



Water Fund

Fiscal Year Ended June 30, 2017



We are
One water.

Striving to be the preferred provider of water and wastewater services in southeast Michigan.

GREAT LAKES WATER AUTHORITY WATER FUND

Table of Contents

	<u>Page</u>
FINANCIAL SECTION	
Independent Auditors' Report	1
Basic Financial Statements	
Statement of Net Position	4
Statement of Revenues, Expenses and Changes in Fund Net Position	6
Statement of Cash Flows	7
Notes to Financial Statements	11
Required Supplementary Information	
Nonemployer Contributing Entity Share of City of Detroit General Employees' Retirement System:	
Schedule of Changes in Net Pension Liability and Related Ratios	40
Schedule of Contributions	41
Supplementary Information	
Combining and Individual Fund Schedules:	
Combining Schedule of Net Position	44
Combining Schedule of Revenues, Expenses and Changes in Fund Net Position	46
Schedule of Operations and Maintenance Expense	48
Schedule of Revenue Requirement	50
Schedule of Days Cash - Liquidity	51
STATISTICAL SECTION	
Financial Trends	
Net Position by Component	56
Changes in Net Position	57
Revenue Capacity	
Operating Revenues and Charge Increases	58
Debt Capacity	
Debt by Lien	59
Schedule of Debt Service Requirements	60
Current Debt Ratings	62
Water Senior Lien - Debt Ratings History	63
Demographic and Economic Information	
Service Area Demographics	65
Ten Largest Wholesale Water Customers / Total Billed Revenue	66
Schedule of Wholesale Water Charges	68

GREAT LAKES WATER AUTHORITY WATER FUND

■ Table of Contents

	<u>Page</u>
Operating Information	
Produced and Billed Water Volumes	69
Pledges of Revenue and Debt Service Coverage	70



INDEPENDENT AUDITORS' REPORT

May 10, 2018

To the Board of Directors of the
Great Lakes Water Authority
Detroit, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the Water Fund (the "Fund") of the *Great Lakes Water Authority* (the "Authority") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Fund'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.

Independent Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditor 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 financial statements referred to above present fairly, in all material respects, the financial position of the Water Fund of the Great Lakes Water Authority as of June 30, 2017, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Reporting Entity

As discussed in Note 1, the financial statements present only the Water Fund and do not purport to, and do not, present fairly the financial position of the Great Lakes Water Authority as of June 30, 2017, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedules for the pension plan, as listed 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, who 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 supplementary 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 required supplementary 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 Fund's basic financial statements. The combining and individual fund schedules and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund schedules and statistical section are the responsibility of management and have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued, under separate cover, our report dated May 10, 2018 on our consideration of the Authority’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority’s internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Rehmann Johnson LLC". The signature is written in a cursive, flowing style.

GREAT LAKES WATER AUTHORITY WATER FUND

Statement of Net Position

June 30, 2017

Assets

Current assets:

Cash and cash equivalents	\$ 266,483,138
Restricted cash and cash equivalents	60,753,268
Restricted cash for the benefit of DWSD	288,378
Investments	852,420
Restricted investments	1,169,187
Receivables:	
Billed	36,459,563
Unbilled	29,539,433
Other	1,300
Allowance for doubtful accounts	(4,941,777)
Due from other governments	21,327,713
Contractual obligation receivable	12,076,942
Prepaid items and other assets	2,437,047
Total current assets	<u>426,446,612</u>

Noncurrent assets:

Restricted cash and cash equivalents	177,939,494
Restricted investments	20,530,374
Contractual obligation receivable	483,604,380
Prepaid lease	11,250,000
Assets not subject to depreciation	452,185,674
Capital assets being depreciated, net	1,587,291,603
Prepaid insurance on debt	14,112,324
Total noncurrent assets	<u>2,746,913,849</u>

Total assets 3,173,360,461

Deferred outflows of resources

Deferred loss on refunding	99,294,499
Deferred pension amounts	<u>21,491,506</u>

Total deferred outflows of resources 120,786,005

continued...

GREAT LAKES WATER AUTHORITY WATER FUND

Statement of Net Position

June 30, 2017

Liabilities

Current liabilities:

Accounts and contracts payable	\$ 36,751,842
Accrued salaries, wages and benefits	3,190,038
Other accrued liabilities	1,353,816
Due to other governments	25,393,813
Interest payable	39,329,322
Current portion of:	
Long-term debt	23,393,905
Lease payable	4,618,174
Obligation payable	159,803
Accrued compensated absences	2,157,888
Accrued workers' compensation	25,000
Total current liabilities	<u>136,373,601</u>

Noncurrent liabilities:

Other noncurrent liabilities	2,582,076
Long-term debt	2,606,465,431
Long-term lease payable	426,303,346
Obligation payable	17,265,503
Accrued compensated absences	2,288,125
Accrued workers' compensation	225,000
Claims and judgments	75,000
Net pension liability	69,569,044
Total noncurrent liabilities	<u>3,124,773,525</u>

Total liabilities

3,261,147,126

Deferred inflows of resources

Deferred amounts for swap termination	85,068
Deferred gain on refunding	62,822,646
Deferred pension amounts	6,565,776

Total deferred inflows of resources

69,473,490

Net position

Net investment in capital assets	134,919,107
Restricted for debt service	26,194,280
Restricted for capital acquisition	172,974,994
Restricted for payment assistance program	2,218,373
Unrestricted (deficit)	<u>(372,780,904)</u>

Total net position

\$ (36,474,150)

concluded

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

GREAT LAKES WATER AUTHORITY WATER FUND

Statement of Revenues, Expenses and Changes in Fund Net Position For the Year Ended June 30, 2017

Operating revenues	
Wholesale customer charges	\$ 331,115,131
Local system charges	15,490,300
Bad debt recovery	5,107,125
Other revenues	37,388
	<hr/>
Total operating revenues	351,749,944
	<hr/>
Operating expenses	
Operating before depreciation:	
Personnel	38,261,393
Contractual services	34,257,419
Utilities	28,469,603
Chemicals	5,340,753
Supplies and other expenses	7,982,562
Capital program allocation	(977,762)
Shared services allocation	(11,603,019)
Total operating before depreciation	101,730,949
	<hr/>
Depreciation	144,137,912
	<hr/>
Total operating expenses	245,868,861
	<hr/>
Operating income	105,881,083
	<hr/>
Nonoperating revenues (expenses)	
Earnings on investments	1,832,918
Interest on obligations receivable	25,269,750
Interest expense, net of capitalized interest	(132,434,945)
Amortization of debt related items and costs of issuance	2,403,018
Other	(2,283,399)
Loss on disposal of capital assets	(207,900)
Loss on impairment of capital assets	(31,499)
	<hr/>
Total nonoperating expenses	(105,452,057)
	<hr/>
Income before special item	429,026
	<hr/>
Special item - memorandum of understanding with DWSD	(32,811,581)
	<hr/>
Change in net position	(32,382,555)
	<hr/>
Net position (deficit), beginning of year	(4,091,595)
	<hr/>
Net position (deficit), end of year	\$ (36,474,150)
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The accompanying notes are an integral part of these financial statements.

GREAT LAKES WATER AUTHORITY WATER FUND

Statement of Cash Flows

For the Year Ended June 30, 2017

Cash flows from operating activities	
Cash received from customers	\$ 371,376,130
Cash payments to suppliers for goods and services	(58,059,394)
Cash payments for employee services	(65,550,769)
Cash paid from interfund services provided	(65,971)
Cash received for DWSD budget stabilization	369,109
Cash received (net) for DWSD nonoperating pension	622,642
Cash payments (net) from miscellaneous nonoperating expense	(2,283,399)
Other receipts	477,474
Principal payments received on obligation receivable	9,139,470
Interest received on obligation receivable	25,355,136
Payment of long-term debt proceeds to DWSD	(56,995,800)
Payments for bond issuance costs on DWSD debt	(222,234)
Proceeds to DWSD from issuance of state revolving fund loans	(2,032,280)
Transfer affordability bank account to DWSD	(977,278)
	<hr/>
Net cash provided by operating activities	221,152,836
Cash flows from noncapital financing activities	
Proceeds from issuance of long-term debt for DWSD	57,218,034
Proceeds from state revolving fund loans for DWSD	2,436,781
Interest payments	(451,022)
	<hr/>
Net cash provided by noncapital financing activities	59,203,793
Cash flows from capital and related financing activities	
Proceeds from issuance of long-term refunding debt	999,700,247
Payment to bond refunding escrow agent	(797,926,349)
Payments for bond issuance costs	(4,167,889)
Principal payments on bonds	(65,195,000)
Principal payments on lease	(4,429,876)
Interest payments	(134,868,353)
Purchase of capital assets	(43,750,490)
	<hr/>
Net cash used in capital and related financing activities	(50,637,710)

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GREAT LAKES WATER AUTHORITY WATER FUND

Statement of Cash Flows

For the Year Ended June 30, 2017

Cash flows from investing activities	
Investment purchases	\$ (210,263,613)
Investment maturities	270,263,564
Interest received	<u>1,532,301</u>
Net cash provided by investing activities	<u>61,532,252</u>
Net change in cash and cash equivalents	291,251,171
Cash and cash equivalents, beginning of year	<u>214,213,107</u>
Cash and cash equivalents, end of year	<u>\$ 505,464,278</u>
Statement of net position classification of cash	
Cash and cash equivalents	\$ 266,483,138
Restricted cash and cash equivalents	61,041,646
Noncurrent restricted cash and cash equivalents	<u>177,939,494</u>
	<u>\$ 505,464,278</u>

continued...

GREAT LAKES WATER AUTHORITY WATER FUND

Statement of Cash Flows

For the Year Ended June 30, 2017

Reconciliation of operating income to net cash provided by operating activities:

Operating income	\$ 105,881,083
Adjustments to reconcile operating income to to net cash provided by operating activities:	
Depreciation	144,137,912
Miscellaneous nonoperating expense	(2,283,399)
Loan forgiveness pass through to DWSD	(1,168,307)
Interest income on contractual obligation receivable	25,269,750
Interest expense on obligation payable	(717,819)
Adjustment of special item	(32,811,581)
Changes in:	
Receivables:	
Billed	1,169,607
Unbilled	2,768,512
Other (excludes capital item)	21,897,746
Allowance for doubtful accounts	(20,098,835)
Due from other governments	20,158,444
Contractual obligation receivable	(22,512,072)
Prepaid lease	(11,250,000)
Other assets (excludes investing item)	(265,646)
Accounts payable (excludes capital items)	(3,641,398)
Accrued salaries, wages and benefits	302,758
Other accrued liabilities (excludes capital items)	210,047
Due to other governments (excludes non-capital financing)	11,724,923
Due to other funds	(65,971)
Other noncurrent liabilities	(128,016)
Obligation payable	(152,193)
Accrued compensated absences	(850,667)
Accrued workers' compensation	(3,708,324)
Claims and judgments	(4,419,694)
Net pension liability and deferred items	(8,294,024)
Net cash provided by operating activities	<u>\$ 221,152,836</u>

concluded

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

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NOTES TO FINANCIAL STATEMENTS

GREAT LAKES WATER AUTHORITY WATER FUND

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Great Lakes Water Authority ("GLWA" or the "Authority") is the regional wholesale provider of water and sewer services in southeast Michigan. The Authority was incorporated by the counties of Macomb, Oakland, Wayne and the City of Detroit (the "City") on November 26, 2014 pursuant to Act 233, Public Acts of Michigan, 1955, as amended ("Act 233"). Pursuant to Leases that became effective on January 1, 2016, the Authority assumed possession and control of the regional assets of both the water supply and sewage disposal systems owned by the City, which were previously operated by the Detroit Water and Sewerage Department ("DWSD" or the "Department"). The City, acting through DWSD, will continue to manage and operate its own local retail water and sewer system infrastructure. The leases assigned all revenues of both systems to the Authority for an initial term of 40 years and substituted GLWA for the City as the obligor on all outstanding debt obligations of the City related to the systems.

The Authority is authorized to establish rates, fees and charges for its water supply and sewage disposal services. Under the Water and Sewer Services Agreement, the City is appointed as agent of the Authority for setting retail rates and for billing, collecting and enforcing the collection of charges from retail water and sewer customers. As an agent of the Authority, the City, through the Board of Water Commissioners and without further approval by the City Council, is required to set retail rates to meet the revenue requirements for the City retail portion of the water and sewer systems. Under certain conditions, the Authority may terminate the City's appointment.

The Water Fund (the "Fund"), an enterprise fund of the Authority, separately accounts for the portion of the Water Supply System (the "System") that it operates. The System is one of the largest in the United States, both in terms of water produced and population served. It currently serves an area of 1,069 square miles located in eight Michigan counties and an estimated population of nearly 3.9 million or approximately 38% of Michigan's population. Suburban wholesale customers comprise approximately 82% of the population served by the System; retail water customers comprise the remainder.

The financial statements of the Fund have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Below is a summary of the more significant accounting policies followed in the preparation of the Fund's financial statements.

Authority Governance

The GLWA Board is composed of six voting members. Two members are residents of the City of Detroit and are appointed by the Mayor of the City of Detroit. The counties of Macomb, Oakland and Wayne each appoint one member who is a resident of the county from which appointed and the Governor of the State of Michigan appoints one member who is a resident of an area served by the Authority outside of the counties. All members of the GLWA Board must have at least seven years of experience in a regulated industry, such as a utility, engineering, finance, accounting or law firm. After the initial term specified in its Articles of Incorporation, each GLWA Board member is appointed for a four-year term and serves at the pleasure of the appointing government.

The GLWA Board has adopted a committee structure. Four committees have been established: Audit, Capital Improvement Planning, Operations and Resources, and Legal.

GREAT LAKES WATER AUTHORITY WATER FUND

Notes to Financial Statements

Basis of Accounting

The accounting policies of the Fund conform to GAAP as applicable to governmental entities. The accounts of the Fund, which are organized as an enterprise fund, are used to account for its activities, which are financed and operated in a manner similar to a private business enterprise. Accordingly, the Fund accounting records are maintained on the accrual basis of accounting. Revenues from operations, investments and other sources are recorded when earned. Expenses (including depreciation) of providing services to the public are accrued when incurred.

Nonexchange transactions, in which the Fund receives value without directly giving equal value in return, include contributions and grants. On an accrual basis, revenue from contributions and grants is recognized in the fiscal year in which all eligibility requirements have been satisfied, including timing and expense requirements. Timing requirements specify the year when the resources are required to be used or the fiscal year when use is first permitted. Expense requirements specify the year in which the resources are provided to the Fund on a reimbursement basis.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Equity

Cash Deposits and Investments

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

Investments are stated at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have established market values are reported at estimated fair value. Cash deposits are reported at carrying amounts, which reasonably approximates fair value.

State statutes authorize deposits in the accounts of federally insured banks, credit unions and savings and loan associations and investments in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers' acceptances and mutual funds composed of otherwise legal investments. The Authority also maintains and adheres to a formal investment policy in accordance with Michigan Public Act 20 of 1943 *Investment Surplus Funds of Political Subdivisions*.

