
City of Detroit Water and Sewerage Department

**Financial Report
with Supplementary Information
June 30, 2023**

Independent Auditor's Report	1-3
Basic Financial Statements	
Department Financial Statements:	
Statement of Net Position	4-5
Statement of Revenue, Expenses, and Changes in Net Position	6
Statement of Cash Flows	7-8
Notes to Financial Statements	9-29
Required Supplementary Information	30
Schedule of Changes in the Net Pension Liability and Related Ratios - Component II	31
Schedule of Changes in the Net Pension (Asset) Liability and Related Ratios - Component I	32
Schedule of Pension Contributions - Component II	33
Schedule of Pension Contributions - Component I	34
Note to Required Supplementary Information	35

Independent Auditor's Report

To the Board of Water Commissioners, the Honorable
Mayor, and Members of the City Council
City of Detroit Water and Sewerage Department

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the Water Fund and the Sewage Disposal Fund of the City of Detroit, Michigan as of and for the year ended June 30, 2023 and the related notes to the financial statements, which collectively comprise the City of Detroit Water and Sewerage Department's (DWSD or the "Department") basic financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Water Fund and the Sewage Disposal Fund as of June 30, 2023 and the changes in their financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the City of Detroit Water and Sewerage Department and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

We draw attention to Note 1, which explains that these financial statements present only the Water Fund and Sewage Disposal Fund and do not purport to, and do not, present fairly the financial position of the City of Detroit, Michigan as of June 30, 2023 and the changes in its financial position or the changes in its cash flows, where applicable, 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Detroit Water and Sewerage Department's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

To the Board of Water Commissioners, the Honorable
Mayor, and Members of the City Council
City of Detroit Water and Sewerage Department

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City of Detroit Water and Sewerage Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Detroit Water and Sewerage Department's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required 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 information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

To the Board of Water Commissioners, the Honorable
Mayor, and Members of the City Council
City of Detroit Water and Sewerage Department

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2023 on our consideration of the City of Detroit, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely 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 the effectiveness of the City of Detroit, Michigan's 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 City of Detroit, Michigan's internal control over financial reporting and compliance.

Plante & Moran, PLLC

December 21, 2023

City of Detroit Water and Sewerage Department

Statement of Net Position

June 30, 2023

	Water Fund	Sewage Disposal Fund	Total
Assets			
Current assets:			
Cash and investments (Note 2)	\$ 55,035,076	\$ 54,544,720	\$ 109,579,796
Receivables:			
Customer receivables	9,888,460	63,724,238	73,612,698
Unbilled accounts receivable	9,868,805	25,455,208	35,324,013
Other receivables	963,202	2,150,565	3,113,767
Receivable from Great Lakes Water Authority (Note 4)	31,622,064	72,191,027	103,813,091
Due from city funds	752,535	8,506,954	9,259,489
Due from Sewage Disposal Fund	1,262,673	-	1,262,673
Inventory	8,659,326	1,047,802	9,707,128
Prepaid expenses and other assets	6,379	-	6,379
Total current assets	118,058,520	227,620,514	345,679,034
Noncurrent assets:			
Restricted cash and investments (Notes 2 and 3)	67,677,059	50,248,304	117,925,363
Capital assets: (Note 5)			
Assets not subject to depreciation	84,020,844	78,242,222	162,263,066
Assets subject to depreciation - Net	565,499,095	502,670,950	1,068,170,045
Receivables from Great Lakes Water Authority (Note 4)	430,527,423	542,761,261	973,288,684
Total noncurrent assets	1,147,724,421	1,173,922,737	2,321,647,158
Total assets	1,265,782,941	1,401,543,251	2,667,326,192
Deferred Outflows of Resources			
Deferred pension costs (Note 9)	13,868,034	10,614,491	24,482,525
Deferred OPEB costs	41,610	27,837	69,447
Total deferred outflows of resources	13,909,644	10,642,328	24,551,972

City of Detroit Water and Sewerage Department

Statement of Net Position (Continued)

June 30, 2023

	Water Fund	Sewage Disposal Fund	Total
Liabilities			
Current liabilities:			
Accounts payable	\$ 8,826,810	\$ 2,946,455	\$ 11,773,265
Payable to Great Lakes Water Authority	1,009,176	2,354,743	3,363,919
Due to other governments	314,860	4,082,802	4,397,662
Due to city funds	12,066,090	2,403,463	14,469,553
Due to Water Fund	-	1,262,673	1,262,673
Deposits	2,299,698	-	2,299,698
Accrued liabilities and other	19,140,526	23,332,781	42,473,307
Unearned revenue (Note 1)	11,773,713	45,469,566	57,243,279
Current portion of advances from the City of Detroit, Michigan General Fund (Notes 1 and 6)	365,363	608,938	974,301
Accrued interest	306,114	4,215	310,329
Current portion of compensated absences (Note 6)	1,198,147	1,406,521	2,604,668
Accrued workers' compensation and claims and judgments (Notes 6 and 8)	746,000	199,000	945,000
Current portion of bonds payable and contractual obligations (Note 6)	20,608,286	16,060,725	36,669,011
Total current liabilities	78,654,783	100,131,882	178,786,665
Noncurrent liabilities:			
Advances from the City of Detroit, Michigan General Fund - Net of current portion (Notes 1 and 6)	9,264,015	15,440,016	24,704,031
Compensated absences - Net of current portion (Note 6)	1,478,380	1,735,489	3,213,869
Accrued workers' compensation and claims and judgments - Net of current portion (Notes 6 and 8)	12,306,500	1,801,500	14,108,000
Net pension liability (Note 9)	15,955,296	10,636,215	26,591,511
Net OPEB liability	57,447	38,432	95,879
Bonds payable and contractual obligations - Net of current portion (Note 6)	563,066,207	384,638,124	947,704,331
Total noncurrent liabilities	602,127,845	414,289,776	1,016,417,621
Total liabilities	680,782,628	514,421,658	1,195,204,286
Deferred Inflows of Resources - Deferred pension cost reductions (Note 9)	1,802,330	2,561,669	4,363,999
Net Position			
Net investment in capital assets	147,916,835	255,371,640	403,288,475
Restricted:			
Budget stabilization	2,000,000	5,500,000	7,500,000
Water affordability	1,851,076	-	1,851,076
Unrestricted	445,339,716	634,330,612	1,079,670,328
Total net position	<u>\$ 597,107,627</u>	<u>\$ 895,202,252</u>	<u>\$ 1,492,309,879</u>

