

Top Ten FY 2020 CAFR Highlights

*GLWA Audit Committee Meeting
December 4, 2020*



#1 - “Clean” Audit Opinions

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, and each major fund of the Great Lakes Water Authority as of June 30, 2020 and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Opinion on the Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2020.

#2 Solid Key Financial Performance Measures

- ✓ **Liquidity** – 1,086 days cash on hand for water and 593 days cash on hand for sewer (CAFR page 100)
- ✓ **Excellent Debt Service Coverage** – 1.97 times for Water senior lien bonds and 2.16 times for Sewage Disposal senior lien bonds (CAFR pages 130-131)
- ✓ **Revenue Stability** – wholesale budgeted revenues within 0.5 percent, \$1.4 million, greater than budget for the water system and 0.5 percent, \$199 thousand, greater than budget for the sewage disposal system (CAFR pages 93-94)
- ✓ **Controlled Spending** – overall, combined system Operations & Maintenance budget positive variance of \$2.4 million, or 0.78 percent (CAFR page 96)

#3 Strong Current Ratio – Overall Net Position Requires Ongoing Emphasis on Long-term Accrual Basis Forecast

Key Highlights from pages 24 & 25 of the draft CAFR include:

- **Current Assets to Current Liabilities**

- Current ratio (current assets/current liabilities) confirms GLWA's ability to cover obligations to bondholders
- The GLWA combined, current ratio for FY 2020 is 3.47 indicating current assets are well in excess of current liabilities

- **Net Position**

- Remains in a deficit position of \$221.6 million due mainly to the revaluation of assets and acquisition of debt as part of the stand-up of GLWA
- Asset valuation results in unusually high depreciation expense in the short-term
- Higher than average debt contributes to relative net deficit position
- Long-term forecast presently provides for positive net position by FY 2030

#4 Strong Restricted Assets Meet Financial & Legal Obligations

Key Highlights from Footnote 4 on pages 45 - 47 of the CAFR include:

- **Unrestricted Cash Position**
 - Remains strong primarily due to increased Improvement and Extension Fund deposits
 - Unrestricted cash increased from the prior year by approximately \$47 million for the Water Fund and \$51 million for the Sewage Disposal Fund
- **Debt Reserves**
 - Current reserves are historically low
 - There is the potential for additional reductions should bond ratings continue to improve
- **WRAP**
 - Restricted cash for WRAP reflects the balance life-to-date of revenue requirement transfers plus account interest earned less distributions to Wayne Metro
 - This differs from the expense reflected on Schedule of Revenues, Expenses and Changes in Net Position discussed earlier and on page 26 of the CAFR

#5 DWSD Loan Receivable Aligns with 2018 MOU Terms

Key Highlights from Footnote 9 on page 52 of the draft CAFR include:

- FY 2017 Loan: \$9.8 million paid in FY 2020 (with an additional \$639 thousand in interest)
- FY 2018 Loan: \$7.8 million paid in FY 2020 (with an additional \$660 thousand in interest)
- FY 2019: No shortfall loan needed
- FY 2020: DWSD closed with a net cash receipt shortfall of \$0.9 million in the water fund and \$10.8 million in the sewer fund attributable to unforeseen impacts of the COVID-19 pandemic.
 - Agreed-upon terms under the April 2018 Memorandum of Understanding (MOU) state that DWSD has until June 30, 2021 to resolve this shortfall prior to establishment of a loan receivable with GLWA.
 - DWSD believes that commercial and industrial tax lien collections coupled with CARES Act funding from the State of Michigan will assist in clearing the FY 2020 shortfalls.
 - DWSD is closely managing cash receipts over disbursements for FY 2021 to reduce the risk of a shortfall in the current fiscal year.
 - This topic is discussed with executive leadership at quarterly Reconciliation Committee meetings and at regularly scheduled internal DWSD and GLWA management meetings.

#6 - Long-Term Debt features Ongoing Optimization

Key Highlights from Footnote 13 on pages 56 - 66 of the CAFR include:

- **May/June 2020 Refundings and New Money Transactions**
 - \$377.5 million senior lien refunding for the Water System
 - New money issuance of \$85.6 million for the DWSD Water System
 - \$594.9 million senior lien refunding for the Sewage Disposal System
 - Additional \$92.5 million second lien refunding for the Sewage Disposal System
 - FY 2020 results reflect these transactions in the increase/decrease activity columns as noted
- **State Revolving Fund Loans**
 - These low-interest loans continue to be utilized as an important, ongoing means of financing key projects
 - Listed in full on CAFR page 62
 - Updates in the Quarterly Debt Report section throughout the fiscal year

#7 - Legacy Pension – Moderate Impact in FY 2020

Key Highlights from Footnote 18 on pages 72 - 76 of the CAFR

Legacy Pension Net Pension Liability

- The GLWA net pension liability stemming from the General Retirement System (GRS) allocation to “DWSD” (that is the total GLWA and DWSD share) increased \$900 thousand from \$132.0 million as of June 30, 2019 to \$132.9 million as of June 30, 2020.
- This is primarily because benefit payments exceeded contributions and interest earnings for the year.
- The Statement of Revenues, Expenses and Net Position reports a significant variance in pension expense when comparing FY 2019 and FY 2020 because an uncommon pension surplus occurred in FY 2019 when GRS made changes to underlying actuarial assumptions.
- *Overall funded status for the GRS Component II plan decreased by 3% from the prior year.*
- A detailed pension report was provided to the GLWA Audit Committee in June 2020 following the release of the GASB 67 & 68 reports, GRS Annual Financial Report and annual actuarial report.