Restricted Cash and Cash Equivalents

Restricted assets are those assets set aside as required by the Authority's Master Bond Ordinance ("MBO"). See Note 4 for further details.

Unbilled Revenue

The Fund records unbilled revenues for services provided prior to year-end by accruing actual revenues billed in the subsequent month.

GREAT LAKES WATER AUTHORITY WATER FUND

Notes to Financial Statements

Contractual Obligation Receivable

Pursuant to the Water and Sewer Services Agreement between the City and Authority, the City is responsible for paying the portion of debt service on the bonds assumed by the Authority that were issued to finance the cost of improvements to the Detroit local facilities. Hence, the "receivable" recorded by the Authority on the "contractual obligation" of the City to the Authority. Any new debt issued on behalf of DWSD is also included in the contractual obligation receivable.

Prepaid Items and Other Assets

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

Prepaid Lease

As described in Note 7, the Fund has recorded a prepaid lease for cash paid to DWSD on the date GLWA began operations equivalent to six months of lease payments. As described in Note 12, based on a Memorandum of Understanding (MOU) Term Sheet with DWSD, dated April 2018, this will be applied at the end of the 40 year term and, hence it is classified as noncurrent.

Capital Assets

Capital assets are recorded at historical cost, together with interest capitalized during construction. All acquisitions of land and land improvements are capitalized regardless of cost.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets acquired after January 1, 2016 are depreciated on the straight-line basis over the useful life of the assets as follows:

	Useful Lives (in years)
Site improvements	15
Buildings and structures	20-50
Infrastructure	80
Machinery and equipment	3-20
Vehicles	5-7

Capital assets acquired from the bifurcation at January 1, 2016 are depreciated over their estimated remaining useful lives at that time as determined by a third-party valuation. These remaining lives differ from the years cited above for newly acquired capital assets and, in most instances, are significantly shorter.

GREAT LAKES WATER AUTHORITY WATER FUND

Notes to Financial Statements

Deferred Outflows of Resources

In addition to assets, the statement of net position reports 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 so will not be recognized as an outflow of resources (or expense) until then. The Fund reports deferred outflows of resources for two items: deferred charges on refunding and pension amounts. Deferred charges on refunding results from the difference in the carrying value of refunded debt and its reacquisition price; these amounts are deferred and amortized over the shorter of the life of the refunded or refunding debt. Deferred outflows of resources from pension amounts relate to the net pension liability. A portion of these costs represent contributions to the plan subsequent to the plan measurement date. More detailed information on pension amounts can be found in Note 10.

Long-term Obligations

In the financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

Obligation Payable

Under the terms of the lease agreements with the City, the Fund is required to pay a portion of the City's B notes and C notes allocated to the regional water and sewer systems. See "Obligation Payable-City of Detroit 2014 Financial Recovery Bonds" in Note 6.

Lease Payable

The effective date of the lease by the City to the Authority for the leased water facility was January 1, 2016. See Note 7 for the detail of the lease.

Compensated Absences

The Authority has a paid time off (PTO) policy which has an annual accrual period ending September 30 each year. Employees are allowed to carry over a maximum bank of 80 hours to the next accrual period. Balances greater than 80 hours up to a maximum of 160 hours shall be converted to the retiree health saving program at 50% of the value of the PTO time. Hours in excess of 160 hours are forfeited if unused by September 30 of each accrual period. The accrued compensated absences for PTO accrual is approximately \$1,456,000 for the Fund on June 30, 2017.

The Authority also has an accrued compensated absence liability assumed on January 1, 2016 relating to the accumulated unpaid vacation and sick leave balances for those employees who retired from the City or resigned from the City and accepted employment with the Authority on January 1, 2016. The June 30, 2017 balance of the accrued compensated absences for the liability assumed on January 1, 2016 is approximately \$2,990,000. This liability is recorded in the Fund as the disbursements for payment will be processed from here with reimbursement from the Sewage Disposal Fund. The accrued compensated absences includes the employers' share of Social Security and Medicare taxes.

GREAT LAKES WATER AUTHORITY WATER FUND

Notes to Financial Statements

Bond Premiums, Discounts, and Deferred Amounts on Refunding

Bond premiums, discounts, and deferred amounts on refunding are deferred and amortized over the life of the bonds. Bond premiums and discounts are amortized using the effective interest method, and deferred amounts on refunding are amortized using the straight-line method. Bonds payable are reported net of the applicable bond premium and discounts. Deferred amounts on refunding are reported as deferred outflows and deferred inflows of resources.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position includes 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 so will not be recognized as an inflow of resources (or revenues) until that time. The Fund has included the deferred amounts on swap terminations, deferred gain on refunding and pension inflows in this reporting category. The deferred amounts on swap terminations were assumed as part of the lease agreements with the City. The amounts will be fully amortized by fiscal 2036. Deferred gain on refunding results from the difference in the carrying value of refunded debt and its reacquisition price; these amounts are deferred and amortized over the shorter of the life of the refunded or refunding debt. Deferred pension inflows result when there is a change in total pension liability due to benefit changes, differences between expected and actual experience, changes in actuarial assumptions, or differences between expected and actual investment returns. The amount for the changes in actuarial assumptions is deferred and amortized over the estimated remaining service life. The amount for the difference between actual and projected assumptions in investment earnings is deferred and amortized over five years.

Net Position

Net position, which represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources, is reported in three components as follows:

Net Investment in Capital Assets - consists of capital assets, net of accumulated depreciation, and related debt.

Restricted - consists of amounts that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation.

Unrestricted - is the residual balance of net position after *net investment in capital assets* and *restricted*.

When both restricted and unrestricted resources are available for use, generally it is the Fund's policy to use restricted resources first and then unrestricted resources when they are needed.

Classification of Revenues and Expenses

Revenues and expenses are classified as either operating or nonoperating.

GREAT LAKES WATER AUTHORITY WATER FUND

Notes to Financial Statements

Operating revenues are those revenues generated from providing services in connection with the Fund’s principal ongoing operations. The principal operating revenues of the Fund are wholesale charges for providing water. The local system charges are the wholesale charges to the City of Detroit under the Water and Sewer Services Agreement. Wholesale customer charges are shown net of bad debt expense of \$1,252,465.

Operating expenses include the costs of operating the water utility, administrative expenses and depreciation on capital assets. Costs related to shared facilities and personnel are allocated to the water and sewer funds on a basis that relates costs incurred to the system benefited. By agreement, the Authority provides shared services to DWSD; accordingly operating expenses for personnel and contractual services have been reported net of the charges for shared services to DWSD.

All revenue and expenses not meeting these definitions are reported as nonoperating revenue and expenses.

Taxes

The Fund pays no direct federal, state, or local taxes, except local taxes on excess property and federal Social Security taxes.

Interest Income

Interest income is the interest earned on the contractual obligation receivable.

Interest Expense

Interest expense is reported net of capitalized interest.

Central Services and Administrative Services

Various common costs incurred by the Authority are allocated proratably between the water and sewer funds. The allocations are based on management’s best estimate and may change from year to year depending on the activities incurred by each fund and the information available. The following table shows the allocation of these common costs for the year ended June 30, 2017:

Common Costs	Water % Allocation	Water Allocation	Sewer % Allocation	Sewer Allocation	Total Common Costs
Centralized services	52.4%	\$ 35,379,657	47.6%	\$ 32,171,959	\$ 67,551,616
Administrative services	30.3%	7,241,024	69.7%	16,656,631	23,897,655

Centralized services include security, systems operations control, field engineering and service operations, information technology, planning, energy management and system analytics service costs.

Administrative services includes executive, public affairs, general counsel, organizational development, risk management, finance, procurement and other service costs.

GREAT LAKES WATER AUTHORITY WATER FUND

Notes to Financial Statements

Use of Estimates

The preparation of basic financial statements in conformity with GAAP 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 basic financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. BUDGETARY INFORMATION

The financial activity of the Fund is presented in an enterprise fund, which is not required under State statutes to adopt an appropriated budget. A budget to actual schedule for revenues and expenses is presented in the other supplementary information section of this report. This schedule is not required by GAAP or subject to audit procedures. It is presented strictly for internal use only.

Budget Process

GLWA is required to adopt a two-year budget for the regional water system. The budgeted expenses shall equal the sum of the revenue requirement, including the following for the regional water system: a) operation and maintenance expenses; b) amounts necessary to pay the principal of and interest on all bonds and to restore any reserves therefor established in the Master Bond Ordinance; c) the lease payment, which shall be a common-to-all charge; d) GLWA portions of the net pension liability and the B&C obligation payable; e) the amount necessary to be deposited to the Water Residential Assistance Program (WRAP) Fund, which shall be a common-to-all charge equal to 0.5% of the base budgeted operating revenues for the regional water and sewer systems for each fiscal year; f) the amounts needed to make the required deposits to the regional Extraordinary Repair and Replacement Reserve Fund and the regional Improvement and Extension Fund as defined in the Master Bond Ordinance; and g) the amount necessary to satisfy the coverage ratios required by the rate covenant in the Master Bond Ordinance.

As provided in the lease, through the fiscal year ending June 30, 2025, the water system is assumed to experience annual increases in the regional revenue requirement of not more than 4%. This limitation shall not be applicable, however, if the regional revenue requirement must increase beyond the 4% assumption in order to satisfy the rate covenant or to pay the cost of improvements to the leased water facilities that are required to be made by applicable laws.

In the lease, the City acknowledges that all local water system revenues received from customers in the City are the property of GLWA and will be deposited as received in the Receiving Fund as defined in the Master Bond Ordinance and applied as provided in the Bond Ordinance. As a result, the City agrees to provide the Authority with a budget for the local water system as provided in the Water and Sewer Services Agreement.

Schedule of Charges Process

The GLWA Wholesale Customer Model Water Contract requires that GLWA provide wholesale customers with written notice of a proposed charge, meet to review the proposed charges, and the underlying data used to calculate the charge not less than 30 calendar days prior to a public hearing. Further, the contract requires that a public hearing be held no less than 120 days prior to the date that a proposed charge increase is to take effect.

GREAT LAKES WATER AUTHORITY WATER FUND

Notes to Financial Statements

The Water and Sewer Services agreement between GLWA and DWSD requires that GLWA provides the City with written notice of the proposed charges and the underlying data used to calculate the charge not less than 120 calendar days prior to the effective date of any new charges.

3. CASH DEPOSITS AND INVESTMENTS

The deposits and investments of the Fund at June 30, 2017 are reported in the basic financial statements as follows:

Statement of Net Position

Cash and cash equivalents	\$ 266,483,138
Restricted cash and cash equivalents	60,753,268
Restricted cash for the benefit of DWSD	288,378
Investments	852,420
Restricted investments	1,169,187
Noncurrent restricted cash and cash equivalents	177,939,494
Noncurrent restricted investments	<u>20,530,374</u>

Total	<u><u>\$ 528,016,259</u></u>
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Cash Deposits and Investments

Bank deposits -	
Checking/savings accounts	\$ 27,089,413
Investments in securities	22,551,981
Money market accounts	<u>478,374,865</u>

Total	<u><u>\$ 528,016,259</u></u>
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Restricted cash of the Fund primarily consists of amounts held in reserve for construction retainage and for future debt service payments.

Custodial Credit Risk - Deposits and Money Market Accounts. Deposits and money market accounts are exposed to custodial credit risk if they are not covered by depository insurance. At year-end, the carrying amount of the Fund's deposits and money market accounts was \$505,464,278; the bank balance was \$535,773,864 of which \$518,863,338 was uninsured and uncollateralized.

In accordance with the Authority's investment policy and State law, all deposits are uncollateralized, held in the Authority's name, and evidenced by a safekeeping receipt. Also, due to the dollar amounts of cash deposits and the limits of FDIC insurance, the Authority believes it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk - Investments. Following is a summary of the Fund's investments as of June 30, 2017:

U.S. treasury notes	\$ 11,415,294
U.S. government agencies	<u>11,136,687</u>
Total	<u><u>\$ 22,551,981</u></u>

GREAT LAKES WATER AUTHORITY WATER FUND

Notes to Financial Statements

Investments are exposed to custodial credit risk if the securities are uninsured, unregistered or held by a counterparty or its agent but not in the government's name. In accordance with the Authority's investment policy, all investments are held in the name of the Authority and are evidenced by a safekeeping receipt confirmation, and thus not exposed to custodial credit risk.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Authority's investment policy and State law require that commercial paper be rated in the top two ratings by at least two nationally recognized statistical rating organizations.

As of June 30, 2017, all of the Fund's investments in securities of U.S. agencies were rated AA+ by Standard & Poor's and Aaa by Moody's. U.S treasury securities are explicitly guaranteed by the U.S. government and not considered to have credit risk. The Fund's money market accounts were not rated.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Authority's investment policy requires diversification by security type and institution, but does not place a fixed percentage limit for any one issuer.

At June 30, 2017, the Fund had greater than 5% of its total investment portfolio concentrated as follows:

Investment Type	Issuer	% of Portfolio
U.S. government agencies	Federal Home Loan Bank	10.5%
U.S. government agencies	Federal National Mortgage Association	89.5%

Interest Rate Risk. Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of investments. The Authority's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

As of June 30, 2017, the Fund's fixed income investments had the following maturities:

	< 1 year	1 - 5 years	6 - 10 years	Total
U.S. treasury notes	\$ 9,783,063	\$ 1,632,231	\$ -	\$ 11,415,294
U.S. government agencies	1,169,187	9,967,500	-	11,136,687
Total	\$ 10,952,250	\$ 11,599,731	\$ -	\$ 22,551,981

GREAT LAKES WATER AUTHORITY WATER FUND

Notes to Financial Statements

Fair Value Measurements - The Fund categorizes investments measured at fair value 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 assets. Level 1 inputs are quoted at prices in active markets for identical assets; Level 2 inputs are observable for the asset or liability, such as interest rates and yield curves observable at commonly quoted intervals; and Level 3 inputs are unobservable in the market and are the least reliable. The Fund had the following fair value measurements as of June 30, 2017:

	Level 1	Level 2	Level 3	Total
Investments by fair value level:				
U.S. treasury notes	\$ 11,415,294	\$ -	\$ -	\$ 11,415,294
U.S. government agencies	-	11,136,687	-	11,136,687
Total	<u>\$ 11,415,294</u>	<u>\$ 11,136,687</u>	<u>\$ -</u>	<u>\$ 22,551,981</u>

4. RESTRICTED ASSETS

Restricted assets, comprised of cash and investments, are available for debt service on revenue bonds and to provide funds for improvements, enlargements, extensions and construction. In accordance with the provisions of the Master Bond Ordinance and Board guidance, a detailed and sequential flow of funds concept is followed along with a set of procedures that establishes various physically segregated accounts through which monies flow and are maintained at certain levels in satisfaction of all borrowing and other legal requirements.