City of Detroit Water and Sewerage Department

Statement of Revenue, Expenses, and Changes in Net Position

Year Ended June 30, 2023

	Water Fund	Sewage Disposal Fund	Total
Operating Revenue			
Water sales and sewage disposal charges	\$ 137,162,140	\$ 322,160,648	\$ 459,322,788
Nonretail shared services billings	623,795	3,123,761	3,747,556
Great Lakes Water Authority's share of collective pension recovery (Note 9)	(7,443,571)	(13,321,630)	(20,765,201)
Penalties and fees	2,408,516	6,929,723	9,338,239
Miscellaneous	1,694,609	29,836	1,724,445
Total operating revenue	134,445,489	318,922,338	453,367,827
Operating Expenses			
Salaries, wages, and benefits	21,725,888	25,209,253	46,935,141
Contractual services	30,913,348	15,553,833	46,467,181
Wholesale charges	22,834,300	192,608,700	215,443,000
Operating	6,868,948	7,149,730	14,018,678
Repairs and maintenance	1,653,166	718,058	2,371,224
Utilities	1,455,033	1,609,906	3,064,939
Nonretail shared services	2,635,601	929,243	3,564,844
Miscellaneous	40,413	31,930	72,343
Claims and judgments (recovery)	9,187,697	(2,561,474)	6,626,223
Bad debt	9,178,014	30,012,829	39,190,843
Depreciation	18,738,862	13,777,110	32,515,972
Pension recovery	(11,496,228)	(15,704,366)	(27,200,594)
Total operating expenses	113,735,042	269,334,752	383,069,794
Operating Income	20,710,447	49,587,586	70,298,033
Nonoperating Revenue (Expense)			
Investment income	4,336,513	3,691,332	8,027,845
Investment revenue on lease with Great Lakes Water Authority	16,419,017	20,757,440	37,176,457
Principal forgiveness on state revolving fund loans	1,758,494	358,544	2,117,038
Miscellaneous	137,789	36,000	173,789
Interest expense	(25,807,820)	(18,306,839)	(44,114,659)
Total nonoperating (expense) revenue	(3,156,007)	6,536,477	3,380,470
Income - Before capital contributions	17,554,440	56,124,063	73,678,503
Capital Contributions - Great Lakes Water Authority share of capital improvements	1,992,288	2,713,507	4,705,795
Change in Net Position	19,546,728	58,837,570	78,384,298
Net Position - Beginning of year	577,560,899	836,364,682	1,413,925,581
Net Position - End of year	\$ 597,107,627	\$ 895,202,252	\$ 1,492,309,879

City of Detroit Water and Sewerage Department

Statement of Cash Flows

Year Ended June 30, 2023

	Water Fund	Sewage Disposal Fund	Total
Cash Flows from Operating Activities			
Receipts from customers	\$ 126,814,456	\$ 295,555,902	\$ 422,370,358
Payments from (to) city funds	10,125,814	(10,857,845)	(732,031)
Payments to suppliers	(64,461,881)	(224,625,044)	(289,086,925)
Payments to employees and fringes	(30,488,515)	(15,808,291)	(46,296,806)
Claims paid	(3,780,505)	(5,718)	(3,786,223)
Other receipts	523,713	-	523,713
Receipts from (payments to) interfund services and reimbursements	1,253,769	(1,253,769)	-
Net payments to GLWA, including shared services	(8,257,578)	(18,773,806)	(27,031,384)
Net cash and cash equivalents provided by operating activities	31,729,273	24,231,429	55,960,702
Cash Flows from Noncapital Financing Activities			
Receipts from GLWA for financial recovery bonds	875,508	1,969,296	2,844,804
Principal and interest paid on operating debt	(1,493,701)	(2,489,502)	(3,983,203)
Receipts on GLWA contract receivable	22,500,000	27,500,000	50,000,000
Net cash and cash equivalents provided by noncapital financing activities	21,881,807	26,979,794	48,861,601
Cash Flows from Capital and Related Financing Activities			
Issuance of bonds	17,694,392	853,459	18,547,851
Purchase of capital assets	(47,393,392)	(25,199,026)	(72,592,418)
Principal and interest paid on capital debt	(42,702,307)	(31,800,952)	(74,503,259)
Net cash and cash equivalents used in capital and related financing activities	(72,401,307)	(56,146,519)	(128,547,826)
Cash Flows from Investing Activities			
Interest received on investments	4,336,513	3,691,332	8,027,845
Other receipts	137,789	36,000	173,789
Net cash and cash equivalents provided by investing activities	4,474,302	3,727,332	8,201,634
Net Decrease in Cash and Cash Equivalents	(14,315,925)	(1,207,964)	(15,523,889)
Cash and Cash Equivalents - Beginning of year	137,028,060	106,000,988	243,029,048
Cash and Cash Equivalents - End of year	\$ 122,712,135	\$ 104,793,024	\$ 227,505,159
Classification of Cash and Cash Equivalents			
Cash and investments	\$ 55,035,076	\$ 54,544,720	\$ 109,579,796
Restricted cash	67,677,059	50,248,304	117,925,363
Total cash and cash equivalents	\$ 122,712,135	\$ 104,793,024	\$ 227,505,159

City of Detroit Water and Sewerage Department

Statement of Cash Flows (Continued)

Year Ended June 30, 2023

	Water Fund	Sewage Disposal Fund	Total
Reconciliation of Operating Income to Net Cash from Operating Activities			
Operating income	\$ 20,710,447	\$ 49,587,586	\$ 70,298,033
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation	18,738,862	13,777,110	32,515,972
Changes in assets and liabilities:			
Receivables	3,970,353	(3,551,476)	418,877
Due to and from city funds	10,125,814	(10,857,845)	(732,031)
Inventory	(2,863,920)	(360,973)	(3,224,893)
Accrued liabilities and other	819,826	2,635,243	3,455,069
Pension and OPEB, including related deferred inflows and outflows	(12,890,050)	(8,624,249)	(21,514,299)
Accounts payable	(2,825,002)	(1,304,337)	(4,129,339)
Estimated claims liability	(5,054,192)	2,606,192	(2,448,000)
Due to and from other funds	(1,292,501)	1,292,501	-
Deposits	8,535,408	-	8,535,408
Changes to assets and liabilities with GLWA	(6,245,772)	(20,968,323)	(27,214,095)
Total adjustments	11,018,826	(25,356,157)	(14,337,331)
Net cash and cash equivalents provided by operating activities	\$ 31,729,273	\$ 24,231,429	\$ 55,960,702
Significant Noncash Transactions			
Capital contributions	\$ 1,992,288	\$ 2,713,507	\$ 4,705,795
Principal forgiveness on state revolving fund loans	1,758,494	358,544	2,117,038

June 30, 2023

Note 1 - Nature of Business and Significant Accounting Policies

Reporting Entity

The City of Detroit, Michigan (the "City") charter established the City of Detroit Water and Sewerage Department (DWSD or the "Department") in 1836 to supply water, drainage, and sewage services within and outside the City. The Department is governed by a seven-member Board of Water Commissioners (the "Board") that is appointed by the mayor of the City of Detroit, Michigan. In accordance with government accounting principles, there are no separate legal entities to be reported within these financial statements. The financial statements of the Department have been included in the City's Annual Comprehensive Financial Report and reported as enterprise funds. These financial statements represent the financial condition and the results of operations of the Department only and do not purport to, and do not, present fairly the financial position of the City. Copies of these reports, along with other financial information, can be obtained at the Department's administrative office located at 735 Randolph, Detroit, MI 48226 and on its website at www.detroitmi.gov/departments/water-and-sewerage-department.

The Board's governance structure, authority, and level of operational autonomy is established by five standing federal court orders dated September 9, 2011 (Creation of the Root Cause Committee); November 4, 2011 (Adoption of the Root Cause Committee Plan of Action); October 5, 2012 (Clarification of the November 4, 2011 Order); December 14, 2012 (Adoption of Root Cause Committee's Plan of Action Clarification); and December 15, 2014 (Opinion & Order of Joint Motion for Relief of Judgment). These court orders resulted largely from federal court oversight of the DWSD for most of the period from May 6, 1977 through March 27, 2013 related to alleged violations of the Clean Water Act and its National Pollutant Discharge Elimination System (NPDES) permit. The final court order reiterated that the court retains limited jurisdiction for the purpose of enforcement of its orders issued on September 9, 2011; November 4, 2011; October 5, 2012; December 14, 2012; and December 15, 2014.

Authority granted by the federal court to the DWSD includes operation independence in the areas of law, finance, human resources, and procurement. Specifically, while they restored some provisions in the charter relating to the appointment and removal of members of the Board, these orders enjoined the City from applying any existing or future charter provisions, ordinances, resolutions, executive orders, city policies, regulations, procedures, or similar rules or practices that are inconsistent with the express terms of the court's orders. Furthermore, the orders granted the DWSD the authority to purchase its own information technology systems; establish its own subunits and programs within its finance division, including debt management, accounts payable, accounts receivable, accounting, and budget, and to establish new rates and charges; determine its treasury and cash management, asset management, and deferred compensation; be independent from city finance policies; be exempt from the application of city ordinances, the City's human resources policies and regulations, Civil Service Commission Rules, and city resolutions and orders pertaining to payroll, employee benefits, and employee and labor relations; establish bank accounts in its own name; and establish its own self-insurance fund.