#8 – Transmittal Letter & MD&A: Past, Present, & Future



TRANSMITTAL LETTER

December 18, 2020

Board of Directors
Great Lakes Water Authority

Dear Directors,

We are pleased to present the Comprehensive Annual Financial Report ("CAFR") for the Great Lakes Water Authority ("GLWA" or "Authority") for the fiscal year which ended June 30, 2020. This is GLWA's fourth full 12-month fiscal year of operations since the Authority's operational effective date of January 1, 2016. Having four full years of financial information allows the GLWA team to demonstrate delivery of the high level of performance that we have pledged.

GREAT LAKES WATER AUTHORITY

Management's Discussion and Analysis

June 30, 2020

The management of the Great Lakes Water Authority (GLWA or Authority) presents this discussion and analysis of GLWA's financial position and changes in financial position as of and for the fiscal year ended June 30, 2020. The Management's Discussion and Analysis (MD&A) should be read in conjunction with GLWA's basic financial statements and the related notes to the financial statements in addition to the transmittal letter provided in this report.

#9 Robust Capital Program (Note 10 – Capital Assets CAFR Pages 53-55)

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Water Fund					
Nondepreciable capital assets					
Land	\$ 34,166,736	\$ -	\$ -	\$ -	\$ 34,166,736
Easements	258,632,397	-	-	-	258,632,397
Construction in progress	175,031,085	76,311,612	-	(125,145,176)	126,197,521
Total Nondepreciable Assets	467,830,218	76,311,612	-	(125,145,176)	418,996,654
Depreciated capital assets					
Site improvements	75,140,791	53,561	-	8,481,700	83,676,052
Buildings and structures	570,825,066	170,932	-	13,310,011	584,306,009
Infrastructure	625,947,979	-	-	28,268,263	654,216,242
Machinery and equipment	614,916,708	1,420,346	(2,244,982)	67,813,583	681,905,655
Vehicles	2,347,827	951,110	(81,826)	-	3,217,111
Leasehold improvements	499,484	290,554	-	7,271,619	8,061,657
Total Depreciable Assets	1,889,677,855	2,886,503	(2,326,808)	125,145,176	2,015,382,726

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Sewage Disposal Fund					
Nondepreciable capital assets					
Land	\$ 28,646,920	\$ -	(1,012,292)	\$ -	\$ 27,634,628
Easements	96,211,323	-	-	-	96,211,323
Construction in progress	193,716,659	73,826,518	-	(90,520,292)	177,022,885
Total Nondepreciable Assets	318,574,902	73,826,518	(1,012,292)	(90,520,292)	300,868,836
Depreciated capital assets					
Site improvements	39,620,707	152,669	-	11,509,195	51,282,571
Buildings and structures	1,138,610,722	78,061	-	17,479,955	1,156,168,738
Infrastructure	609,683,574	-	-	9,365,575	619,049,149
Machinery and equipment	1,188,042,500	3,604,570	(1,515,404)	52,165,567	1,242,297,233
Vehicles	2,589,611	1,113,987	(81,691)	-	3,621,907
Leasehold improvements	2,801,008	265,044	-	-	3,066,052
Total Depreciable Assets	2,981,348,122	5,214,331	(1,597,095)	90,520,292	3,075,485,650

#10 Internal vs Audit Results Demonstrates Team Professionalism & GLWA's Solid Financial Processes

Interim Financial Report to Audit Committee - Operations & Maintenance Expense

Preliminary Results presented to Audit Committee in September 2020 align closely with final audited balances

Expense Categories Entity-wide	FY 2020 ACTIVITY THRU 6/30/2020
Salaries & Wages	\$ 64,190
Workforce Development	1,252
Overtime	7,494
Employee Benefits	25,001
Transition Services	6,330
Employee Benefits Fund	-
<i>Personnel Costs</i>	<u>104,266</u>
Electric	40,669
Gas	5,196
Sewage Service	2,109
Water Service	3,178
<i>Utilities</i>	<u>51,153</u>
Chemicals	14,242
Supplies & Other	33,653
Contractual Services	106,372
Capital Program Allocation	(3,347)
Shared Services	(1,734)
Unallocated Reserves	
Total Expenses	<u>\$ 304,605</u>

Operating Expense by Category (Page 133)

	Actual
Operating Expenses	
Personnel	\$ 104,266,420
Contractual services	106,320,662
Utilities	51,152,735
Chemicals	14,241,843
Supplies and other expenses	35,427,273
Capital adjustment	26,780
Capital program allocation	(3,347,401)
Shared services allocation	(1,733,710)
Centralized services allocation	-
Administrative services allocation	-
Unallocated reserve	-
TOTAL OPERATING EXPENSES	<u>\$ 306,354,602</u>



GLWA

Great Lakes Water Authority