GREAT LAKES WATER AUTHORITY WATER FUND

Notes to Financial Statements

The following schedule provides, in the order of the flow of funds per the Master Bond Ordinance, the distribution of cash and investments between restricted and unrestricted assets based on the source of the monies as of June 30, 2017:

	Funded from Revenue		Funded from Debt Issuance	Total
	Unrestricted	Restricted	Restricted	
Operations and maintenance	\$ 62,578,684	\$ 989,627	\$ -	\$ 63,568,311
Senior lien debt service	-	29,065,663	-	29,065,663
Senior lien bond reserve	-	-	122,034,996	122,034,996
Second & Junior lien debt service	-	15,763,514	-	15,763,514
Second & Junior lien debt reserve	-	-	52,267,696	52,267,696
Pension obligation	-	2,371,431	-	2,371,431
Water Residential Assistance Program (WRAP)	-	2,800,449	-	2,800,449
Budget stabilization	-	2,000,000	-	2,000,000
Extraordinary repair and replacement	27,500,000	-	-	27,500,000
Improvement and extension - Regional	177,256,874	-	-	177,256,874
Subtotal - reserves defined by ordinance	267,335,558	52,990,684	174,302,692	494,628,934
Less: funded by surety (non-cash)	-	-	(153,608,267)	(153,608,267)
Total - reserves defined by ordinance (net of surety coverage)	267,335,558	52,990,684	20,694,425	341,020,667
Cash held for the benefit of DWSD	-	288,378	-	288,378
Unspent construction bond proceeds	-	-	186,707,214	186,707,214
Total cash, cash equivalents and investments	\$ 267,335,558	\$ 53,279,062	\$ 207,401,639	\$ 528,016,259

The following summary reconciles the above cash and investment balances with the balances per the statement of net position. The allocation of restricted balances to current and noncurrent categories is not intended to directly align with the funding source allocation included in the schedule.

	Unrestricted	Restricted Current	Restricted Noncurrent	Total
Cash and cash equivalents	\$ 266,483,138	\$ 60,753,268	\$ 177,939,494	\$ 505,175,900
Cash held for the benefit of DWSD	-	288,378	-	288,378
Investments	852,420	1,169,187	20,530,374	22,551,981
Totals	\$ 267,335,558	\$ 62,210,833	\$ 198,469,868	\$ 528,016,259

Surety coverage includes series specific policies; therefore, this represents the lesser of the maximum amount of the policy, or amount of reserve requirement allocated to the specific series covered by such policy.

GREAT LAKES WATER AUTHORITY WATER FUND

Notes to Financial Statements

5. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2017 was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Nondepreciable capital assets:					
Land	\$ 34,244,101	\$ -	\$ (77,365)	\$ -	\$ 34,166,736
Easements	258,632,397	-	-	-	258,632,397
Construction in progress	122,681,592	39,662,580	-	(2,957,631)	159,386,541
Total nondepreciable assets	<u>415,558,090</u>	<u>39,662,580</u>	<u>(77,365)</u>	<u>(2,957,631)</u>	<u>452,185,674</u>
Depreciated capital assets:					
Site improvements	57,687,528	-	-	494,399	58,181,927
Buildings and structures	555,265,762	-	-	-	555,265,762
Infrastructure	586,102,646	-	-	330,348	586,432,994
Machinery and equipment	598,755,988	475,561	(350,877)	2,132,884	601,013,556
Vehicles	1,538,031	203,948	-	-	1,741,979
Total depreciable assets	<u>1,799,349,955</u>	<u>679,509</u>	<u>(350,877)</u>	<u>2,957,631</u>	<u>1,802,636,218</u>
Less accumulated depreciation:					
Site improvements	(4,570,741)	(9,141,481)	-	-	(13,712,222)
Buildings and structures	(17,711,187)	(35,422,716)	-	-	(53,133,903)
Infrastructure	(18,866,429)	(37,732,848)	-	-	(56,599,277)
Machinery and equipment	(29,898,877)	(61,341,808)	88,842	-	(91,151,843)
Vehicles	(248,311)	(499,059)	-	-	(747,370)
Total accumulated depreciation	<u>(71,295,545)</u>	<u>(144,137,912)</u>	<u>88,842</u>	<u>-</u>	<u>(215,344,615)</u>
Total capital assets being depreciated, net	<u>1,728,054,410</u>	<u>(143,458,403)</u>	<u>(262,035)</u>	<u>2,957,631</u>	<u>1,587,291,603</u>
Total net capital assets	<u>\$ 2,143,612,500</u>	<u>\$(103,795,823)</u>	<u>\$ (339,400)</u>	<u>\$ -</u>	<u>\$ 2,039,477,277</u>

Capital assets were evaluated during the year to determine if any asset impairments exist, defined as a significant, unexpected decline in the service utility of a capital asset. The Fund did not have any significant impairments for the year.

GREAT LAKES WATER AUTHORITY WATER FUND

Notes to Financial Statements

6. LONG-TERM DEBT

Changes in long-term debt and accrued compensated absences for the year ended June 30, 2017 were as follows:

	Beginning Balance	Increase	Decrease	Refunding	Ending Balance	Amount due within one year
Revenue bonds	\$ 2,260,675,000	\$ 917,805,000	\$ (63,795,000)	\$ (773,800,000)	\$ 2,340,885,000	\$ 6,075,000
State revolving loans	17,383,761	1,268,474	(1,400,000)	-	17,252,235	1,435,000
Deferred amounts for:						
Unamortized premiums	264,672,431	-	(116,095,392)	139,113,281	287,690,320	19,119,372
Unamortized discounts	(18,256,393)	-	2,288,174	-	(15,968,219)	(3,235,467)
Total debt, net	2,524,474,799	919,073,474	(179,002,218)	(634,686,719)	2,629,859,336	23,393,905
Compensated absences	5,296,680	1,668,823	(2,519,490)	-	4,446,013	2,157,888
Totals	\$ 2,529,771,479	\$ 920,742,297	\$ (181,521,708)	\$ (634,686,719)	\$ 2,634,305,349	\$ 25,551,793

As of June 30, 2017, aggregate debt service requirements of the Fund's debt (fixed rate) instruments were as follows:

Year Ended June 30,	Principal	Interest	Total
2018	\$ 7,510,000	\$ 96,828,481	\$ 104,338,481
2019	54,325,000	116,777,608	171,102,608
2020	54,710,000	114,146,149	168,856,149
2021	63,620,000	111,236,502	174,856,502
2022	70,985,000	107,815,846	178,800,846
2023-2027	409,967,820	480,324,881	890,292,701
2028-2032	520,334,415	362,731,733	883,066,148
2033-2037	615,160,000	220,803,756	835,963,756
2038-2042	309,905,000	105,305,700	415,210,700
2043-2047	251,620,000	32,679,000	284,299,000
	<u>\$ 2,358,137,235</u>	<u>\$ 1,748,649,656</u>	<u>\$ 4,106,786,891</u>

For bonds issued through the Michigan Finance Authority (MFA) in 2014 and 2015, the Authority is required to make payment on these obligations to the MFA depository account five business days prior to the actual due date of the bond principal and interest payments. Therefore, the payments for principal and interest due on July 1, 2017 are not included in the debt service requirements amounts above as they were paid on June 26, 2017.

GREAT LAKES WATER AUTHORITY WATER FUND

Notes to Financial Statements

Revenue Bonds Payable

Net revenues of the Fund are pledged to repayment of bonds; following are the revenue bonds payable at June 30, 2017:

Issue	Bond Date	Original Issue Amount	Range of Interest Rates	Maturity Dates	Outstanding Ending Balance	Callable
Series 2001-C	5/14/08	\$ 4,055,000	4.25%	7/01/17-18	\$ 705,000	
Series 2001-C	5/14/08	186,350,000	4.50-5.75%	7/01/19-29	178,735,000	c
Series 2003-A	1/30/03	234,805,000	5.00%	7/01/34	100,000	c
Series 2003-B	1/30/03	172,945,000	5.00%	7/01/34	100,000	c
Series 2005-B	5/14/08	19,070,000	4.00-5.50%	7/01/17-18	3,185,000	
Series 2005-B	5/14/08	175,830,000	4.75-5.25%	7/01/35	100,000	c
Series 2006-A	8/16/06	237,205,000	5.00%	7/01/34	100,000	c
Series 2006-B	4/01/09	900,000	4.60-5.00%	7/01/17-19	250,000	
Series 2006-B	4/01/09	119,100,000	6.25%	7/01/36	100,000	c
Series 2011-A	12/22/11	37,880,000	5.00%	7/01/17-20	8,210,000	
Series 2011-A	12/22/11	341,710,000	5.00-5.75%	7/01/27-41	289,605,000	c
Series 2011-B	12/22/11	7,455,000	5.00%	7/01/17-21	2,630,000	
Series 2011-B	12/22/11	9,740,000	6.00%	7/01/23-33	2,295,000	c
Series 2011-C	12/22/11	3,925,000	5.00%	7/01/21	1,020,000	
Series 2011-C	12/22/11	99,965,000	4.50-5.25%	7/01/23-41	74,125,000	c
Series 2014-A (D-1)	9/04/14	162,350,000	5.00%	7/01/17-23	147,960,000	
Series 2014-A (D-1)	9/04/14	44,190,000	5.00%	7/01/35-37	44,190,000	c
Series 2014-B (D-2)	9/04/14	51,530,000	5.00%	7/01/23-24	51,530,000	
Series 2014-B (D-2)	9/04/14	136,925,000	5.00%	7/01/25-28	136,925,000	c
Series 2014-C (D-3)	9/04/14	62,700,000	5.00%	7/01/18-20	62,700,000	
Series 2014-D (D-4)	9/04/14	209,360,000	5.00%	7/01/29-34	209,360,000	c
Series 2014-E (D-5)	9/04/14	9,270,000	2.85%	7/01/19	9,270,000	
Series 2014-F (D-6)	9/04/14	21,735,000	5.00%	7/01/19-24	21,735,000	
Series 2014-F (D-6)	9/04/14	43,690,000	5.00%	7/01/25-36	43,690,000	c
Series 2014-G (D-7)	9/04/14	14,815,000	5.00%	7/01/17-18	8,300,000	
Series 2015-A (D-1)	12/15/15	20,155,000	3.00-5.00%	7/01/17-22	19,650,000	
Series 2015-A (D-1)	12/15/15	69,275,000	5.00%	7/01/27-35	69,275,000	c
Series 2015 (D-2)	12/15/15	37,235,000	5.00%	7/01/34	37,235,000	c
Series 2016-A	10/27/16	30,000	5.00%	7/01/21-26	30,000	
Series 2016-A	10/27/16	87,970,000	5.00%	7/01/27-46	87,970,000	c
Series 2016-B	10/27/16	30,000	5.00%	7/01/21-26	30,000	
Series 2016-B	10/27/16	163,800,000	5.00%	7/01/27-46	163,800,000	c
Series 2016-C	10/27/16	76,245,000	5.00%	7/01/22-26	76,245,000	
Series 2016-C	10/27/16	367,685,000	5.00-5.25%	7/01/27-35	367,685,000	c
Series 2016-D	10/27/16	4,665,000	5.00%	7/01/24-26	4,665,000	
Series 2016-D	10/27/16	217,380,000	4.00-5.00%	7/01/27-36	217,380,000	c
Total revenue bonds payable					<u>\$ 2,340,885,000</u>	

Maturity dates reflect the final pricing of each series of bonds. Multiple maturity date ranges for a series of bonds differentiate between those bonds which are callable prior to maturity and those which are not callable prior to maturity.

c Indicates bonds are callable under terms specified in the indenture; all other bonds are noncallable.

GREAT LAKES WATER AUTHORITY WATER FUND

Notes to Financial Statements

Revenue Bonds - Pledges of Future Revenue

The Authority has pledged assets to secure the repayment of the revenue bonds and State of Michigan revolving fund loans. The Water System bonds and loans are paid solely from the net revenues of the Water System. Net revenues are defined in the Great Lakes Water Authority Water Master Bond Ordinance as all revenues except those transferred to the Operation and Maintenance funds. These revenues are further defined to include the revenues from the Retail Customers who are serviced under the Water and Sewer Services Agreement with the City of Detroit which are reported in the financial statements of the City of Detroit Water and Sewerage Department. The pledged revenues calculation for the fiscal year ending June 30, 2017 includes revenues reported by the Great Lakes Water Authority and the City of Detroit Water and Sewerage Department as this revenue is pledged for payment of the bonds and loans of the Great Lakes Water Authority.

The general purpose of the Water System bonds is to provide funding for various water treatment and transmission capital improvements, refund certain water revenue bonds, pay termination amounts for interest rate swap agreements and fund reserve requirements. The term of pledge commitment for the Water Fund is through 2047.

See table below for pledged revenue requirements as of June 30, 2017:

Remaining principal and interest requirement	\$4,106,786,891
Principal and interest funding requirement for the year ending June 30, 2017 (Computed consistent with rate Covenant basis for rate determination purposes. Not applicable for purposes of additional bond)	\$ 175,010,012
Pledged revenue for the year ending June 30, 2017	\$ 286,317,089
Pledged revenue collected as a percentage of funding requirement	163.6%
Approximate amount in restricted cash and investments related to various bond indentures at June 30, 2017	\$ 186,700,000

State Revolving Loans Payable

Net revenues of the Fund are pledged to repayment of bonds. The following is a schedule of the state revolving loans payable at June 30, 2017:

Issue	Bond Date	Amount Issued	Range of Interest Rates	Maturity Dates	Outstanding Ending Balance
Series 2005 SRF-1	9/22/05	\$ 13,805,164	2.125%	10/01/17-26	\$ 7,385,164
Series 2005 SRF-2	9/22/05	8,891,730	2.125%	10/01/17-26	4,641,730
Series 2006 SRF-1	9/21/06	5,180,926	2.125%	10/01/17-26	2,750,926
Series 2008 SRF-1	9/29/08	2,590,941	2.50%	10/01/17-28	1,205,941
Series 2016B SRF	9/16/16	4,180,000	2.50%	4/1/19-28	1,268,474
Total state revolving loans payable					<u>\$ 17,252,235</u>

The state revolving loans are issued as part of the State of Michigan's Revolving Fund Loan Program. As GLWA draws additional amounts from time to time hereafter, the outstanding principal amounts of such bonds will correspondingly increase. All loans are callable under terms specified in the loan agreements.

GREAT LAKES WATER AUTHORITY WATER FUND

Notes to Financial Statements

Refunded Debt

In October 2016 the Authority issued \$88,000,000 in Series 2016A senior lien revenue bonds, \$163,830,000 in Series 2016B second lien revenue bonds, \$443,930,000 in Series 2016C senior lien revenue refunding bonds and \$224,045,000 in Series 2016D second lien revenue refunding bonds. The net proceeds of the Series 2016A and Series 2016B will be used to pay certain costs of improvements, enlargements and extensions and repairs to the Regional Water System and Local Water System. The net proceeds of the Series 2016C and Series 2016D were used to purchase securities that were placed in an irrevocable trust with an escrow agent to refund \$116,645,000 of Series 2003D revenue bonds, \$30,335,000 of Series 2004A revenue bonds, \$15,725,000 of Series 2004B revenue bonds, \$147,985,000 of Series 2005B revenue bonds, \$119,345,000 of Series 2006A revenue bonds, \$85,250,000 of Series 2006B revenue bonds, \$198,700,000 of Series 2006C revenue bonds and \$59,815,000 of Series 2006D revenue bonds. As a result, the bonds are considered to be defeased and the liability for these bonds has been removed from the financial statements. The refunding bonds resulted in a savings of \$185,424,383 over the next 20 years and an economic gain of \$120,780,483.