Effective January 1, 2016, the City of Detroit, Michigan entered into lease agreements and related service agreements with the Great Lakes Water Authority (GLWA) under which GLWA will operate and maintain the regional water and sewage system for the term of 40 years (with automatic extension to coincide with any debt still outstanding that was issued to finance system improvements). The agreements transfer all then-outstanding bonded indebtedness to GLWA, along with a leasehold interest in certain capital assets, cash, investments, and receivables, in exchange for an annual lease payment of \$50 million.

The GLWA bonds are supported by a pledge of the revenue of both the regional system and local system revenue. Its master bond ordinance requires collections of the Department's water and sewer receipts to be deposited into trust accounts controlled by the master bond ordinance (through GLWA), which will be used to fund wholesale operation and maintenance costs, debt principal and interest, pension obligations, the Water Residential Assistance Program, and the budget stabilization fund, after distributing cash sufficient to cover the local operation and maintenance costs to the Department. In the event there are any remaining moneys, a reconciliation is performed, and, upon finalization of the reconciliation, a transfer of funds occurs to the improvement and extension funds.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Accounting and Reporting Principles

The DWSD follows accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board (GASB). The following is a summary of the significant accounting policies used by the Department:

Fund Accounting

The Department accounts for its activities in two different funds - the Water Fund and Sewage Disposal Fund - in order to demonstrate accountability for how it has spent its resources.

Proprietary Funds

Proprietary funds include enterprise funds (which provide goods or services to users in exchange for charges or fees). The Department reports the following two funds:

- The Water Fund accounts for the operation of the water distribution system. The fund provides services to retail customers located in the city of Detroit, Michigan.
- The Sewage Disposal Fund accounts for the operation of the sewers, including sanitary and combined sewers. The fund provides services to retail customers located in the city of Detroit, Michigan.

Report Presentation

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

Basis of Accounting

The Water Fund and Sewage Disposal Fund use the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Nonexchange revenue (grants and contributions) are recognized when all eligibility requirements have been satisfied (generally based on reimbursements of amounts spent).

Specific Balances and Transactions

Cash and Cash Equivalents

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

Investments

Investments are reported at fair value or estimated fair value based on quoted market prices.

Receivables

All customer receivables are shown net of an allowance for uncollectible accounts of \$38,000,297 and \$169,892,166 in the Water Fund and Sewage Disposal Fund, respectively.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Lease Receivable from Great Lakes Water Authority

On January 1, 2016, the City of Detroit, Michigan entered into a lease agreement and related service agreements with the Great Lakes Water Authority under which GLWA will operate the regional water and sewage system for the term of 40 years. The agreements transfer all then-outstanding bonded indebtedness to GLWA, along with a leasehold interest in certain capital assets, cash, investments, and receivables, in exchange for an annual lease payment of \$22,500,000 to the Water Fund and \$27,500,000 to the Sewage Disposal Fund. Interest is charged on the lease payments at an annual rate of 3.70 percent. The lease receivable is recorded as the present value of all future lease payments.

The current portion of the lease receivable presents the 12 monthly principal payments required from July 1, 2023 through June 30, 2024.

Inventories and Prepaid Items

Inventories consist of operating and maintenance and repair parts for water and sewer assets and are valued at the lower of cost or market, with cost being determined on an average cost method. Inventory is recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items.

Capital Assets

Capital assets are recorded at historical cost. Capital assets are defined by the Department as assets with an initial individual cost or total purchase cost of more than \$5,000 and an estimated useful life in excess of one year. All acquisitions of land and land improvements are capitalized, regardless of cost. Donated capital assets are recorded at estimated acquisition value at the date of donation.

Infrastructure, buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

	Depreciable Life - Years
Land improvements	67
Building and structures	40
Distribution mains	67
Services and meters	20-67
Sewers	67-100
Machinery, equipment, and fixtures	3-20

Construction in progress is related to buildings, improvements, or infrastructure that has not yet been placed in service for the intended use. These costs include contract costs (materials, labor, and overhead), as well as professional fees. Upon completion, construction in progress costs are transferred to the appropriate capital asset classification. A periodic review of projects included in construction in progress identified projects that were suspended or canceled during the period. These identified projects were removed from construction in progress and recorded as operations and maintenance costs.

Taxes and City Services

The Department pays no direct federal, state, or local taxes except local taxes on excess property and federal Social Security taxes. The Department reimburses the City for most of the direct services furnished by other city departments, including general staff services. Charges are billed for all water and sewerage services provided to city departments.

June 30, 2023

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Shared Costs

Costs related to shared facilities and personnel are allocated to the Department on a basis that relates costs incurred to the fund benefited.

Unearned Revenue

The Department received a lease prepayment from GLWA in the amount of \$25,000,000 on January 1, 2016. Of the \$25,000,000, \$11,250,000 is allocated to the Water Fund and \$13,750,000 is allocated to the Sewage Disposal Fund. The lease prepayment will be applied against the lease receivable from GLWA in the period from July 1, 2055 through December 31, 2055.

There was also \$31,557,845 received from the Evergreen-Farmington Sanitation District, which was fully allocated to the Sewage Disposal Fund. These funds will be used by the Department for a green infrastructure project.

Advances from the City of Detroit, Michigan General Fund

In 2018, the governing body of the City authorized the use of general funds for the full redemption of the Financial Recovery Bonds, 2014 Series C, including the amount allocated to the Department. The 2014 Series C debt was fully redeemed on April 13, 2018. The Department will repay the City of Detroit, Michigan General Fund under the terms of the original amortization schedule for the Financial Recovery Bonds, 2014 Series C, including an interest rate of 5 percent per year, with principal and interest due on June 30 each year and a final maturity date of June 30, 2027. At June 30, 2023, the outstanding amount advanced to the Department is \$3,559,212, of which \$1,334,705 is recorded in the Water Fund and \$2,224,507 is recorded in the Sewage Disposal Fund. Of the total amounts, \$365,363 and \$608,938 are classified as current liabilities in the Water Fund and Sewage Disposal Fund, respectively.

In 2019, the governing body of the City authorized the use of general funds for the partial redemption of the Financial Recovery Bonds, 2014 Series B(1) and B(2), including the proportionate amount allocated to the Department. The 2014 Series B(1) and B(2) debt was partially redeemed on April 15, 2019. The Department will repay the City of Detroit, Michigan General Fund under the terms of the original amortization schedule for the Financial Recovery Bonds, 2014 Series B(1) and B(2), including an interest rate of 4 percent per year, with principal and interest due on June 30 each year and a final maturity date of June 30, 2033. The total amount advanced to the Department was \$22,119,120, of which \$8,294,673 is recorded in the Water Fund and \$13,824,447 is recorded in the Sewage Disposal Fund as noncurrent liabilities.

Compensated Absences

The liability for compensated absences reported in the basic financial statements consists of unpaid accumulated vacation and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Vacation leave is accrued as benefits are earned by employees, and it is probable that the City will compensate the employees for the benefits through paid time off or other means, such as cash payments at termination or retirement. The liability has been calculated based on employees' current salary level and includes salary-related costs (e.g., Social Security and Medicare tax). The current year accruals are based on estimates, and payments are based on actual amounts.

