

**GLWA FY 2016 Inaugural Audit & Inaugural Financial Report
Key Takeaways**

- 1. Inaugural Audit for GLWA** - GLWA assumed operations of the regional water and sewer system under lease arrangements on January 1, 2016. Since the fiscal year ends June 30th each year, the first audit was for FY 2016, with only six months of financial operating activity (January 1 through June 30, 2016).
- 2. Clean Audit Opinion** - GLWA received what is commonly referred to as a clean audit opinion which the auditors state "...In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position ... and the respective changes in financial position and cash flows thereof ... in conformity with accounting principles generally accepted in the United States of America." The audit firm is Rehmann Robson.
- 3. No Material Internal Control Findings** - The auditors provided eight recommendations which were not considered to be material findings. Given the launch of the Authority's financial system in March 2016 with a June 2016 year-end, the recommendations (such as timely completion of account reconciliations and strengthening password rules) were not unexpected for this start-up phase. The strategy engaged early on was to standardize business and system processes. This resulted in a successful launch of the new Authority's financial operations. Steps are in place to address the auditor's recommendations to the extent that they were not already addressed.
- 4. Increased Capital Asset Values = Increased Depreciation Expense = Net Loss of \$14.7 Million** - The accounting rules for the new entity necessitated an independent third party valuation of the systems' capital assets. This resulted in a net write up of Water System capital assets by \$810.6 million and Sewer System assets by \$775.5 million. Increased asset values result in increased depreciation expense, a noncash expense. For FY 2016, six months of depreciation expense was \$157.3 million, which is over half of the total operating expenses. The Executive Leadership Team is evaluating ways to address the impact of depreciation expense as an element of its long-term financial plan. Depreciation is not a direct factor in GLWA's customer charges.
- 5. Operations and Maintenance Expense = \$9.1 million Under Budget** - The Water System operations and maintenance (O&M) expense was under budget by \$6.3 million and the Sewer System O&M expense was under budget by \$2.8 million (all amounts excluding depreciation). Therefore, the Authority was under budget on its O&M expenses by \$9.1 million overall.
- 6. Revenues are Stable** - Water System revenues during the six-month period were approximately \$5.5 million (or 2.7 percent) higher than expectations primarily due to services provided to the city of Flint under an emergency services contract. Sewer System revenues were slightly lower by \$1.75 million (or 0.7 percent) due to lower billings for the Detroit Retail customer class. The combined total revenues billed exceeded expectations by approximately \$3.75 million.
- 7. Strong Credit Metrics** - The "number of days cash" (i.e. unrestricted cash divided by one day of O&M expense) is 611 days for the Water System and 403 days for the Sewer System. Senior lien debt service coverage (i.e. net revenues divided by debt service) is at 2.11x for the Water System and 2.33x for the Sewer System. Similarly, the second lien debt service coverage is 1.59x and 1.72x for the Water and Sewer System, respectively. These metrics demonstrate a solid footing for GLWA's long-term financial sustainability.
- 8. More Information Online** - The Comprehensive Annual Financial Report (CAFR) provides a Management Discussion and Analysis on page 11 that provides more detailed information. The CAFR and the Single Audit Act Compliance Report, and the Independent Auditor's Communication with those Charged with Governance are available at <http://www.gwater.org/finances/financial-statements/>
- 9. FY 2017 Audit Timing** - The due date for filing the GLWA audit with the state of Michigan is December 31, 2017. The audit is scheduled for completion prior to that date.