Issuance of State Revolving Loans

The Fund received loans from the State of Michigan Revolving Loan Fund totaling \$2,436,781, of which \$1,168,307 has been forgiven, during the year ended June 30, 2017. The loans were for DWSD, the subrecipient of the loans. At June 30, 2017, \$19,191,526 was authorized and unissued.

Debt Ratings

As of September 30, 2016, Standard & Poor's Ratings Services ratings on the senior and second lien debt was A-/BBB+; Moody's rating was A3/Baa1 and Fitch's rating was A/A-.

Contractual Obligation Receivable - Debt Allocation for DWSD Retail Operations

As part of the lease transaction in which GLWA leased the regional water system from the City of Detroit, all DWSD revenue bonds outstanding as of December 31, 2015, including those purchased by the Michigan Finance Authority under its state revolving loan program, were assumed by GLWA with the consent of bondholders. Total bonds assumed by the Fund totaled \$2,313,683,761.

Per the Water and Sewer Services Agreement between the DWSD and GLWA dated June 12, 2015 and the Master Bond Ordinance dated October 7, 2015, as amended, the Detroit retail class continues to pay its common-to-all share of debt service revenue requirements and its allocated share of debt service revenue requirements associated with improvements to the local water and sewer systems. Payments on the debt service incurred by GLWA on the outstanding revenue bonds assumed as of December 31, 2015 are to be allocated using an agreed-upon percentage of total debt service associated with bond-financed local improvements over the life of such bonds, though the bonds themselves continue to be secured by the net revenue of GLWA, and the revenues of the Detroit retail class. A Memorandum of Understanding (MOU) Term Sheet was entered into with DWSD dated April 2018 with an agreed upon allocation and amortization schedule. The June 30, 2017 balance has been adjusted to the revised allocation. The total obligation receivable at June 30, 2017, including the additional debt issued during the year, is \$495,681,322.

Obligation Payable - City of Detroit 2014 Financial Recovery Bonds

The Financial Recovery Bonds, Series 2014-B are federally taxable. The Series 2014-B bonds have two components: B(1) which has a 4.0 percent per annum interest rate and B(2) which has a variable interest rate until the maturity date of April 1, 2044. The bonds were delivered to classes of creditors in satisfaction of: (1) Class 12 OPEB claims the bonds were distributed to the new Voluntary Employee Beneficiary Associations (VEBA) for the general retirees and police and fire retirees; (2) Class 9 Pension Obligation Certificate (POC) claims; and (3) other unsecured bankruptcy claims. GLWA has a contractual obligation to pay a portion of the bonds based on an agreed-upon allocation percentage.

The Financial Recovery Bonds, Series 2014-C bear interest at 5.0 percent per annum. The bonds mature on December 10, 2026. The 2014-C bonds were issued as part of the Syncora Settlement and FGIC/POC Settlement in the bankruptcy plan. GLWA has a contractual obligation to pay a portion of the bonds based on an agreed upon allocation percentage.

GREAT LAKES WATER AUTHORITY WATER FUND

Notes to Financial Statements

The following is a schedule of the Fund's obligation payable for the Financial Recovery Bonds at June 30, 2017:

Bond Issue	Original Issue Amount	Range of Interest Rates	Maturity Date	Outstanding Ending Balance
Series 2014-B	\$ 26,540,080	4.00% and variable	4/1/2044	\$ 15,556,025
Series 2014-C	3,829,794	5.00%	12/10/2026	1,869,281
Total				<u>\$ 17,425,306</u>

As of June 30, 2017, debt service requirements of the Financial Recovery Bonds were as follows:

Year Ended June 30,	Principal	Interest	Total
2018	\$ 159,803	\$ 715,705	\$ 875,508
2019	167,793	707,715	875,508
2020	176,183	699,326	875,509
2021	184,992	690,516	875,508
2022	194,242	681,266	875,508
2023-2027	3,319,672	3,154,254	6,473,926
2028-2032	3,889,006	2,333,403	6,222,409
2033-2037	3,889,006	1,975,615	5,864,621
2038-2042	3,889,006	1,166,702	5,055,708
2043-2044	1,555,603	140,004	1,695,607
	<u>\$ 17,425,306</u>	<u>\$ 12,264,506</u>	<u>\$ 29,689,812</u>

Interest expense

The following represents the amounts recorded as interest expense for the year ended June 30, 2017:

Bonded debt	\$ 119,367,849
Obligation payable	717,819
Lease payable	18,054,730
Less: amounts capitalized	<u>(5,705,453)</u>
	<u>\$ 132,434,945</u>

GREAT LAKES WATER AUTHORITY WATER FUND

Notes to Financial Statements

7. LONG-TERM LEASES PAYABLE AND RELATED PREPAID

On January 1, 2016, the Great Lakes Water Authority effectuated lease agreements with the City of Detroit, Michigan for the regional water system and regional sewer system for a term of 40 years, to be extended automatically to coincide with the final maturity of any bonds issued to finance improvements to the regional or local sewer systems. The agreements collectively provide for an annual lease payment of \$50 million. Currently, \$22,500,000 is allocated to the Fund. The lease for the Water System (the "Regional Water System") that provides service to the wholesale customers and the retail water customers of the City up the point of connection to the local Water System facilities of the City. In addition, both leases provide that certain other assets including cash and investments held by DWSD as of December 31, 2015 are transferred to GLWA, all revenues of the regional and local water and sewer systems are assigned to GLWA, and that GLWA assumes all DWSD bonded debt and certain other liabilities. The long-term lease is recorded as the present value of all future debt payments.

Amounts reported as a liability at year-end represent the net present value of all future lease payments. Changes in long-term lease payable for the Fund for the year ended June 30, 2017 were as follows:

Beginning Balance	Increase	Decrease	Ending Balance	Amount Due Within One Year *
\$ 435,351,396	\$ -	\$ (4,429,876)	\$ 430,921,520	\$ 4,618,174

* The current portion of the long-term lease payable represents the 12 monthly payments required from July 1, 2017 through June 30, 2018. Future revenues are intended to cover these payments.

Principal and interest portions of the lease payable for the Fund for the year ended June 30, 2017 were as follows:

Gross future payments	\$ 866,250,000
Less: interest	<u>(435,328,480)</u>
Total principal remaining	<u>\$ 430,921,520</u>

As part of the Memorandum of Understanding (MOU) Term Sheet with DWSD dated April 2018, the MBO requirement for six months of lease payments made to DWSD on January 1, 2016 will be treated as prepaid lease payments. The initial term of the leases began on the effective date and ends on December 31, 2055. GLWA's last monthly payment shall be June 1, 2055 and GLWA's \$25 million lease pre-payment on January 1, 2016 shall be applied to the period of July 1, 2055 through December 31, 2055. The Fund's share of the \$25 million prepaid on the statement of net position is \$11,250,000.

8. RISK MANAGEMENT / SELF-INSURANCE PROGRAMS

The Authority is exposed to various types of risk of loss including torts; theft of, damage to, or destruction of assets; errors or omissions; job related illnesses or injuries to employees; natural disasters; and environmental occurrences. Also included are risk of loss associated with providing medical benefits to employees.

GREAT LAKES WATER AUTHORITY WATER FUND

Notes to Financial Statements

The Authority purchases a variety of insurance policies including: public official's and employment practices liability insurance, property insurance, pollution legal liability insurance and casualty insurance for workers' compensation, general liability, and automobile liability. The Authority purchases excess liability insurance for its casualty program which provides per occurrence and aggregate protection for up to \$8 million. The Authority's retention is \$1,250,000 for workers' compensation and \$250,000 for general liability and automobile. The Authority also has coverage under a pollution legal liability policy with limits of \$50 million, a property insurance policy with limits of \$750 million and a public officials policy with limits of \$25 million.

Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past two fiscal years.

A liability for claims is reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of recent claim settlement trends including frequency and amount of payouts and other economic and social factors. The claim liabilities also include estimated costs for claim administration fees and outside legal and medical assistance costs. The liabilities for workers' compensation current year claims is based on estimates and payments are based on actuals.

Under most circumstances, the Authority's maximum loss retention per occurrence was as follows:

Type of Risk	Maximum Retention Per Occurrence
Workers' compensation	\$1,250,000 per occurrence
General and automobile liability	\$250,000 per occurrence
Motor vehicle physical damage	Authority assumes all risk
Property damage	\$1,000,000 per occurrence
Public officials	\$250,000 per occurrence
Pollution legal liability	\$500,000 per occurrence

The Authority estimates the liability for medical and worker's compensation claims that have been incurred through the end of the fiscal year, including claims that have been reported as well as those that have not yet been reported, which includes estimates of both future payments of losses and related claim adjustments expense. The liability is based on individual claims and management's evaluation of experience with respect to the probable number and nature of claims. Any adjustments resulting from settlement of losses will be reflected in earnings at the time the adjustments are determined.

GREAT LAKES WATER AUTHORITY WATER FUND

Notes to Financial Statements

Medical insurance. The Authority provides medical benefits to a significant number of employees through a self-insured health plan that is administered by third party administrators. The Authority purchased stop loss insurance for its self-insured health plan with terms of \$300,000 per contract to reduce risk exposure for the group. The self-insured program is administered by a third-party administrator who provides claims review and processing services as well as illustrated premium rates, which are anticipated, over time, to approximate the actual cost of benefits.

Changes in the balances of claims liabilities during the past two years are as follows:

	2017	2016
Unpaid claims, beginning of year	\$ 933,567	\$ -
Incurred claims (including change in IBNR provisions)	8,986,780	4,565,983
Claims payments	<u>(8,894,169)</u>	<u>(3,632,416)</u>
Unpaid claims, end of year	<u>\$ 1,026,178</u>	<u>\$ 933,567</u>

Workers' compensation. The Authority maintains a self-insurance program for workers' compensation coverage up to the amount of its retention. The program is administered by a third-party who provides claim review and medical bill review services.

Changes in the balances of claims liabilities during the past two years are as follows:

	2017	2016
Unpaid claims, beginning of year	\$ 351,231	\$ -
Incurred claims	238,483	533,897
Claims payments	<u>(339,714)</u>	<u>(182,666)</u>
Unpaid claims, end of year	<u>\$ 250,000</u>	<u>\$ 351,231</u>

The claims liabilities shown above represent the totals for the Authority which are allocated to the funds based on the salary ratio between the Water and Sewage Disposal funds.

GREAT LAKES WATER AUTHORITY WATER FUND

Notes to Financial Statements

9. DEFINED CONTRIBUTION PENSION PLAN

The amounts below represent total costs for the Authority which are allocated to the funds based on the salary ratio between the Water and Sewage Disposal funds.

Defined Contribution Plans

The Great Lakes Water Authority Defined Contribution Retirement Plan is a 401(a) governmental money purchase plan administered by ICMA Retirement Corporation (the “Administrator”) to provide benefits at retirement to all full-time employees of the Authority. The Authority contributes 6.0% of earnings to the plan. The Authority will make an additional contribution to the 401(a) plan to match employee pre-tax contributions under the Great Lakes Water Authority 457 Plan up to 3% of compensation. Employees are 100% vested after three years of service (cliff vesting). Employees who transferred to the Authority on or around January 1, 2016 from DWSD retain their years of service for vesting purposes. Employer contributions totaled \$3,986,841 million for the year ended June 30, 2017. At June 30, 2017, there were 893 plan members.

The Great Lakes Water Authority Defined Contribution Plan Make-Up Benefit Plan is a 401(a) governmental money purchase plan administered by ICMA Retirement Corporation (the “Administrator”) to provide benefits at retirement to all employees who terminated employment with the City of Detroit Water and Sewerage Department on or around January 1, 2016 and were not vested in the City of Detroit General Retirement System (GRS). Eligible employees are required to roll over to the Authority’s Section 457 Deferred Compensation Plan their refunded employee mandatory contribution from GRS. The amount of the make-up benefit will be determined by an actuary based on the present value of the lost GRS benefit. Employees are 100% vested after one year of service.

The Authority has also adopted a Section 457 Deferred Compensation Plan which employees can make pre-tax contributions which are immediately 100% vested. At June 30, 2017, there were 729 plan members.

Retirement Health Savings Plan

The Authority also provides a Retirement Health Savings Program for full-time employees. Employees are required to contribute \$10 per pay period and the Authority contributes \$80 per pay period. Employees are 100% vested after three years of service (cliff vesting). Employees who transferred to the Authority on or around January 1, 2016 from DWSD retain their years of service for vesting purposes. Employer contributions were \$1,661,440 and employee contributions were \$207,670 for the year ended June 30, 2017. At June 30, 2017, there were 975 plan members.

GREAT LAKES WATER AUTHORITY WATER FUND

Notes to Financial Statements

10. NET PENSION LIABILITY (SPECIAL FUNDING SITUATION)

As part of the City of Detroit bankruptcy plan of adjustment (POA) and the Leases (Section 4.3), the City, the City of Detroit General Employees' Retirement system (GRS or the "System") and the Authority entered into an agreement on December 1, 2015 that set forth the terms for contributions and reporting of the DWSD share of the GRS pension pool. GRS provides the information necessary for the Authority and DWSD to report the proportionate share separately in their respective statements. On January 24, 2017, DWSD and the Authority provided a supplement to the agreement whereby GRS is directed to allocate investments and pension liabilities of the DWSD division on the basis of 70.3% to the Authority and 29.7% to DWSD effective January 1, 2016. This information is available in a separate audit report for the "Legacy Pension Plan (Component II) of the General Retirement System of the City of Detroit Statement of Changes in Fiduciary Net Position by Division with Supplemental Information as of June 30, 2017" and is available by contacting the Authority's management. This agreement constitutes a special funding situation pursuant to the provisions of GASB 68, *Accounting and Financial Reporting for Pensions*. As such, while no Authority employees earn service credit in the legacy or hybrid plans, GLWA is legally responsible for making substantial contributions to a legacy pension plan of another entity and, accordingly, must record a net pension liability for its proportion and make the following disclosures regarding the plan as required by the standard.

Plan Administration. The Authority contributes to (and DWSD participates in) the City of Detroit General Employees' Retirement System (GRS or the "System"). The System is a single employer plan composed of a defined benefit plan component and a defined contribution annuity plan component. The plan provides retirement, disability, and survivor benefits to plan members and beneficiaries. The plan is administered by its own board of trustees. Plan members include active employees, retirees and beneficiaries from various departments within the City. Benefit terms have been established by contractual agreements between the City and the employees' collective bargaining units; amendments are subject to the same process.