Bond Premiums, Discounts, and Deferred Amounts on Refunding

Bond premiums and discounts are amortized using the effective interest method, and deferred amounts on refunding are amortized using the straight-line method over the life of the bonds. 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.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Long-term Obligations

In accordance with contractual agreements with GLWA, the Department continues to be responsible for funding its share of the GLWA bonds that are estimated to have been used to improve the local DWSD system. The Department has been assigned a portion of the City of Detroit, Michigan's financial recovery bonds, which had been used to fund prebankruptcy operating obligations, such as pension and retiree health care obligations. There are also outstanding revenue bonds and state revolving fund loans at year end. All of these amounts are reported as long-term obligations in the statement of net position.

Pension

The City of Detroit, Michigan offers defined benefit pension plans to its employees. The City records a net pension liability (asset) for the difference between the total pension liability calculated by the actuary and the pension plans' fiduciary net positions, with a portion allocated to the Department. For the purpose of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from the pension plans' fiduciary net position has been determined on the same basis as it is reported by the pension plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at amortized cost.

Other Postemployment Benefits

The City of Detroit, Michigan provides death benefits through a prefunded single-employer defined benefit plan administered by the employee benefit board of trustees. Beginning in fiscal year 2018, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, requires governments providing defined benefit postemployment benefits (other than pensions) to recognize the net OPEB asset or liability on their financial statements. The OPEB asset or liability is the difference between the total OPEB liability and the plan's fiduciary net position. At June 30, 2023, the City of Detroit, Michigan allocated a net OPEB liability to the Water Fund and Sewage Disposal Fund in the amount of \$57,447 and \$38,432, respectively. The plan covers those retirees who retired on or before December 31, 2014.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net assets that applies to future periods and will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net assets that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time.

The Department reports the following deferred outflows of resources and deferred inflows of resources:

	Inflows	Outflows
Deferred pension costs (or cost reductions)	✓	✓
Deferred OPEB costs (or cost reductions)		✓

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Net Position

Net position of the Department is categorized as follows:

Net Investment in Capital Assets

This consists of capital assets, net of accumulated depreciation and capital-related debt.

Restricted

The net position has been legally restricted by outside parties or by law through constitutional provisions or enabling legislation.

Unrestricted

This consists of assets that do not meet the definition of restricted or net investment in capital assets.

Net Position Flow Assumption

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

Unbilled Revenue

The Department records unbilled revenue for services provided by the DWSD prior to year end by accruing actual revenue billed in the subsequent month.

Interest Expense

Interest expense in the statement of revenue, expenses, and changes in net position included amounts related to the portion of rates and charges collected by the DWSD that relate to the accretion of obligations payable to the Great Lakes Water Authority in respect to the interest payable on GLWA's bonds and interest paid and accrued on outstanding financial recovery bonds, revenue bonds, and revolving fund loans.

Classification of Revenue and Expenses

The Department classifies its revenue and expenses as either operating or nonoperating.

Operating revenue includes activities that have the characteristics of exchange transactions, such as revenue from charges for water service and sewerage services.

Nonoperating revenue includes activities that have the characteristics of nonexchange transactions, such as contributions and investment income.

Operating expenses include the cost of operating the water and sewer utility systems, administrative expenses, and depreciation on capital assets. All expenses not meeting this definition, including interest expense, are reported as nonoperating expenses.

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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Upcoming Accounting Pronouncements

In June 2022, the Governmental Accounting Standards Board issued Statement No. 100, *Accounting Changes and Error Corrections*, which enhances the accounting and financial reporting requirements for accounting changes and error corrections. The provisions of this statement are effective for the Department's financial statements for the year ending June 30, 2024.

In June 2022, the Governmental Accounting Standards Board issued Statement No. 101, *Compensated Absences*, which updates the recognition and measurement guidance for compensated absences under a unified model. This statement requires that liabilities for compensated absences be recognized for leave that has not been used and leave that has been used but not yet paid in cash or settled through noncash means and establishes guidance for measuring a liability for leave that has not been used. It also updates disclosure requirements for compensated absences. The provisions of this statement are effective for the Department's financial statements for the year ending June 30, 2025.

Note 2 - Deposits and Investments

Cash and investments are reported on two lines in the financial statements (restricted and unrestricted). The breakdown between deposits and investments is as follows:

	Water Fund	Sewage Disposal Fund	Total
Cash and cash equivalents - Unrestricted (deposits)	\$ 20,437,765	\$ 10,453,253	\$ 30,891,018
Investments - Unrestricted	34,597,311	44,091,467	78,688,778
Investments - Restricted	63,819,813	44,709,801	108,529,614
Restricted cash and cash equivalents (deposits)	3,857,246	5,538,503	9,395,749
Total deposits and investments	\$ 122,712,135	\$ 104,793,024	\$ 227,505,159

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The law also allows investments outside the state of Michigan when fully insured. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications that matures no more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions that are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

There are no limitations or restrictions on participant withdrawals for the investment pools that are recorded at amortized cost.

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

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Department's deposits may not be returned to it. The Department's deposit policy for custodial credit risk minimizes the risk by using only financial institutions meeting preestablished criteria. At year end, the Department had bank deposits of \$1,620,855 (certificates of deposit and checking and savings accounts) that were uninsured and uncollateralized. The Department believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits.

Note 2 - Deposits and Investments (Continued)

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Department will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Department's policy for custodial credit risk minimizes the risk by using only financial institutions and brokers meeting preestablished criteria and holding all securities in the Department's name. As of June 30, 2023, the Department had no investments subject to custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Department's investment policy does not restrict investment maturities other than commercial paper, which can only be purchased with a 270-day maturity. At year end, the Department had \$163,713,788 in local government investment pools, which have maturities of less than one year. All department investments had maturities less than one year in length.

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Department's investment policy minimizes the risk by limiting investments to the safest types of securities; prequalifying the financial institutions, broker/dealers, and intermediaries with which the Department will do business; and diversifying the portfolio so that the potential losses on individual securities will be minimized. As of year end, the credit quality ratings of debt securities are as follows:

Investment	Carrying Value	Rating	Rating Organization
Bank investment pool - Comerica J Fund*	\$ 20,657,961	Not rated	
Bank investment pool - First American Government Obligation Fund*	2,846,643	AAAm	S&P
Bank investment pool - PFM GovMic*	163,713,788	AAAm	S&P
Total	<u>\$ 187,218,392</u>		

*Investments are valued at amortized cost rather than fair value.

Note 3 - Restricted Assets

Restricted assets, principally cash and investments, are primarily available to provide funds for construction. The budget stabilization fund moneys are also restricted in accordance with GLWA's master bond ordinance.

At June 30, 2023, restricted assets are as follows:

Description	Water Fund	Sewage Disposal Fund	Total
Budget stabilization fund - Held in trust in accordance with the master bond ordinance	\$ 2,000,000	\$ 5,500,000	\$ 7,500,000
Donations restricted for specified purposes	1,851,076	-	1,851,076
Unspent bond proceeds	63,825,983	44,748,304	108,574,287
Total	<u>\$ 67,677,059</u>	<u>\$ 50,248,304</u>	<u>\$ 117,925,363</u>

City of Detroit Water and Sewerage Department

Notes to Financial Statements

June 30, 2023

Note 4 - Receivable from Great Lakes Water Authority

The following is the detail of the receivables from Great Lakes Water Authority:

	Water Fund	Sewage Disposal Fund
Accounts receivable	\$ 6,669,729	\$ 6,448,083
Cash held with Great Lakes Water Authority - Retail receipts	17,731,207	24,977,600
Cash held with Great Lakes Water Authority - Unearned capital contributions	-	31,719,567
Lease receivable (Note 1)	421,410,212	515,056,928
Receivable for financial recovery bonds (Notes 1 and 6)	16,338,339	36,750,110
Less current portion of receivable from Great Lakes Water Authority	<u>(31,622,064)</u>	<u>(72,191,027)</u>
Noncurrent receivable from Great Lakes Water Authority	<u>\$ 430,527,423</u>	<u>\$ 542,761,261</u>

