,861,483	161,596		
Hazel Park	52,848	5,971	1,127	917	8,015	1,145,112	77,994	-	1,223,106	1,174,040	101,914		
Huntington Woods	29,370	1,896	1,335	1,014	4,245	356,616	20,007	-	376,623	359,222	46,771		
Lathrup Village	25,788	1,592	1,062	275	2,929	296,424	23,505	-	319,929	318,816	26,901		
Oak Park	145,560	9,951	2,929	1,412	14,292	1,676,976	159,868	-	1,836,844	1,829,071	153,333		
Pleasant Ridge	16,467	1,029	848	345	2,222	186,096	17,395	-	203,491	203,057	16,901		
Royal Oak	398,755	22,334	9,991	5,410	37,735	4,570,656	346,783	-	4,917,439	4,903,555	412,639		
Troy	386,361	26,957	8,806	6,257	42,020	4,346,064	393,247	-	4,739,311	4,719,583	406,089		
Total municipalities	1,454,798	104,080	37,851	24,023	165,954	18,241,320	1,582,508	-	19,823,828	19,612,144	1,666,482		
Other Customers													
	130,903	32,036	649	858	33,543	1,424,708	-	-	1,424,708	1,285,395	270,216		
Total	\$ 1,585,701	136,116	38,500	24,881	199,497	\$ 19,666,028	\$ 1,582,508	\$ -	\$ 21,248,536	\$ 20,897,539	\$ 1,936,698		

Southeastern Oakland County Resource Recovery Authority

Other Supplemental Information Schedule of Working Capital Analysis

	Year Ended June 30	
	2018	2017
Total current unrestricted assets	\$ 5,341,158	\$ 4,648,810
Less current unrestricted liabilities	<u>4,507,764</u>	<u>1,873,926</u>
Total working capital	\$ 833,394	\$ 2,774,884
Annual operating expenses before depreciation	<u>\$ 22,555,379</u>	<u>\$ 20,926,717</u>
Percentage of working capital to annual operating expenses	<u>3.69%</u>	<u>13.26%</u>