The System issues publicly available financial reports that include financial statements and the required supplementary information. The reports can be obtained from City of Detroit Retirement Systems, One Detroit Center, 500 Woodward Ave., Suite 3000, Detroit, MI 48226 or obtained from the Systems' website (www.rscd.org). Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report.

Benefits Provided. Plan members may retire at age 55 or 60 with 5, 8, 10 or 25 years of credited service depending on which group the employee is in. Members are vested after completing 5, 8 or 10 years of credited service. Retirement options that provide for survivor benefits are available to members. The Plan also provides death and disability benefits. If a member leaves employment or dies before vesting, accumulated member contributions plus interest are refunded to the member or designated beneficiary. Component II - Component II is the legacy plan, the original defined benefit plan, which includes a defined benefit component and a defined contribution component. Component II generally applies to benefits accrued by members prior to July 1, 2014. The plan provides retirement, disability, and survivor benefits to plan members and beneficiaries. Except as specifically provided in combined plan, benefits provided under Component II are frozen effective June 30, 2014. Component II also includes the income stabilization fund. The fund, a part of Component II and established as a provision of the POA, was established for the sole purpose of paying the income stabilization benefits to eligible pensioners. Complete details regarding the Component II benefits and changes in those benefits by virtue of the POA are presented in the System financial statements.

GREAT LAKES WATER AUTHORITY WATER FUND

Notes to Financial Statements

Employer Contributions. Following are the employer contributions, including the Authority's nonemployer contribution, for the respective components:

Component II - Employer contributions to the GRS were determined by the provisions of the POA. Included within contributions in Component II are amounts sourced from the one-time sale of City-owned artwork with proceeds from the Foundation for Detroit's Future in the amount of \$32,886,827 along with \$4,005,830 from unlimited tax general obligation bonds and \$67,900,000 of contributions from the City and related entities, of which \$45,400,000 of contributions were from GLWA and DWSD. Employer contributions were also made into the income stabilization fund in the amount of \$1,689,857 from the bond proceeds.

The POA obligates DWSD to pay \$2,500,000 per year towards administrative costs and annual plan contributions of \$42,900,000 per year in total for both water and sewer employees, until 2023. Pursuant to the leases, the Authority is obligated to pay its allocable share of such liability. The portion allocated to the Authority is \$31,916,200 for fiscal year 2017. Subsequent to 2023, DWSD and the Authority will be responsible for paying their allocable share of any additional amounts that are actuarially determined to be payable.

The information below represents the Authority's share of pension liability activity. DWSD separately reports its prorata share of activity in its separate financial statements.

DWSD Employee Contributions. Contribution requirements of plan members are established and may be amended by the board of trustees in accordance with the City Charter, union contracts, and plan provisions. For the year ended June 30, 2017, there were minimal employee contributions into Component II, only related to military service credit, as the plan was frozen as of June 30, 2014; contributions into Component I began thereafter.

Net Pension Liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions. The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions.

Inflation	NA
Salary increases	NA
Investment rate of return	7.23%, net of investment expense and including inflation

The actuarial assumptions were based on an experience study from 2008-2013 issued in February 2015; the mortality table assumption was based on RP-2014 Blue Collar Annuitant Table for males and females. The tables are projected to be fully generational, based on two-dimensional sex distinct mortality scale MP-2014.

GREAT LAKES WATER AUTHORITY WATER FUND

Notes to Financial Statements

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each asset class. These real 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. For each asset class that is included in the pension plan's target asset allocation as of June 30, 2016, these best estimates are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Global equity	43.0%	6.22%	2.67%
Fixed income	12.0%	2.95%	0.35%
Private equity	8.0%	7.35%	0.59%
Cash	1.0%	0.98%	0.01%
Real estate	10.0%	3.92%	0.39%
Global asset allocation/risk parity/real assets	21.0%	5.02%	1.05%
Hedge funds	5.0%	4.41%	0.22%
	100.0%		5.28%
Inflation			1.95%
Investment rate of return			7.23%

Discount Rate. The discount rate used to measure the total pension liability was 7.23%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that Authority contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability. The components of the change in the Fund's share of the net pension liability are summarized as follows:

Total pension liability	\$ 196,712,089
Plan fiduciary net position	<u>(127,143,045)</u>
Fund's net pension liability	<u>\$ 69,569,044</u>

GREAT LAKES WATER AUTHORITY WATER FUND

Notes to Financial Statements

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2016	\$ 202,696,454	\$ 141,675,375	\$ 61,021,079
Changes for the year:			
Interest	14,475,348	-	14,475,348
Differences between expected and actual experience	(1,815,233)	-	(1,815,233)
Changes in assumptions	6,318,782	-	6,318,782
Employer contributions	-	10,810,800	(10,810,800)
Net investment loss	-	(470,295)	470,295
Benefit payments, including refunds of employee contributions	(24,963,262)	(24,963,262)	-
Other changes	-	90,427	(90,427)
Net changes	<u>(5,984,365)</u>	<u>(14,532,330)</u>	<u>8,547,965</u>
Balances at June 30, 2017	<u>\$ 196,712,089</u>	<u>\$ 127,143,045</u>	<u>\$ 69,569,044</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the net pension liability of the Fund, calculated using the discount rate of 7.23%, as well as what the Fund's net pension liability would be if it were calculated using a discount rate that is 1% lower (6.23%) or 1% higher (8.23%) than the current rate:

	1% Decrease (6.23%)	Current Discount Rate (7.23%)	1% Increase (8.23%)
Fund net pension liability	<u>\$ 88,176,626</u>	<u>\$ 69,569,044</u>	<u>\$ 53,745,695</u>

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in the separately issued Plan financial statements.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the year ended June 30, 2017, the Fund recognized pension expense of \$2,516,776. At June 30, 2017, the Fund 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	Net Deferred Outflows (Inflows) of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 10,680,706	\$ 6,565,776	\$ 4,114,930
Employer contributions to the plan subsequent to the measurement date	10,810,800	-	10,810,800
Totals	<u>\$ 21,491,506</u>	<u>\$ 6,565,776</u>	<u>\$ 14,925,730</u>

GREAT LAKES WATER AUTHORITY WATER FUND

Notes to Financial Statements

The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2018	\$ (437,101)
2019	(437,101)
2020	2,845,786
2021	<u>2,143,346</u>
Total	<u>\$ 4,114,930</u>

Payable to the pension plan. At June 30, 2017, the Fund did not have any outstanding contributions payable to the pension plan for the year then ended.

11. COMMITMENTS AND CONTINGENCIES

Capital improvement program

The Fund is engaged in a variety of projects that are a part of a five year Capital Improvement Program (the Program). The total cost of this Program is anticipated to be approximately \$800.6 million for the Fund through fiscal year 2022. The Program is being financed primarily from revenue bond proceeds in addition to customer charges revenues. The latter is accounted for in the Improvement & Extension Fund as defined in the MBO. As of June 30, 2017, the Fund has unspent bond proceeds of \$173.0 million in addition to the Improvement & Extension funds of \$177.3 million available for use in funding these commitments.

The total amount of construction contract commitments outstanding at June 30, 2017 was approximately \$34.5 million.

Contingencies

The Fund is subject to various government environmental laws and regulations. GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, established accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remedial activities such as site assessments and cleanups. The standard excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and post-closure care. Authority management determined that there were no estimated pollution remediation obligations to be recorded at June 30, 2017.

GREAT LAKES WATER AUTHORITY WATER FUND

Notes to Financial Statements

The Authority is also a defendant in numerous alleged claims, lawsuits, billing disputes, and other stated and pending demands applicable to the Fund. The Authority's Legal Department has estimated a reserve of \$75,000 for the Fund, which is included in the accompanying financial statements, for the potential outcome of such claims or the amount of potential damages in the event of an unfavorable outcome for each of the above contingencies. Management believes that any differences in reserved amounts and final settlement, after consideration of claims covered by insurance, resulting from such litigation will not materially impact the Fund's financial position or results of operations.

The Fund holds various commercial insurance policies to cover other potential loss exposures.

12. SPECIAL ITEM

On April 3, 2018, the Board of Directors for the Great Lakes Water Authority approved a Memorandum of Understanding (MOU) Term Sheet. On April 4, 2018, the Board of Water Commissioners for the DWSD approved the same Term Sheet. The Term Sheet was not intended to impose any legal obligation on the parties. A final MOU that will make the provisions of the Term Sheet binding on GLWA and DWSD is expected to be completed and approved by both Boards by July 1, 2018. The Leases and the Water and Sewer Services Agreement ("WSSA") between the City and GLWA and the MBO, govern the relationship between DWSD and GLWA, which began on January 1, 2016 (the "Effective Date"). The intent of the MOU is to (a) provide clarification of specific sections of the Leases, WSSA and MBO; (b) make adjustments contemplated by the Leases and the WSSA; and (c) address the liquidation of specific liabilities. The transactions associated with this MOU Term Sheet resulted in a special item on the statement of activities for the year ended June 30, 2017, comprised of the following for the Fund:

Consideration for assumption of pre-bifurcation liabilities	\$ (17,759,200)
Reduction of claims and judgements for pre-bifurcation retail cases	294,199
Recognize prepayment on leases	11,250,000
Change in obligation receivable for DWSD share of debt	(26,749,580)
Transfer of retail receivables and related amounts	<u>153,000</u>
 Total special item	 <u><u>\$ (32,811,581)</u></u>

13. SUBSEQUENT EVENTS

Partnership between the Great Lakes Water Authority, City of Flint, Karegnondi Water Authority, Genesee County Drain Commission and State of Michigan

Effective December 1, 2017, the Authority, the City of Flint (the City), Karegnondi Water Authority (KWA), Genesee County Drain Commission (GCDC) and State of Michigan entered into a long-term partnership agreement to satisfy a number of critical water service needs across the region. Key provisions of a master agreement comprised of seven separate exhibits includes: 1) a 30-year water service contract with the City that establishes GLWA as the long-term water source for the City and credits the City of its debt service payment obligations on existing KWA bonds for the building of its water plant; 2) a long-term lease to GLWA of the 72-inch line serving the City; and 3) a 30-year contract for reciprocal, emergency water services between GLWA and GCDC.



REQUIRED SUPPLEMENTARY INFORMATION

GREAT LAKES WATER AUTHORITY WATER FUND

Required Supplementary Information

Nonemployer Contributing Entity Share of City of Detroit General Employees' Retirement System - Component II Schedule of Changes in Net Pension Liability and Related Ratios

	Fiscal Year Based on Measurement Date	
	2016*	2015**
Share of total pension liability		
Interest	\$ 14,475,348	\$ 18,422,673
Differences between expected and actual experience	(1,815,233)	(153,112)
Changes in assumptions	6,318,782	(7,093,982)
Benefit changes	-	(54,618,440)
Benefit payments, including refunds of employee contributions	(24,963,262)	(19,462,302)
Net change	(5,984,365)	(62,905,163)
Share of total pension liability, beginning of year	202,696,454	265,601,617
Share of total pension liability, end of year	196,712,089	202,696,454
Share of plan fiduciary net position		
Employer contributions	10,810,800	10,808,000
Employee contributions	-	46,941
Net investment income (loss)	(470,295)	6,194,355
Benefit payments, including refunds of employee contributions	(24,963,262)	(19,462,302)
Administrative expense	-	(7,633)
Other changes	90,427	9,950,436
Net change	(14,532,330)	7,529,797
Share of plan fiduciary net position, beginning of year	141,675,375	134,145,578
Share of plan fiduciary net position, end of year	127,143,045	141,675,375
Share of net pension liability	\$ 69,569,044	\$ 61,021,079
Nonemployer contributing entity share of collective net pension liability	7.0%	7.4%
Plan fiduciary net position as a percentage of total pension liability	64.6%	69.9%

*As described in Notes 1 and 10 GLWA was established on January 1, 2016, and GLWA assumed a portion of the net position and liabilities of the City of Detroit Water and Sewerage Department. 2016 reflects only the portion allocated to GLWA.

**The 2015 information is presented based on City of Detroit Water and Sewerage Department (DWSD) prior to the establishment of GLWA. The amounts shown represent GLWA's allocation, fiduciary net position and net pension liability. The actual employer contributions made by DWSD were \$18,440,222.

Note: This schedule is being built prospectively; ultimately, 10 years of data will be presented.

GREAT LAKES WATER AUTHORITY

Required Supplementary Information

Nonemployer Contributing Entity Share of City of Detroit General Employees' Retirement System - Component II
 Schedule of Contributions

	Fiscal Year Based on Measurement Date
	2016*
Contractually required contribution**	\$ 10,810,800
Actual contribution	<u>10,810,800</u>
Contribution deficiency (excess)	<u>\$ -</u>

*As described in Notes 1 and 10 GLWA was established on January 1, 2016, and GLWA assumed a portion of the net position and liabilities of the City of Detroit Water and Sewerage Department. 2016 reflects only the portion allocated to GLWA.

**Contributions are determined by the provisions of the Plan of Adjustment and are not actuarially determined.

Note: This schedule is being built prospectively; ultimately, 10 years of data will be presented.

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COMBINING AND INDIVIDUAL FUND SCHEDULES

GREAT LAKES WATER AUTHORITY WATER FUND

UNAUDITED

Combining Schedule of Net Position
June 30, 2017

	Water Operations	Water Improvement and Extension	Water Construction Projects	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 90,581,675	\$ 175,901,463	\$ -	\$ 266,483,138
Restricted cash and cash equivalents	47,021,048	-	13,732,220	60,753,268
Restricted cash for the benefit of DWSD	288,378	-	-	288,378
Investments	852,420	-	-	852,420
Restricted investments	1,169,187	-	-	1,169,187
Receivables:				
Billed	36,459,563	-	-	36,459,563
Unbilled	29,539,433	-	-	29,539,433
Other	1,300	-	-	1,300
Allowance for doubtful accounts	(4,941,777)	-	-	(4,941,777)
Due from other governments	21,327,713	-	-	21,327,713
Contractual obligation receivable	12,076,942	-	-	12,076,942
Prepaid items and other assets	2,437,047	-	-	2,437,047
Total current assets	236,812,929	175,901,463	13,732,220	426,446,612
Noncurrent assets:				
Restricted cash and cash equivalents	4,964,501	-	172,974,993	177,939,494
Restricted investments	20,530,374	-	-	20,530,374
Contractual obligation receivable	483,604,380	-	-	483,604,380
Prepaid lease	11,250,000	-	-	11,250,000
Assets not subject to depreciation	452,185,674	-	-	452,185,674
Capital assets being depreciated, net	1,587,291,603	-	-	1,587,291,603
Prepaid insurance on debt	14,112,324	-	-	14,112,324
Total noncurrent assets	2,573,938,856	-	172,974,993	2,746,913,849
Total assets	2,810,751,785	175,901,463	186,707,213	3,173,360,461
Deferred outflows of resources				
Deferred loss on refunding	99,294,499	-	-	99,294,499
Deferred pension amounts	21,491,506	-	-	21,491,506
Total deferred outflows of resources	120,786,005	-	-	120,786,005

continued...