Note 5 - Capital Assets

Capital asset activity of the Department for the year ended June 30, 2023 was as follows:

	Balance July 1, 2022	Reclassifications and Adjustments	Additions	Disposals	Balance June 30, 2023
Water Fund					
Capital assets not being depreciated:					
Land and land rights	\$ 1,327,637	\$ -	\$ -	\$ -	\$ 1,327,637
Construction in progress	71,863,173	(38,554,078)	49,385,676	(1,564)	82,693,207
Subtotal	73,190,810	(38,554,078)	49,385,676	(1,564)	84,020,844
Capital assets being depreciated:					
Water and sewer lines	615,829,384	32,329,869	-	-	648,159,253
Buildings and structures	55,942,597	49,554	-	-	55,992,151
Machinery, equipment, and fixtures	86,288,601	2,873,969	-	-	89,162,570
Land improvements	5,048,682	-	-	-	5,048,682
Service lines	52,537,723	1,015,611	-	-	53,553,334
Meters	129,938,970	2,285,075	-	-	132,224,045
Subtotal	945,585,957	38,554,078	-	-	984,140,035
Accumulated depreciation:					
Water and sewer lines	172,711,207	-	9,143,899	-	181,855,106
Buildings and structures	45,188,274	-	617,795	-	45,806,069
Machinery, equipment, and fixtures	54,224,638	-	3,921,088	-	58,145,726
Land improvements	1,460,184	-	78,408	-	1,538,592
Service lines	32,827,344	-	554,313	-	33,381,657
Meters	93,490,431	-	4,423,359	-	97,913,790
Subtotal	399,902,078	-	18,738,862	-	418,640,940
Net capital assets being depreciated	<u>545,683,879</u>	<u>38,554,078</u>	<u>(18,738,862)</u>	<u>-</u>	<u>565,499,095</u>
Net Water Fund capital assets	618,874,689	-	30,646,814	(1,564)	649,519,939

City of Detroit Water and Sewerage Department

Notes to Financial Statements

June 30, 2023

Note 5 - Capital Assets (Continued)

	Balance July 1, 2022	Reclassifications and Adjustments	Additions	Disposals	Balance June 30, 2023
Sewage Disposal Fund					
Capital assets not being depreciated:					
Land and land rights	\$ 72,326	\$ -	\$ -	\$ -	\$ 72,326
Construction in progress	60,366,170	(10,108,807)	27,912,533	-	78,169,896
Subtotal	60,438,496	(10,108,807)	27,912,533	-	78,242,222
Capital assets being depreciated:					
Sewer lines and laterals	467,397,993	-	-	-	467,397,993
Buildings and improvements	109,274,576	2,365,589	-	-	111,640,165
Machinery, equipment, and fixtures	106,866,272	545,044	-	-	107,411,316
Land improvements	17,744,097	7,198,174	-	-	24,942,271
Subtotal	701,282,938	10,108,807	-	-	711,391,745
Accumulated depreciation:					
Sewer lines and laterals	61,972,136	-	4,684,584	-	66,656,720
Buildings and improvements	63,162,513	-	3,206,572	-	66,369,085
Machinery, equipment, and fixtures	67,666,984	-	5,073,559	-	72,740,543
Land improvements	2,142,052	-	812,395	-	2,954,447
Subtotal	194,943,685	-	13,777,110	-	208,720,795
Net capital assets being depreciated	506,339,253	10,108,807	(13,777,110)	-	502,670,950
Net Sewage Disposal Fund capital assets	566,777,749	-	14,135,423	-	580,913,172
Net business-type activity capital assets	<u>\$ 1,185,652,438</u>	<u>\$ -</u>	<u>\$ 44,782,237</u>	<u>\$ (1,564)</u>	<u>\$ 1,230,433,111</u>

Construction Commitments

The Department is engaged in numerous projects that are part of its five-year capital improvement program, including water main replacements, fire hydrant replacements, sewer system rehabilitation, vehicle and equipment purchases, and information technology upgrades. The program is being financed primarily from lease payments from the Great Lakes Water Authority and proceeds from the issuance of revenue bonds by the Great Lakes Water Authority. The total amount of construction contract commitments outstanding at June 30, 2023 was approximately \$156 million and \$44 million for the Water Fund and Sewage Disposal Fund, respectively.

Note 6 - Long-term Debt

Long-term debt activity of the Department for the year ended June 30, 2023 is summarized as follows:

Water Fund

	Interest Rate Ranges	Principal Maturity Ranges	Balance June 30, 2022	Additions	Reductions	Balance June 30, 2023	Due within One Year
Bonds and contracts payable:							
Direct borrowings and direct placements:							
State revolving loans	2.5%	\$85,000 - \$1,705,000	\$ 43,759,364	\$ 17,694,392	\$ (3,227,344)	\$ 58,226,412	\$ 1,495,200
Revenue bonds	5%	\$830,000 - \$7,260,000	136,320,000	-	-	136,320,000	1,670,000
Advances from the City of Detroit, Michigan General Fund	4-5%	\$300,585 - \$1,237,600	9,977,343	-	(347,965)	9,629,378	365,363
Obligation payable to GLWA	4.76%	\$14,478,000 - \$31,918,900	368,672,900	-	(15,890,000)	352,782,900	16,646,300
Total principal outstanding on direct borrowings and direct placements			558,729,607	17,694,392	(19,465,309)	556,958,690	20,176,863
Other debt - Financial recovery bonds	4-6%	\$1,327,004	18,245,406	-	-	18,245,406	-
Unamortized bond premiums on revenue bonds			18,866,945	-	(767,170)	18,099,775	796,786
Total bonds and contracts payable			595,841,958	17,694,392	(20,232,479)	593,303,871	20,973,649
Compensated absences			1,477,901	1,782,144	(583,518)	2,676,527	1,198,147
Workers' compensation and general claims			7,998,308	5,750,192	(696,000)	13,052,500	746,000
Total Water Fund long-term debt			\$ 605,318,167	\$ 25,226,728	\$ (21,511,997)	\$ 609,032,898	\$ 22,917,796

June 30, 2023

Note 6 - Long-term Debt (Continued)

Sewage Disposal Fund

	Interest Rate Ranges	Principal Maturity Ranges	Balance June 30, 2022	Additions	Reductions	Balance June 30, 2023	Due within One Year
Bonds and contracts payable:							
Direct borrowings and direct placements:							
State revolving loan	2%	\$132,000 - \$195,000	\$ 480,153	\$ 853,459	\$ (490,544)	\$ 843,068	\$ 135,000
Revenue bonds	3-5%	\$1,415,000 - \$5,125,000	77,345,000	-	(1,530,000)	75,815,000	1,590,000
Advances from the City of Detroit, Michigan General Fund	4-5%	\$500,975 - \$2,062,700	16,628,895	-	(579,941)	16,048,954	608,938
Obligations payable to GLWA	4.33%	\$12,249,500 - \$25,181,700	298,804,000	-	(13,333,300)	285,470,700	13,910,600
Total principal outstanding on direct borrowings and direct placements			393,258,048	853,459	(15,933,785)	378,177,722	16,244,538
Other debt - Financial recovery bonds	4-6%	\$2,211,673	30,409,013	-	-	30,409,013	-
Unamortized bond premiums on revenue bonds			8,569,442	-	(408,374)	8,161,068	425,125
Total bonds and contracts payable			432,236,503	853,459	(16,342,159)	416,747,803	16,669,663
Compensated absences			3,448,438	1,055,115	(1,361,543)	3,142,010	1,406,521
Workers' compensation and general claims			4,606,692	-	(2,606,192)	2,000,500	199,000
Total Sewage Disposal Fund long-term debt			<u>\$ 440,291,633</u>	<u>\$ 1,908,574</u>	<u>\$ (20,309,894)</u>	<u>\$ 421,890,313</u>	<u>\$ 18,275,184</u>

Obligation Payable to GLWA

As part of the lease transaction in which the City leased the regional water and sewer system of the DWSD to GLWA, 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.

Per the Water and Sewer Services Agreement (WSSA) between the DWSD and GLWA dated June 12, 2015 and the master bond ordinances 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, which includes all revenue payable by the Detroit retail class.

Financial Recovery Bonds

On December 10, 2014, the City issued approximately \$1.3 billion of debt. The Financial Recovery Bonds, Series 2014-B(1) and Series 2014-B(2), total \$616,560,047 and \$15,404,098, respectively. They are federally taxable. The bonds' interest rate is 4.0 percent per annum from December 10, 2014 through and including March 31, 2034 and 6.0 percent per annum thereafter 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.

Note 6 - Long-term Debt (Continued)

In 2019, the governing body of the City of Detroit, Michigan authorized the use of general funds for the partial redemption of the Financial Recovery Bonds, 2014 Series B(1) and B(2), including the proportionate amount allocated to the Department. The 2014 Series B(1) and B(2) debt was partially redeemed on April 15, 2019. As discussed in Note 1, the Department will repay the City of Detroit, Michigan General Fund under the terms of the original amortization schedule for the Financial Recovery Bonds, 2014 Series B(1) and B(2), including an interest rate of 4 percent per year, with principal and interest due on June 30 each year and a final maturity date of June 30, 2033. The Department has recorded an advance from the City of Detroit, Michigan General Fund for the remaining balance of the allocated debt and has also recorded a receivable from GLWA for the debt allocated to GLWA that will be reimbursed to the Department.

The Financial Recovery Bonds, Series 2014-C (the "Series 2014-C Bonds") total \$88,430,021. The 2014-C Bonds were issued as part of the Syncora Settlement and FGIC/POC Settlement in the plan and on the effective date. As part of the Plan of Adjustment, GLWA remains responsible for paying a portion of the debt; however, the entire debt remains in the City's name. The Department was allocated 11.21 and 11.55 percent of the Series 2014-B and Series 2014-C debt, respectively, of which GLWA's portion of that allocation is 71.42 percent and the DWSD's portion of that allocation is 28.58 percent.

In 2018, the governing body of the City of Detroit, Michigan authorized the use of General Fund funds for the full redemption of the Financial Recovery Bonds, Series 2014-C, including the amount allocated to the Department. The Series 2014-C debt was fully redeemed on April 13, 2018. As discussed in Note 1, the Department will repay the City of Detroit, Michigan General Fund under the terms of the original amortization schedule for the Financial Recovery Bonds, Series 2014-C, including an interest rate of 5 percent per year, with principal and interest due on June 30 each year and a final maturity date of June 30, 2027. The Department has recorded an advance from the City of Detroit, Michigan General Fund for the remaining balance of the allocated debt and has also recorded a receivable from GLWA for the debt allocated to GLWA that will be reimbursed to the Department.

Revenue Bonds

Sewage Disposal Fund revenue bonds provided financing for improvements to the local water and sewer systems. All bonds are secured by the net revenue of GLWA and the DWSD. GLWA's master bond ordinance requires collections of DWSD receipts to be deposited into trust accounts controlled by the master bond ordinance (through GLWA), which will be used, among other things, to fund debt principal and interest.

Water Fund revenue bonds provided financing for improvements to the local water system. The bonds are secured by the net revenue of GLWA and the DWSD. GLWA's master bond ordinance requires collections of DWSD receipts to be deposited into trust accounts controlled by the master bond ordinance (through GLWA), which will be used, among other things, to fund debt principal and interest. Principal payments on the Series 2016 Water Fund revenue bonds will commence on July 1, 2042. Interest-only payments are made semiannually until July 1, 2042. Principal payments on the Series 2020 Water Fund revenue bonds commenced on July 1, 2023. Interest-only payments were made semiannually until July 1, 2023.

State Revolving Fund Loans

The Water Fund and Sewage Disposal Fund received loans from the State of Michigan Revolving Loan Fund totaling \$17,694,392 and \$853,459, respectively, during the year ended June 30, 2023. The proceeds of the loans were used to pay the costs of making certain repairs and improvements to the water and sewer systems and are reported as a long-term liability on the statement of net position. The Water Fund and Sewage Disposal Fund also recorded nonoperating revenue in the amount of \$1,758,494 and \$358,544, respectively, related to principal forgiveness on state revolving loans.

Note 6 - Long-term Debt (Continued)

Debt Service Requirements to Maturity

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

Years Ending June 30	Water Fund (Direct Borrowings and Placements)			Water Fund (Other Debt)		
	Principal	Interest	Total	Principal	Interest	Total
2024	\$ 20,176,863	\$ 25,217,657	\$ 45,394,520	\$ -	\$ 729,817	\$ 729,817
2025	22,817,851	24,285,952	47,103,803	101,834	729,817	831,651
2026	23,797,791	23,257,753	47,055,544	95,326	725,743	821,069
2027	24,591,016	22,183,934	46,774,950	89,886	721,930	811,816
2028	25,458,571	21,074,039	46,532,610	83,533	718,335	801,868
2029-2033	142,017,132	87,161,589	229,178,721	3,277,788	3,432,226	6,710,014
2034-2038	173,334,200	52,154,636	225,488,836	6,635,023	3,290,971	9,925,994
2039-2043	50,743,810	24,741,940	75,485,750	6,635,023	1,592,405	8,227,428
2044-2048	65,133,561	9,311,955	74,445,516	1,326,993	79,620	1,406,613
2049-2053	8,887,895	421,146	9,309,041	-	-	-
Total	\$ 556,958,690	\$ 289,810,601	\$ 846,769,291	\$ 18,245,406	\$ 12,020,864	\$ 30,266,270

Years Ending June 30	Sewage Disposal Fund (Direct Borrowings and Placements)			Sewage Disposal Fund (Other Debt)		
	Principal	Interest	Total	Principal	Interest	Total
2024	\$ 16,244,538	\$ 16,831,365	\$ 33,075,903	\$ -	\$ 1,216,360	\$ 1,216,360
2025	18,999,235	16,116,368	35,115,603	169,723	1,216,360	1,386,083
2026	19,755,551	15,288,170	35,043,721	158,877	1,209,571	1,368,448
2027	20,143,693	14,426,591	34,570,284	149,810	1,203,216	1,353,026
2028	20,628,451	13,550,025	34,178,476	139,222	1,197,224	1,336,446
2029-2033	110,691,154	53,777,293	164,468,447	5,462,976	5,720,373	11,183,349
2034-2038	130,175,100	28,077,000	158,252,100	11,058,363	5,484,948	16,543,311
2039-2043	18,250,000	8,648,750	26,898,750	11,058,363	2,654,007	13,712,370
2044-2048	23,290,000	3,607,250	26,897,250	2,211,679	132,700	2,344,379
Total	\$ 378,177,722	\$ 170,322,812	\$ 548,500,534	\$ 30,409,013	\$ 20,034,759	\$ 50,443,772

Note 7 - Contingent Liabilities

The Department is subject to various governmental 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 remediation 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 postclosure care. The Department determined that there were no estimated pollution remediation obligations to be recorded at June 30, 2023.

The Department is subject to various legal proceedings and claims that arise in the ordinary course of its business. The Department believes that the amount, if any, of ultimate liability with respect to legal actions will be insignificant or will be covered by insurance.

Note 8 - Risk Management

The Department is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits and life insurance benefits provided to employees. The Department is self-insured for losses, such as health, dental, workers' compensation, legal, disability benefits, and vehicular liabilities.