GREAT LAKES WATER AUTHORITY WATER FUND

UNAUDITED

Combining Schedule of Net Position
June 30, 2017

	Water Operations	Water Improvement and Extension	Water Construction Projects	Total
Liabilities				
Current liabilities:				
Accounts and contracts payable	\$ 22,838,286	\$ 181,337	\$ 13,732,219	\$ 36,751,842
Accrued salaries, wages and benefits	3,190,038	-	-	3,190,038
Other accrued liabilities	1,353,816	-	-	1,353,816
Due to other governments	25,393,813	-	-	25,393,813
Interest payable	39,329,322	-	-	39,329,322
Current portion of:				
Long-term debt	23,393,905	-	-	23,393,905
Lease payable	4,618,174	-	-	4,618,174
Obligation payable	159,803	-	-	159,803
Accrued compensated absences	2,157,888	-	-	2,157,888
Accrued workers' compensation	25,000	-	-	25,000
Total current liabilities	122,460,045	181,337	13,732,219	136,373,601
Noncurrent liabilities:				
Other noncurrent liabilities	2,582,076	-	-	2,582,076
Long-term debt	2,606,465,431	-	-	2,606,465,431
Long-term lease payable	426,303,346	-	-	426,303,346
Obligation payable	17,265,503	-	-	17,265,503
Accrued compensated absences	2,288,125	-	-	2,288,125
Accrued workers' compensation	225,000	-	-	225,000
Claims and judgments	75,000	-	-	75,000
Net pension liability	69,569,044	-	-	69,569,044
Total noncurrent liabilities	3,124,773,525	-	-	3,124,773,525
Total liabilities	3,247,233,570	181,337	13,732,219	3,261,147,126
Deferred inflows of resources				
Deferred amounts for swap terminations	85,068	-	-	85,068
Deferred gain on refunding	62,822,646	-	-	62,822,646
Deferred pension amounts	6,565,776	-	-	6,565,776
Total deferred inflows of resources	69,473,490	-	-	69,473,490
Net position				
Net investment in capital assets	134,919,107	-	-	134,919,107
Restricted for debt service	26,194,280	-	-	26,194,280
Restricted for capital acquisition	-	-	172,974,994	172,974,994
Restricted for payment assistance program	2,218,373	-	-	2,218,373
Unrestricted (deficit)	(548,501,030)	175,720,126	-	(372,780,904)
Total net position	\$ (385,169,270)	\$ 175,720,126	\$ 172,974,994	\$ (36,474,150)

concluded

GREAT LAKES WATER AUTHORITY WATER FUND

UNAUDITED

Combining Schedule of Revenues, Expenses and Changes in Fund Net Position
For the Year Ended June 30, 2017

	Water Operations	Water Improvement and Extension	Water Construction Projects	Total
Operating revenues				
Wholesale customer charges	\$ 331,115,131	\$ -	\$ -	\$ 331,115,131
Local system charges	15,490,300	-	-	15,490,300
Bad debt recovery	5,107,125	-	-	5,107,125
Other revenues	37,388	-	-	37,388
Total operating revenues	351,749,944	-	-	351,749,944
Operating expenses				
Operating before depreciation:				
Personnel	38,261,393	-	-	38,261,393
Contractual services	34,257,419	-	-	34,257,419
Utilities - Gas	952,285	-	-	952,285
Utilities - Electric	26,942,016	-	-	26,942,016
Utilities - Sewage	574,267	-	-	574,267
Utilities - Water	1,035	-	-	1,035
Chemicals	5,340,753	-	-	5,340,753
Supplies and other expenses	7,834,678	147,884	-	7,982,562
Capital program allocation	(977,762)	-	-	(977,762)
Shared services allocation	(11,603,019)	-	-	(11,603,019)
Total operating before depreciation	101,583,065	147,884	-	101,730,949
Depreciation	144,137,912	-	-	144,137,912
Total operating expenses	245,720,977	147,884	-	245,868,861
Operating income (loss)	106,028,967	(147,884)	-	105,881,083
Nonoperating revenues (expenses)				
Earnings on investments	1,342,272	6,626	484,020	1,832,918
Interest on obligations receivable	25,269,750	-	-	25,269,750
Interest expense, net of capitalized interest	(132,434,945)	-	-	(132,434,945)
Amortization of debt related items and costs of issuance	2,733,535	-	(330,517)	2,403,018
Other	(2,283,399)	-	-	(2,283,399)
Capital outlay	40,342,148	(858,305)	(39,483,843)	-
Loss on disposal of capital assets	(207,900)	-	-	(207,900)
Loss on impairment of capital assets	(31,499)	-	-	(31,499)
Total nonoperating revenues (expenses)	(65,270,038)	(851,679)	(39,330,340)	(105,452,057)
Income (loss) before special item and transfers	40,758,929	(999,563)	(39,330,340)	429,026
Special item - memorandum of understanding with DWSD	(32,811,581)	-	-	(32,811,581)
Transfer in	-	110,100,000	234,786,360	344,886,360
Transfer out	(344,671,815)	(214,545)	-	(344,886,360)
Change in net position	(336,724,467)	108,885,892	195,456,020	(32,382,555)
Net position (deficit), beginning of year	(48,444,803)	66,834,234	(22,481,026)	(4,091,595)
Net position (deficit), end of year	\$ (385,169,270)	\$ 175,720,126	\$ 172,974,994	\$ (36,474,150)

Note: Transfers in (out) are used for recording financial activity related to bond proceeds and MBO requirements.

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GREAT LAKES WATER AUTHORITY WATER FUND

Schedule of Operations and Maintenance Expense for Water Operations

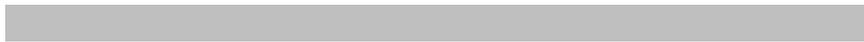
Cost Type Category - Budget and Actual
For the Year Ended June 30, 2017

	Original Budget	Amended Budget	Administrative and Centralized Services Reclassification
Operating expenses			
Personnel	\$ 58,395,600	\$ 58,395,600	\$ (17,975,100)
Contractual services	79,616,800	104,148,500	(35,828,400)
Utilities	34,903,600	34,903,600	(143,300)
Chemicals	6,192,400	6,192,400	-
Supplies and other expenses	16,490,700	16,490,700	-
Shared services reimbursement	(10,306,900)	(10,306,900)	-
Capital program allocation	(23,315,600)	(23,315,600)	-
Unallocated reserve	3,849,400	(20,682,300)	-
Centralized services allocation	(34,980,600)	(34,980,600)	34,980,600
Administrative services allocation	(18,966,200)	(18,966,200)	18,966,200
Total operating expenses	\$ 111,879,200	\$ 111,879,200	\$ -

continued...

Note: Centralized and administrative services allocations have been applied to the expense categories above for presentation of the amended budget and actual amounts.

UNAUDITED



Final Amended Budget	Actual	Amount Over (Under) Budget	Percent Over (Under) Budget
\$ 40,420,500	\$ 38,261,393	\$ (2,159,107)	-5.3%
68,320,100	34,257,419	(34,062,681)	-49.9%
34,760,300	28,469,603	(6,290,697)	-18.1%
6,192,400	5,340,753	(851,647)	-13.8%
16,490,700	7,982,562	(8,508,138)	-51.6%
(10,306,900)	(11,603,019)	(1,296,119)	12.6%
(23,315,600)	(977,762)	22,337,838	-95.8%
(20,682,300)	-	20,682,300	-100.0%
-	-	-	0.0%
-	-	-	0.0%
<u>\$ 111,879,200</u>	<u>\$ 101,730,949</u>	<u>\$ (10,148,251)</u>	-9.1%

concluded

GREAT LAKES WATER AUTHORITY WATER FUND

UNAUDITED

Schedule of Revenue Requirement for Water Operations
 Budget to Actual
 For the Year Ended June 30, 2017

	Original Budget	Amended Budget	Actual	Over (Under) Budget
Water fund				
Revenue:				
Revenue Requirement from Charges	\$ 329,135,600	\$ 329,135,600	\$ 346,605,431	\$ 17,469,831
Bad Debt Expense Recovery	-	-	5,107,125	5,107,125
Other Revenue	2,077,600	2,077,600	37,388	(2,040,212)
	<u>\$ 331,213,200</u>	<u>\$ 331,213,200</u>	<u>\$ 351,749,944</u>	<u>\$ 20,536,744</u>
Revenue requirements*				
Operations & maintenance expense	\$ 111,879,200	\$ 111,879,200	\$ 111,879,600	\$ 400
Operations & maintenance legacy pension allocation	6,037,100	6,037,100	6,048,100	11,000
Debt service allocation	159,277,500	159,277,500	141,481,548	(17,795,952)
Accelerated legacy pension allocation	6,035,200	6,035,200	6,260,724	225,524
Water residential assistance program	1,645,700	1,645,700	1,646,100	400
Lease payment to local system improvement & extension fund	22,500,000	22,500,000	22,500,000	-
Regional system improvement & extension fund**	23,838,500	23,838,500	23,838,500	-
Total revenue requirements	<u>\$ 331,213,200</u>	<u>\$ 331,213,200</u>	<u>\$ 313,654,572</u>	<u>\$ (17,558,628)</u>

*Item is not considered an expense for accounting purposes but is for revenue requirement basis in establishing customer charges. Actual amounts are based on cash transfers made to the MBO defined bank accounts that must be funded by revenue.

**Amount determined to be available after all of MBO requirements are met.

GREAT LAKES WATER AUTHORITY WATER FUND

UNAUDITED

Schedule of Days Cash - Liquidity
June 30, 2017

	2017	2016*
Cash and investments - Unrestricted	\$ 267,335,558	\$ 167,292,572
<i>Operating expense</i>		
Operating expense	\$ 245,868,861	\$ 120,841,204
Less: depreciation	(144,137,912)	(71,295,545)
<i>Net operating expense</i>	<u>\$ 101,730,949</u>	<u>\$ 49,545,659</u>
<i>Operating expense per day (365 days)</i>	<u>\$ 278,715</u>	<u>\$ 273,733</u>
<i>Days cash</i>		
Number of days cash	<u>959</u>	<u>611</u>

*GLWA assumed operations on January 1, 2016. Data for 2016 includes six months of operation under GLWA. Operating expense per day is based on a half year (that is, 181 days).

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STATISTICAL SECTION

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GREAT LAKES WATER AUTHORITY WATER FUND

Statistical Section Table of Contents

The objective of the statistical section is to provide financial statement users with additional historical perspective, context and detail to assist in using the information in the financial statements, notes to financial statements and required supplementary information to understand and assess the Fund's economic condition.

The statistical section information is presented in the following categories:

		<u>Page</u>
Financial Trends Schedules 1 and 2	Financial trends information is intended to show how the Fund's financial position has changed over time.	56
Revenue Capacity Schedule 3	Revenue capacity information is intended to show the factors affecting the Fund's ability to generate its own-source revenue.	58
Debt Capacity Information Schedules 4 through 7	Debt capacity information is intended to show the Fund's debt burden and its ability to issue additional debt.	59
Demographic/Economic Schedules 8 through 10	Demographic and economic information is intended to show the socioeconomic environment within which the Fund operates.	65
Operating Information Schedule 11 through 12	Operating information is intended to show contextual information about operations and resources to provide understanding and assessing the Fund's economic condition.	69

GREAT LAKES WATER AUTHORITY WATER FUND

Schedule 1
UNAUDITED

Net Position by Component
(accrual basis of accounting)

	2017	2016*
Net investment in capital assets	\$ 134,919,107	\$ 400,187,482
Restricted for debt service	26,194,280	69,797,836
Restricted for capital acquisition	172,974,994	-
Restricted for payment assistance program	2,218,373	977,278
Unrestricted (deficit)	<u>(372,780,904)</u>	<u>(475,054,191)</u>
Total net position	<u>\$ (36,474,150)</u>	<u>\$ (4,091,595)</u>

*GLWA began operations on January 1, 2016. The data for FY 2016 relates to six months of activity through June 30, 2016. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Source: Great Lakes Water Authority Financial Services Area

GREAT LAKES WATER AUTHORITY WATER FUND

Schedule 2

UNAUDITED

Changes in Net Position
(accrual basis of accounting)

	2017	2016*
Operating revenues		
Wholesale customer charges	\$ 331,115,131	\$ 160,777,169
Local system charges	15,490,300	6,833,500
Bad debt recovery	5,107,125	-
Other revenues	37,388	54,863
Total operating revenues	351,749,944	167,665,532
Operating expenses		
Personnel	38,261,393	8,301,022
Contractual services	34,257,419	3,304,113
Utilities	28,469,603	12,368,557
Chemicals	5,340,753	2,444,543
Supplies and other expenses	7,982,562	1,440,644
Capital program allocation	(977,762)	-
Shared services allocation	(11,603,019)	-
Centralized services	-	18,494,851
Administrative services	-	3,191,929
Depreciation	144,137,912	71,295,545
Total operating expenses	245,868,861	120,841,204
Operating income	105,881,083	46,824,328
Nonoperating revenues (expenses)		
Earnings on investments	1,832,918	392,031
Interest on obligations receivable	25,269,750	12,231,250
Interest expense, net of capitalized interest	(132,434,945)	(65,958,095)
Amortization of debt related items and costs of issuance	2,403,018	2,418,891
Other	(2,283,399)	-
Gain (loss) on disposal of capital assets	(207,900)	-
Loss on impairment of capital assets	(31,499)	-
Total nonoperating expenses	(105,452,057)	(50,915,923)
Income (loss) before special item	429,026	(4,091,595)
Special item - memorandum of understanding with DWSD	(32,811,581)	-
Change in net position	(32,382,555)	(4,091,595)
Net position (deficit), beginning of year	(4,091,595)	-
Net position (deficit), end of year	<u>\$ (36,474,150)</u>	<u>\$ (4,091,595)</u>

*GLWA began operations on January 1, 2016. The data for FY 2016 relates to six months of activity through June 30, 2016. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Source: Great Lakes Water Authority Financial Services Area

GREAT LAKES WATER AUTHORITY WATER FUND

Schedule 3
UNAUDITED

Operating Revenues and Charge Increases
Last Two Years*

	2017	2016
Operating revenues:		
Wholesale customer charges	\$ 331,115,131	\$ 160,777,169
Local system charges	15,490,300	6,833,500
Bad debt recovery	5,107,125	-
Other revenues	37,388	54,863
Total operating revenues	\$ 351,749,944	\$ 167,665,532
System charge increase	4.0%	4.0%
Number of wholesale customers [1]	88	85

* GLWA began operations on January 1, 2016. The data for FY 2016 relates to six months of activity through June 30, 2016. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

[1] Does not include the City of Detroit.