The Department, through the City, provides health and dental insurance benefits to employees through self-insured health plans that are administered by third-party administrators. The Department does not purchase excess or stop-loss insurance for its self-insured health plans. The liability for health and dental benefits is reflected in interfund balances with the City of Detroit, Michigan.

The Department purchases public official liability insurance and assumes a \$250,000 self-insured retention for any one loss or occurrence under its self-insured public official liability program. The Department is fully self-insured for property liabilities, general liabilities for accidents that occur on department properties, and environmental-related liabilities and does not purchase excess insurance for these liabilities. Settled claims relating to the public official liability insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Department estimates the liability for workers' compensation and general claims that have been incurred through the end of the fiscal year, including claims that have been reported and those that have not yet been reported. Changes in the estimated liability for the past two fiscal years were as follows:

	Water Fund		Sewage Disposal Fund	
	2023	2022	2023	2022
Estimated liability - Beginning of year	\$ 7,998,308	\$ 8,052,808	\$ 4,606,692	\$ 7,032,192
Estimated claims incurred, including changes in estimates	5,345,167	492,458	(2,584,105)	(2,389,098)
Claim payments	(290,975)	(546,958)	(22,087)	(36,402)
Estimated liability - End of year	<u>\$ 13,052,500</u>	<u>\$ 7,998,308</u>	<u>\$ 2,000,500</u>	<u>\$ 4,606,692</u>

Note 9 - Pension Plans

Plan Description

The Department participates in the City of Detroit General Retirement System (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, Ally Detroit Center, 500 Woodward Ave., Suite 3000, Detroit, MI 48226, or obtained from the System's website (www.rscd.org). Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report. The pension plan's fiduciary net position has been determined on the same basis of accounting used by the pension plan. The plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value or estimated fair value. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due pursuant to legal requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Note 9 - Pension Plans (Continued)

The City filed for bankruptcy in June 2013 and subsequently exited bankruptcy on December 10, 2014. This resulted in the adoption of the Eighth Amended Plan for Adjustment of Debts of the City of Detroit (POA). Under the provisions of the POA, effective July 1, 2014, the Combined Plan for General Employees Retirement System of the City of Detroit (the "Combined Plan") was introduced.

As a result of negotiations between the City and the public employee unions, the existing plan benefit formulas were frozen, and no employees were allowed to earn further benefits under the existing plans after June 30, 2014. The emergency manager issued Order #30 (General Employees Retirement System of the City of Detroit) on June 30, 2014, which put these changes into effect. This plan is known as the "legacy plan" or "Component II."

As of July 1, 2014, all eligible employees began participating in the new hybrid pension plan, or Component I. Eligible city employees will receive the benefits they have earned under the legacy Component II plan for services performed through June 30, 2014, plus an additional benefit under the new hybrid plan formula for services after June 30, 2014.

With respect to Component II benefit adjustments resulting from the POA, the pension settlement (for which benefit levels were and are contingent on other factors, including receipt of outside contributions) provided for a loss of cost of living adjustments, or escalators (COLAs), paid after July 1, 2014; a 4.5 percent reduction to the remaining accrued pension benefit after the COLA loss; and, for plan members who participated in the Annuity Savings Fund (ASF) plan between 2003 and 2013, subject to certain caps, recoupment of certain amounts of interest deemed by the City to be in excess of that which should have been credited to the individual ASF accounts, referred to as "ASF Recoupment." ASF Recoupment, like other provisions of the pension settlement, was not optional. Most members will pay their ASF Recoupment by a monthly deduction from their future pension benefits for a set term of months, including interest calculated at 6.75 percent. All members were offered a lump-sum cash option, which was limited in the aggregate to \$30 million in member recoupment. The POA also included the possibility of restoration of certain benefit reductions, based on a program for the most financially vulnerable pensioners and beneficiaries through the State of Michigan Treasury Department, as well as a new feature of Component II allowing restoration of benefits depending on the plan funding level over time.

Nonemployer Contributing Entity within Component II

On September 9, 2014, a memorandum of understanding (MOU) was entered into by the emergency manager and mayor of the City; a county executive of each of the charter counties of Wayne and Macomb, Michigan; the County of Oakland, Michigan; and the governor of the State of Michigan. The purpose of the MOU was to establish a framework for the creation of a regional authority (known as Great Lakes Water Authority or GLWA) pursuant to Act 233 of 1955 to operate, control, and improve the regional assets of the water supply system and the sewage disposal system owned by the City.

Pursuant to the MOU, the City and GLWA entered into two lease agreements: the Regional Water Supply System Lease dated June 12, 2015 and the Regional Sewage Supply System Lease dated June 12, 2015. Under the provisions of the lease agreements, GLWA leases the regional assets of the City for a period of at least 40 years.

Pursuant to the lease agreements, on December 1, 2015, a triparty agreement, referred to as the pension reporting agreement, between the City, General Retirement System of the City of Detroit (GRS), and GLWA was signed. Per the POA and Section 4.3 of the lease agreements, GLWA is required to pay a portion of the pension obligation that will be allocable to the City of Detroit Water and Sewerage Department. The purpose of the pension reporting agreement was to determine the funding status for the DWSD pension pool and for GRS to agree to provide GLWA with certain actuarial and other reports to enable GLWA to properly manage and pay its portion of the pension obligation that is allocable to the DWSD.

Note 9 - Pension Plans (Continued)

Effective January 1, 2016, GLWA was established. Accordingly, the prior DWSD division was split into two: one representing the ongoing DWSD department, now referenced as DWSD Retail (DWSD-R), and another representing the Great Lakes Water Authority. In accordance with the pension reporting agreement, the net position and liabilities of the DWSD were allocated to DWSD-R and GLWA in accordance with written directions received from DWSD-R and GLWA. Per written directions, GLWA is to be allocated 70.3 percent of the net position and liabilities of the DWSD as of June 30, 2014 and does not have any obligation for a share of DWSD service costs after that time. Because GLWA has no employees or retirees in the Combined Plan, GLWA is considered a nonemployer contributing entity in accordance with GASB Statement No. 67. As this arrangement also meets the definition of a special funding situation per GASB Statement No. 68, GLWA's allocated pension cost recovery of \$20,765,201 is recognized by the Department as revenue and expense.

Benefits Provided

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 the 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 and Income Stabilization Benefits Plus to eligible pensioners.

The Income Stabilization Fund is outlined in Section G-3 of the POA. The annual supplemental pension income stabilization benefit is equal to the lesser of either (i) the amount needed to restore an eligible retiree's reduced annual pension benefit to 100 percent of the amount of the annual pension benefit that the eligible retiree was receiving from the System in 2013 or (ii) the amount needed to bring the total annual 2013 household income of the eligible retiree up to 130 percent of the federal poverty level for 2013. The Income Stabilization Fund did not have an impact on total pension liability for the System or the City as of the measurement date of June 30, 2022 because the assets held by the Income Stabilization Fund are not considered to be available to fund the normal retirement benefit provisions under the pension plan; instead, they are restricted to pay Income Stabilization Benefits and Income Stabilization Benefits Plus. No liability currently exists for these benefits.

Post-bankruptcy GRS Component II plan members, upon retirement, will receive an annuity that shall be the actuarial equivalent of the member's accumulated contributions in the 1973 Defined Contribution Annuity Savings Fund at the time of retirement. In addition, each member will receive a basic service and a membership service pension. The basic service pension will consist of \$12.00 per annum multiplied by the number of years and fractions of years of credited service, not to exceed 10 years. The membership service pension will be calculated as follows:

- For members who retire on or before June 30, 1992, a membership service pension of 1.5 percent of average final compensation for the first 10 years of service and 1.63 percent for service in excess of 10 years
- For members who retire on or after July 1, 1992 but prior to July 1, 1998, a membership service pension of 1.5 percent of average final compensation for each year of service for the first 10 years, plus 1.7 percent of average final compensation for each year of service in excess of 10 years up to 20 years of service, plus 1.9 percent of average final compensation for each year of service in excess of 20 years. In no event shall benefits paid by the System exceed 90 percent of average final compensation.