Source: Charge Increases Water Official Statement Series 2016

Source: Great Lakes Water Authority Financial Services Area

GREAT LAKES WATER AUTHORITY WATER FUND

Schedule 4
UNAUDITED

Debt by Lien			
as of June 30, 2017			
	Original Principal Amount [1]	Outstanding as of June 30, 2017	Total Future Debt [2]
Water Supply System Revenue Bonds			
Senior Lien Bonds			
Water Supply System Revenue Senior Lien Bonds, Series 2003A	\$ 234,805,000	\$ 100,000	\$ 100,000
Water Supply System Revenue Senior Lien Bonds, Series 2005B	194,900,000	3,285,000	3,285,000
Water Supply System Revenue Senior Lien Bonds, Series 2006A	280,000,000	100,000	100,000
Water Supply System Revenue Senior Lien Bonds, Series 2011A	379,590,000	297,815,000	297,815,000
Water Supply System Revenue Senior Lien Bonds, Series 2011B	17,195,000	4,925,000	4,925,000
Water Supply System Revenue Refunding Senior Lien Bonds, Series 2011C	103,890,000	75,145,000	75,145,000
Water Supply System Revenue Refunding Senior Lien Bonds, Series 2014A	206,540,000	192,150,000	192,150,000
Water Supply System Revenue Refunding Senior Lien Bonds, Series 2014B	188,455,000	188,455,000	188,455,000
Water Supply System Revenue Refunding Senior Lien Bonds, Series 2014C	62,700,000	62,700,000	62,700,000
Water Supply System Revenue Refunding Senior Lien Bonds, Series 2014D	307,645,000	209,360,000	209,360,000
Water Supply System Revenue Refunding Senior Lien Bonds, Series 2014E	9,270,000	9,270,000	9,270,000
Water Supply System Revenue Refunding Senior Lien Bonds, Series 2015A	89,430,000	88,925,000	88,925,000
Water Supply System Revenue Senior Lien Bonds, Series 2016A	88,000,000	88,000,000	88,000,000
Water Supply System Revenue Refunding Senior Lien Bonds, Series 2016C	443,930,000	443,930,000	443,930,000
	<u>2,606,350,000</u>	<u>1,664,160,000</u>	<u>1,664,160,000</u>
Second Lien Bonds			
Water Supply System Revenue Refunding Second Lien Bonds, Series 2001C	190,405,000	179,440,000	179,440,000
Water Supply System Revenue Second Lien Bonds, Series 2003B	172,945,000	100,000	100,000
Water Supply System Revenue Second Lien Bonds, Series 2006B	120,000,000	350,000	350,000
Water Supply System Revenue Refunding Second Lien Bonds, Series 2014F	65,425,000	65,425,000	65,425,000
Water Supply System Revenue Refunding Second Lien Bonds, Series 2014G	14,815,000	8,300,000	8,300,000
Water Supply System Revenue Refunding Second Lien Bonds, Series 2015B	37,235,000	37,235,000	37,235,000
Water Supply System Revenue Second Lien Bonds, Series 2016B	163,830,000	163,830,000	163,830,000
Water Supply System Revenue Refunding Second Lien Bonds, Series 2016D	222,045,000	222,045,000	222,045,000
	<u>986,700,000</u>	<u>676,725,000</u>	<u>676,725,000</u>
SRF Junior Lien Bonds			
Water Supply System Revenue Bonds, Series 2005-SRF-1	13,805,164	7,385,164	7,385,164
Water Supply System Revenue Bonds, Series 2005-SRF-2	8,891,730	4,641,730	4,641,730
Water Supply System Revenue Bonds, Series 2006-SRF	5,180,926	2,750,926	2,750,926
Water Supply System Revenue Bonds, Series 2008-SRF	2,590,941	1,205,941	1,205,941
Water Supply System Revenue Bonds, Series 2016A-SRF	9,605,000	-	9,605,000
Water Supply System Revenue Bonds, Series 2016B-SRF	4,180,000	1,268,474	4,180,000
Water Supply System Revenue Bonds, Series 2017-SRF	6,675,000	-	6,675,000
	<u>50,928,761</u>	<u>17,252,235</u>	<u>36,443,761</u>
Total water supply system revenue bonds	<u><u>\$ 3,643,978,761</u></u>	<u><u>\$ 2,358,137,235</u></u>	<u><u>\$ 2,377,328,761</u></u>

[1] Reflects original amount issued by predecessor entity, DWSD, for bonds issued prior to January 1, 2016.

[2] Includes the full purchase contract amounts not drawn by June 30, 2017 from state revolving funds. Final amounts will be determined after project close-out.

Source: Great Lakes Water Authority Financial Services Area

GREAT LAKES WATER AUTHORITY WATER FUND

Schedule of Debt Service Requirements as of June 30, 2017

Fiscal Year Ending [1]	Senior Lien Bonds (in \$1,000s)			Second Lien Bonds (in \$1,000s)		
	Principal	Interest	Total Debt Service	Principal	Interest	Total Debt Service
2018 [2]	\$ 5,735	\$ 65,197	\$ 70,932	\$ 340	\$ 31,271	\$ 31,611
2019	43,955	82,629	126,584	8,815	33,819	42,634
2020	37,705	80,683	118,388	15,420	33,168	48,588
2021	44,070	78,738	122,808	17,925	32,238	50,163
2022	48,980	76,412	125,392	20,345	31,179	51,524
2023	52,225	73,881	126,106	16,875	30,141	47,016
2024	58,610	71,105	129,715	18,185	29,154	47,339
2025	61,550	68,084	129,634	19,275	28,105	47,380
2026	64,650	64,902	129,552	20,350	26,995	47,345
2027	67,915	61,574	129,489	21,490	25,822	47,312
2028	71,310	58,092	129,402	22,700	24,583	47,283
2029	74,870	54,436	129,306	23,970	23,363	47,333
2030	78,625	50,597	129,222	25,135	22,193	47,328
2031	82,550	46,566	129,116	26,310	20,949	47,259
2032	86,690	42,333	129,023	27,625	19,601	47,226
2033	91,015	37,888	128,903	29,005	18,328	47,333
2034	84,900	33,443	118,343	40,840	16,926	57,766
2035	93,165	28,923	122,088	38,555	15,143	53,698
2036	104,610	23,918	128,528	1,210	14,149	15,359
2037	13,255	20,932	34,187	118,605	11,153	129,758
2038	52,690	19,206	71,896	5	8,187	8,192
2039	59,775	16,251	76,026	5	8,187	8,192
2040	62,895	13,052	75,947	5	8,187	8,192
2041	66,180	9,685	75,865	5	8,187	8,192
2042	68,340	6,177	74,517	5	8,186	8,191
2043	15,905	3,997	19,902	29,630	7,446	37,076
2044	16,705	3,182	19,887	31,110	5,927	37,037
2045	17,535	2,326	19,861	32,670	4,333	37,003
2046	18,415	1,427	19,842	34,300	2,658	36,958
2047	19,335	483	19,818	36,015	900	36,915
2048	-	-	-	-	-	-
2049	-	-	-	-	-	-
Total	\$ 1,664,160	\$ 1,196,119	\$ 2,860,279	\$ 676,725	\$ 550,478	\$ 1,227,203

[1] Reflects fiscal period in which actual payments are due.

[2] For bonds issued through the Michigan Finance Authority (MFA) in 2014 and 2015, the Authority is required to make payment on these obligations to the MFA depository accounts five business days prior to the due date of the bond principal and interest payments. Therefore, the payments for the principal and interest due on July 1, 2017, are not included in the debt service requirement amounts above as they were paid June 26, 2017.

Source: Great Lakes Water Authority Financial Services Area

Junior Lien Bonds (in \$1,000s)			Total (in \$1,000s)		
Principal	Interest	Total Debt Service	Total Debt Service as of June 30, 2017	Additional Future Junior Lien Debt Service on Undrawn SRF Loans	Total Future Debt Service including undrawn SRF Loans
\$ 1,435	\$ 360	\$ 1,795	\$ 104,338	\$ 442	\$ 104,780
1,555	329	1,884	171,102	700	171,802
1,585	295	1,880	168,856	847	169,703
1,625	261	1,886	174,857	848	175,705
1,660	225	1,885	178,801	848	179,649
1,700	189	1,889	175,011	848	175,859
1,735	151	1,886	178,940	848	179,788
1,770	113	1,883	178,897	848	179,745
1,805	75	1,880	178,777	847	179,624
1,833	35	1,868	178,669	846	179,515
235	12	247	176,932	850	177,782
236	6	242	176,881	848	177,729
78	2	80	176,630	893	177,523
-	-	-	176,375	978	177,353
-	-	-	176,249	973	177,222
-	-	-	176,236	977	177,213
-	-	-	176,109	975	177,084
-	-	-	175,786	974	176,760
-	-	-	143,887	976	144,863
-	-	-	163,945	974	164,919
-	-	-	80,088	971	81,059
-	-	-	84,218	977	85,195
-	-	-	84,139	978	85,117
-	-	-	84,057	973	85,030
-	-	-	82,708	974	83,682
-	-	-	56,978	973	57,951
-	-	-	56,924	972	57,896
-	-	-	56,864	976	57,840
-	-	-	56,800	973	57,773
-	-	-	56,733	971	57,704
-	-	-	-	978	978
-	-	-	-	319	319
<u>\$ 17,252</u>	<u>\$ 2,053</u>	<u>\$ 19,305</u>	<u>\$ 4,106,787</u>	<u>\$ 28,375</u>	<u>\$ 4,135,162</u>

GREAT LAKES WATER AUTHORITY WATER FUND

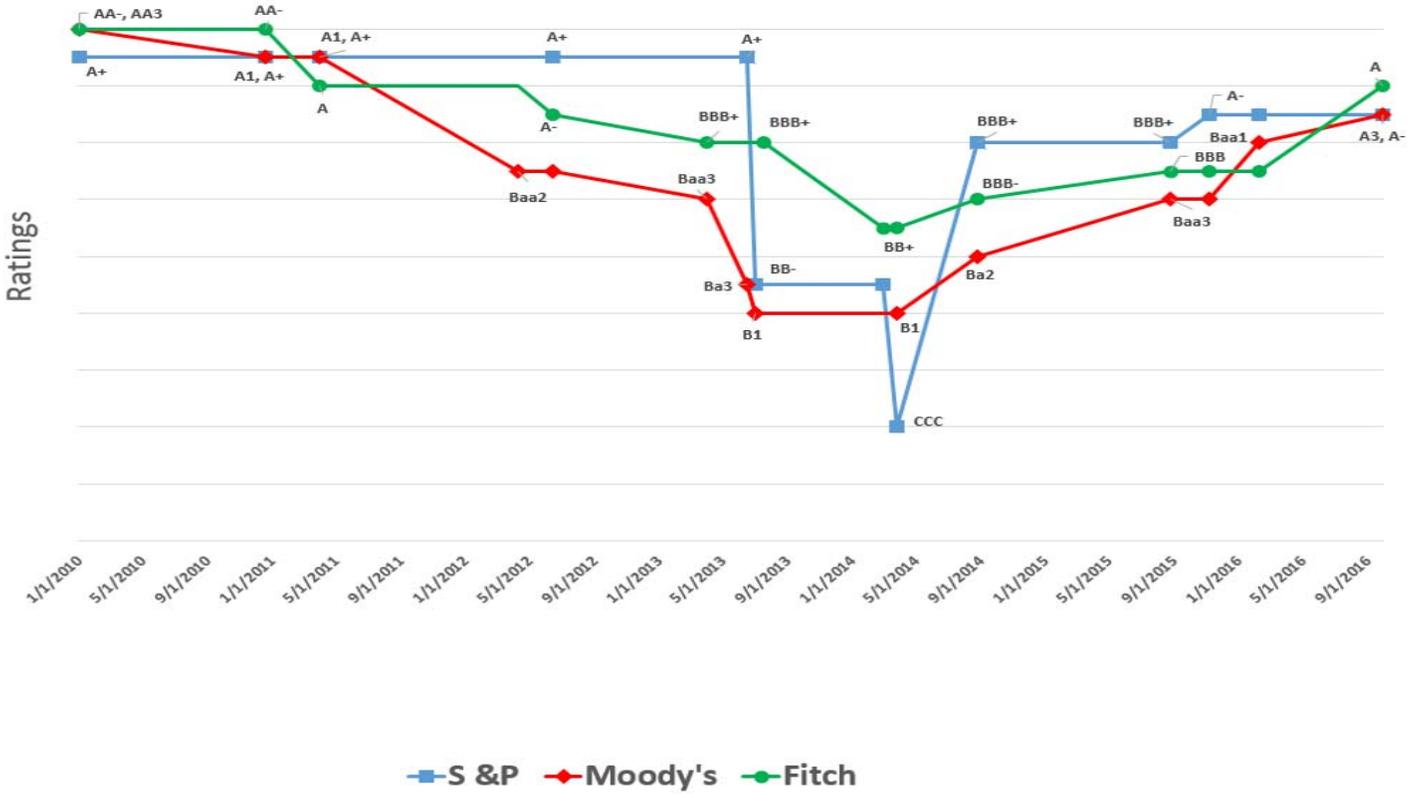
Schedule 6
UNAUDITED

Current Debt Ratings as of June 30, 2017

Debt Type	Rating Agency		
	Standard & Poor's	Moody's	Fitch
Water supply system revenue			
Senior lien	A-	A3	A
Second lien	BBB+	Baa1	A-
Junior lien	N/A	N/A	N/A

Source: Great Lakes Water Authority Financial Services Area

Water Senior Lien - Debt Ratings History
2010 to Present [1]



Source: Great Lakes Water Authority Financial Services Area

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GREAT LAKES WATER AUTHORITY WATER FUND

Schedule 8
UNAUDITED

Service Area Demographics
Last Ten Years

Year	Total Population (1)	Unemployment (2)	Per Capita Income (3)	Total Debt Service (5)	Debt Per Capita	Debt Service as a Percentage of Income
2017	3,800,000	4.4%	\$ 49,612 (4)	\$ 175,010,012	\$ 46.06	0.09%
2016 *	3,800,000	5.4%	48,467 (4)	171,138,525	45.04	0.09%
2015 *	3,800,000	5.9%	46,894	178,923,900	47.09	0.10%
2014 *	3,800,000	8.1%	44,718	182,464,900	48.02	0.11%
2013 *	3,800,000	9.7%	42,555	172,458,800	45.38	0.11%
2012 *	3,800,000	10.1%	42,168	153,524,200	40.40	0.10%
2011 *	3,800,000	11.4%	40,607	164,435,900	43.27	0.11%
2010 *	3,800,000	13.9%	37,837	157,590,500	41.47	0.11%
2009 *	3,976,100	15.1%	36,874	156,775,100	39.43	0.11%
2008 *	3,976,100	8.2%	38,998	135,156,500	33.99	0.09%

- (1) Source: Estimated based on data from Southeast Michigan Council of Governments (SEMCOG).
- (2) Source: Bureau of Labor Statistics Detroit-Warren-Dearborn MSA Annual Average (For 2017 the September rate was used). The Detroit-Warren-Dearborn Metropolitan Statistical Area (MSA) is comprised of six counties: Wayne, Oakland, Macomb, Livingston, Lapeer and St. Clair. This represents the majority of the service area customers.
- (3) Source: FRED Economic Data, St. Louis Fed
- (4) Source: Michigan State University Center for Economic Analysis
- (5) Debt service is based on set aside debt service requirements for the fiscal year which includes the subsequent year 1st debt payment.

*GLWA assumed operations on January 1, 2016. The information in this table from 2008-2015 is based on operations under DWSD. Data for 2016 includes six months of operation under DWSD and six months of operation under GLWA.

Source: Great Lakes Water Authority Financial Services Area

GREAT LAKES WATER AUTHORITY WATER FUND

Ten Largest Wholesale Water Customers / Total Billed Revenue Last Ten Years

	2008 *	2009 *	2010 *	2011 *
Operating revenues				
Flint [1]	\$ 16,297,870	\$ -	\$ 17,421,663	\$ 17,103,752
Genesee County Drain Commission [1]	-	17,421,571	-	-
Southeast Oakland County Water Authority	10,165,018	9,285,621	9,285,621	10,293,814
Troy	8,606,895	7,445,795	7,550,028	7,295,491
Sterling Heights	9,424,067	8,578,659	8,696,601	8,113,053
Farmington Hills	7,611,586	7,547,579	7,547,585	7,775,635
Warren	7,775,671	-	-	7,532,208
Livonia	7,530,863	7,033,848	7,033,853	7,804,684
Shelby Township	7,537,378	7,403,055	7,403,056	8,175,322
Novi	-	6,913,500	6,782,362	7,063,698
Macomb Township	-	-	-	-
Rochester Hills	8,823,580	8,644,531	8,553,457	9,047,860
North Oakland County Water Authority	-	-	-	-
West Bloomfield Township	-	-	-	-
Canton Township	7,803,359	6,876,444	7,142,729	-
Total	\$ 91,576,287	\$ 87,150,603	\$ 87,416,955	\$ 90,205,517
Operating revenues - DWSD	\$ 292,983,220	\$ 274,095,463	\$ 285,470,426	\$ 316,002,201
Operating revenues - GLWA	-	-	-	-
Total operating revenues	\$ 292,983,220	\$ 274,095,463	\$ 285,470,426	\$ 316,002,201
% of total operating revenues	31.26%	31.80%	30.62%	28.55%

[1] Flint contract terminated April 2013, but service provided through April 2014 and re-established in November 2015 on a temporary basis until a long-term contract took effect on December 1, 2017. Non-contract service has been provided to Genesee County Drain Commission (GCDC) from May 2014 through mid-December 2017. GCDC changed service providers in December 2017 and has contracted with GLWA for as needed emergency water service.

*GLWA assumed operations on January 1, 2016. The information in this table from 2008-2015 is based on operations under DWSD. Data for 2016 includes six months of operation under DWSD and 6 months of operation under GLWA.

Source: Great Lakes Water Authority Financial Services Area

	2012 *	2013 *	2014 *	2015 *	2016 *	2017
\$	20,919,987	\$ 23,308,800	\$ 23,871,366	\$ 15,804,309	\$ -	\$ 13,256,330
	-	-	-	-	17,231,935	18,493,530
	12,111,306	19,541,038	19,467,746	19,779,978	22,846,983	22,434,129
	-	9,311,146	9,715,613	9,761,438	12,365,922	13,939,815
	9,882,899	12,089,582	12,015,093	12,650,819	14,678,915	15,480,008
	8,503,722	10,575,173	9,769,372	9,797,153	-	-
	9,121,108	9,945,794	9,060,112	9,297,285	-	-
	8,806,767	10,338,724	9,728,576	10,325,750	12,809,124	13,483,657
	9,966,936	10,824,461	10,770,614	11,035,002	12,689,582	13,462,808
	8,340,815	-	-	-	11,869,865	-
	-	-	-	-	10,103,536	10,945,117
	10,324,388	9,529,341	9,600,373	9,432,554	-	-
	-	-	-	-	22,585,698	22,913,261
	7,973,620	9,655,154	-	-	-	-
	-	-	9,400,322	9,692,530	12,319,875	13,872,584
<u>\$</u>	<u>105,951,548</u>	<u>\$ 125,119,213</u>	<u>\$ 123,399,187</u>	<u>\$ 117,576,818</u>	<u>\$ 149,501,435</u>	<u>\$ 158,281,239</u>
\$	336,129,945	\$ 355,527,761	\$ 349,369,362	\$ 364,278,054	\$ 167,665,532	\$ -
	-	-	-	-	217,759,272	351,749,944
<u>\$</u>	<u>336,129,945</u>	<u>\$ 355,527,761</u>	<u>\$ 349,369,362</u>	<u>\$ 364,278,054</u>	<u>\$ 385,424,804</u>	<u>\$ 351,749,944</u>
	31.52%	35.19%	35.32%	32.28%	38.79%	45.00%

GREAT LAKES WATER AUTHORITY WATER FUND

Schedule 10

UNAUDITED

FY 2016-17 Wholesale Water Schedule of Charges*
and Total Revenue Requirement for the Detroit Retail Class

Community Name	Fixed Monthly \$/mo	Commodity \$/Mcf	Community Name	Fixed Monthly \$/mo	Commodity \$/Mcf
Allen Park	\$ 113,700	\$ 6.59	Madison Heights	\$ 99,700	\$ 5.39
Almont, Village of	10,700	9.51	Mayfield Township	1,400	23.86
Ash Township	36,400	7.28	Melvindale	32,700	5.57
Belleville	15,300	8.19	New Haven, Village of	17,100	9.79
Berlin Township	35,300	9.74	North Oakland County Water Authority	1,137,400	9.78
Brownstown Township	165,800	9.75	Northville, City	36,400	9.11
Bruce Township	2,400	19.40	Northville Township	321,900	20.12
Canton Township	638,600	15.77	Novi	426,900	12.98
Centerline	23,300	5.49	Oak Park	64,400	5.00
Chesterfield Township	186,000	9.18	Oakland County Drain Commission	3,200	2.84
Clinton Township	377,500	7.59	Plymouth City	50,100	9.54
Commerce Township	245,600	21.13	Plymouth Township	205,200	9.95
Dearborn	463,100	5.90	Redford Township	166,500	7.70
Dearborn Heights	186,400	6.84	River Rouge	34,400	4.75
East Pointe	79,400	5.43	Riverview	44,800	7.79
Ecorse	70,300	3.60	Rockwood	14,700	10.66
Farmington City	47,500	8.09	Romeo	12,800	17.05
Farmington Hills	430,900	9.50	Romulus	179,600	7.33
Ferndale	47,000	5.70	Roseville	130,500	5.02
Flat Rock	58,100	7.50	Royal Oak Township	11,200	7.47
Flint	662,100	8.93	Shelby Township	667,900	13.49
Fraser	63,600	7.83	Southeastern Oakland County Water Authority	1,099,900	6.84
Garden City	81,200	7.06	South Rockwood	5,000	8.08
Genesee County Drain Commission	964,800	12.71	Southgate	105,900	6.83
Gibraltar	22,900	10.79	St. Clair County-Burtchville Township	14,600	12.98
Grosse Ile	62,600	11.64	St. Clair County-Greenwood	19,000	15.17
Grosse Pointe Park	69,300	9.09	St. Clair Shores	150,400	5.45
Grosse Pointe Shores	30,100	12.68	Sterling Heights	774,900	10.05
Grosse Pointe Woods	69,600	7.42	Sumpter Township	31,800	8.49
Hamtramck	34,300	4.49	Sylvan Lake	11,700	13.37
Harper Woods	42,400	5.84	Taylor	235,800	6.60
Harrison Township	68,800	5.92	Trenton	103,800	9.12
Hazel Park	34,600	5.13	Troy	653,000	12.01
Highland Park	62,600	4.56	Utica	28,900	10.05
Huron Township	68,800	9.18	Van Buren Township	140,900	8.54
Imlay City	56,800	11.22	Walled Lake	45,200	11.66
Imlay Township	134	10.84	Warren	490,200	5.42
Inkster	89,800	6.90	Washington Township	150,800	18.28
Keego Harbor	15,300	11.13	Wayne	132,500	10.70
Lapeer	69,700	9.36	West Bloomfield Township	487,000	15.16
Lenox Township	14,800	6.23	Westland	295,300	7.45
Lincoln Park	108,400	5.94	Wixom	115,900	14.48
Livonia	663,700	10.88	Woodhaven	100,100	12.52
Macomb Township	516,000	13.90	Ypsilanti Community Utilities Authority	524,500	8.56

Total Revenue Requirement for the Detroit Retail Class \$15,490,300 - Effective July 1, 2016

*Wholesale charges went into effect July 1, 2016

Source: Great Lakes Water Authority Financial Services Area/The Foster Group

GREAT LAKES WATER AUTHORITY WATER FUND

Schedule 11

UNAUDITED

Produced and Billed Water Volumes
Last Ten Years

Fiscal Year	Estimated Total Water Produced (Mcf) [1]	Reported Water Sales			Estimated Non-Revenue Water (Mcf)	Estimated Non-Revenue % of Production [3]
		Wholesale Customer Billed (Mcf)	Local System Billed (Mcf)	Total Water Billed (Mcf) [2]		
2008 *	29,360,700	18,405,500	4,145,500	22,551,000	6,809,700	23.2%
2009 *	27,180,700	16,682,100	4,138,100	20,820,200	6,360,500	23.4%
2010 *	25,142,700	15,676,300	3,924,000	19,600,300	5,542,400	22.0%
2011 *	26,513,000	16,094,700	4,176,600	20,271,300	6,241,700	23.5%
2012 *	27,219,500	16,280,300	3,903,100	20,183,400	7,036,100	25.8%
2013 *	26,832,800	15,687,900	3,660,300	19,348,200	7,484,600	27.9%
2014 *	26,088,800	14,778,500	3,410,600	18,189,100	7,899,700	30.3%
2015 *	23,238,000	13,547,000	3,173,700	16,720,700	6,517,300	28.0%
2016 *	23,580,700	14,730,400	3,086,400	17,816,800	5,763,900	24.4%
2017	23,915,600	14,824,000	2,912,030	17,736,030	6,179,570	25.8%

[1] Represents, in part, estimated volumes based on pump curves and engineering analysis. GLWA engineering studies in 2017 concluded that total water production values for calendar year 2016 were over-reported by 5.8%.

[2] Represents metered wholesale amounts for all customers other than Detroit, Dearborn, and Highland Park. Water sales to those customers reflect, in part, estimated retail water sales during this period. GLWA is modifying this approach, which will result in larger reported water sales figures in future years.

[3] As noted in [1] and [2], these values are likely overestimated. GLWA expects recently modified flow measuring methods to result in lower values in future years.

*GLWA assumed operations on January 1, 2016. The information in this table from 2008-2015 is based on operations under DWSD. Data from 2016 includes six months of operation under DWSD and 6 months of operation under GLWA.

Source: Great Lakes Water Authority Financial Services Area

GREAT LAKES WATER AUTHORITY WATER FUND

Schedule 12
UNAUDITED

Pledges of Revenue and Debt Service Coverage
as of June 30, 2017

The Authority has pledged specific revenue streams to secure the repayment of the revenue bonds and State of Michigan revolving fund loans. The bonds and loans are paid solely from the net revenues of the Water System including the Retail Revenues from the Retail Customers who are serviced under the Water and Sewer Services Agreement with the City of Detroit. The pledged revenues for the fiscal year ending June 30, 2017 were reported by two entities due to the lease agreement between the City of Detroit and Great Lakes Water Authority which became effective on January 1, 2016. The pledge revenue definition in the Great Lakes Water Authority Master Bond Ordinance includes the retail revenues of the City of Detroit Water and Sewerage Department as this revenue is pledged for payment of the bonded debt owed by Great Lakes Water Authority. A summary of the pledged revenue and the applicable debt as of June 30, 2017 is as follows:

Term of pledged commitment	Thru 2047
Calculation of Pledged Revenue as defined in Master Bond Ordinance	
GLWA revenue pledged-excludes local charges [1]	
Wholesale customer charges	\$ 331,115,131
Bad debt recovery	5,107,125
Other revenues	37,388
Earnings on investments net of construction fund investment earnings	1,348,898
less cash transfers to GLWA Operations and Maintenance Fund	<u>(117,916,800)</u>
GLWA net revenue for pledged revenue calculation	<u>219,691,742</u>
DWSD revenue pledged	
Customer charges	93,480,965
Penalties and fees	5,265,229
Miscellaneous	5,737,953
less cash transfers to DWSD Operations and Maintenance Fund	<u>(37,858,800)</u>
DWSD net revenue for pledged revenue calculation	<u>66,625,347</u>
Pledged revenue for the year ending June 30, 2017	<u>\$ 286,317,089</u>
Principal and interest funding requirement for the year ending June 30, 2017 [2]:	
Senior and second lien bonds	
Senior lien bonds	\$ 134,234,660
Second lien bonds	<u>38,990,023</u>
Total senior and second lien bonds	173,224,683
Junior lien bonds	1,785,328
Total all bonds	<u>\$ 175,010,011</u>
Rate covenant debt service coverage [2]	
Senior lien bonds	2.13
Senior and second lien bonds	1.65
All bonds, including SRF junior lien	1.64
Approximate amount in restricted cash and investments related to various bond indentures at June 30, 2017	\$ 186,700,000

[1] Local charges are excluded from the GLWA revenue calculation as they would duplicate the revenues reported in the DWSD revenue calculation.

[2] Computed consistent with rate Covenant basis for rate determination purposes. Not applicable for purposes of additional bond test calculations.

Source: Great Lakes Water Authority Financial Services Area

GREAT LAKES WATER AUTHORITY WATER FUND

Schedule 12a
UNAUDITED

Pledges of Revenue and Debt Service Coverage
Last Two Years [1]

	2017	2016 [1]
Pledged revenue	<u>\$ 286,317,089</u>	<u>\$ 270,117,396</u>
Principal and interest funding requirement for the year ending June 30, 2017 [2]:		
Senior and second lien bonds		
Senior lien bonds	\$ 134,234,660	\$ 128,177,999
Second lien bonds	<u>38,990,023</u>	<u>41,178,843</u>
Total senior and second lien bonds	<u>173,224,683</u>	<u>169,356,842</u>
Junior lien bonds	1,785,328	1,781,683
Total all bonds	<u>\$ 175,010,011</u>	<u>\$ 171,138,525</u>
Rate covenant debt service coverage [2]		
Senior lien bonds	2.13	2.11
Senior and second lien bonds	1.65	1.59
All bonds, including SRF junior lien	1.64	1.58

[1] GLWA started operations on January 1, 2016. Includes 6 months under operations of DWSD and 6 months under the operations of GLWA under the Master Bond Ordinances in effect during the respective time periods.

[2] Computed consistent with rate Covenant basis for rate determination purposes. Not applicable for purposes of additional bond test.

Source: Great Lakes Water Authority Financial Services Area