Note 9 - Pension Plans (Continued)

- For members who retire on or after July 1, 1998, a membership service pension for service rendered prior to July 1, 2012 of 1.6 percent of average final compensation for each year of service for the first 10 years; plus 1.8 percent of average final compensation for each year of service in excess of 10 years up to 20 years of service; plus 2 percent of average final compensation for each year of service in excess of 20 years up to 25 years; plus 2.2 percent of average final compensation for each year of service in excess of 25 years; plus, for service rendered after July 1, 2012 and prior to July 1, 2014, 1.5 percent of average final compensation for each year of service; plus \$12 for each year of city service not to exceed \$120. Notwithstanding the foregoing, for members of the Michigan Council 25 of the American Federation of State, County and Municipal Employees, AFL-CIO Local 2920 and the Detroit Senior Water Systems Chemists Association bargaining units, the effective date of the 1.5 percent multiplier was April 1, 2013 for all years of service rendered after that date. In no case shall benefits paid by the System exceed 90 percent of average final compensation.

In the event the eligible retiree’s estimated adjusted annual household income in any calendar year after the first year that the eligible retiree receives a benefit from the Income Stabilization Fund is less than 105 percent of the federal poverty level in that year, the eligible retiree will receive an additional Income Stabilization Benefit Plus benefit commencing as of the following July 1.

Component I

Component I is considered a hybrid plan because it includes a defined benefit component and a defined contribution component. Component I of the plan document applies to benefits accrued by members of the GRS on and after July 1, 2014. The Component I plan provides retirement, disability, and survivor benefits to plan members and beneficiaries.

Contributions

Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, in the past, the System retained an independent actuary to determine the annual contribution. Until 2024, contributions are based on specific provisions of the Plan of Adjustment. After 2024, contributions will be actuarially determined.

Employer Contributions

Component II

The Department made contributions of \$12,741,300 to the System for the fiscal year ended June 30, 2023.

Component I

Per Section 9.3 of the Combined Plan, commencing on July 1, 2015 and ending on June 30, 2023, the Department is required to contribute 5 percent of compensation of active members. During the fiscal year ended June 30, 2023, the Department contributed \$1,617,301 to the Component I plan.

Note 9 - Pension Plans (Continued)

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, 2023, there were no employee contributions into Component II, as the plan was frozen as of June 30, 2014. Effectively, employee contributions were allowed only until August 1, 2014. Contributions into Component I began with the members' first payroll date occurring in August 2014. With respect to GRS Component I, the Department's employees who are members of GRS are now required to make mandatory contributions of 4 percent of pay toward their defined benefit. Additionally, employees can make voluntary contributions of 3, 5, or 7 percent of annual pay. During the fiscal year ended June 30, 2023, the Department's employees contributed \$1,864,334 in mandatory and voluntary contributions.

Net Pension Liability (Asset)

As permitted by GASB Statement No. 68, the Department has chosen to use June 30, 2022 as its measurement date for the net pension liability (asset). The net pension liability (asset) was calculated using the total pension liability and the System's fiduciary net position as of June 30, 2022. The June 30, 2022 total pension liability was determined by an actuarial valuation performed as of June 30, 2021, which used update procedures to roll forward the estimated liability to June 30, 2022. At June 30, 2023, the Department reported a liability (asset) for its net pension liability (asset) as follows:

	<u>Component II</u>	<u>Component I</u>
Measurement date used for the Department's net pension liability (asset)	June 30, 2022	June 30, 2022
Based on a comprehensive actuarial valuation as of	June 30, 2021	June 30, 2021
		<u>Net Pension Liability (Asset)</u>
Component II		\$ 26,689,698
Component I		<u>(98,187)</u>
Total		<u>\$ 26,591,511</u>

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

For the year ended June 30, 2023, the Department recognized a pension cost recovery of \$28,797,134 for Component II and pension expense of \$1,596,540 for Component I.

Note 9 - Pension Plans (Continued)

At June 30, 2023, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Water Fund		Sewage Disposal Fund	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 7,582	\$ (881,566)	\$ 10,777	\$ (1,252,977)
Changes in assumptions and other	535,382	(920,764)	760,942	(1,308,692)
Net difference between projected and actual earnings on pension plan investments	5,023,477	-	3,791,944	-
Employer contributions to the plan subsequent to the measurement date	8,301,593	-	6,050,828	-
Total	\$ 13,868,034	\$ (1,802,330)	\$ 10,614,491	\$ (2,561,669)

From the above table, the Department reported \$14,352,421 for both Components II and I as deferred outflows of resources resulting from employer contributions subsequent to the measurement date, which will be recognized as a reduction of the net pension liability in the year ending June 30, 2023.

The deferred outflows of resources and deferred inflows of resources related to the change in actuarial assumptions, the net differences between projected and actual earnings on pension plan investments, and the differences between expected and actual experiences will be amortized and recognized as an addition to or a reduction of pension expense as follows:

Years Ending June 30	Water Fund	Sewage Disposal Fund
2024	\$ 1,480,492	\$ 806,327
2025	495,809	126,278
2026	(1,293,517)	(1,225,801)
2027	3,081,327	2,295,190
Total	\$ 3,764,111	\$ 2,001,994

Actuarial Assumptions

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

	Component II	Component I
Salary increases (including inflation)	N/A	3.0%
Investment rate of return (net of investment expenses)	6.75%	6.75%
Mortality rates	PubG-2010(B) Below-Median General Retiree table	PubG-2010(B) Below-Median General Retiree table

The actuarial assumptions other than the investment rate of return, used in the June 30, 2021 valuation to calculate the total pension liability as of June 30, 2022, were based on the results of an actuarial experience study from July 1, 2015 through June 30, 2020. The assumptions were first used in the June 30, 2021 actuarial valuation, and assumption changes included mortality tables (change from the RP-2014 Blue Collar Annuitant Table, wage inflation, withdrawal rates, and disability rates.

Note 9 - Pension Plans (Continued)

Discount Rate

The discount rate used to measure the total pension liability as of June 30, 2023 was 6.75 percent for both Components I and II. The single discount rate used at the beginning of the year was 6.50 percent. For the Component II plan, the projection of cash flows used to determine the discount rates assumed that employee contributions will cease as of June 30, 2014 and that city contributions, including contributions sourced from the proceeds of the sale of artwork from the State of Michigan and the Foundation for Detroit’s Future, will be made at rates equal to those set by the final Plan of Adjustment through June 30, 2023 and a 30-year closed level dollar amortization thereafter. For the Component I plan, the projection of cash flows used to determine the discount rates assumed that employee contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate. Based on those assumptions, the pension plans’ 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.

Investment Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation of 2.50 percent) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return as of June 30, 2023 for each major asset class, including pension plan target asset allocation, as disclosed in the investment footnote, are summarized in the following table:

Component I and Component II

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global equity	46.00 %	5.02 %
Global fixed income	33.00	4.02
Real estate/Real assets	13.00	3.73
Diversifying strategies	8.00	3.95

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the net pension liability (asset) of the Department, calculated using the discount rate of 6.75 percent, as well as what the Department’s net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percentage Point Decrease (5.75%)	Current Discount Rate (6.75%)	1 Percentage Point Increase (7.75%)
Water Fund - Component II - Net pension liability	\$ 25,966,429	\$ 15,995,847	\$ 7,403,706
Water Fund - Component I - Net pension liability (asset)	1,585,645	(40,551)	(1,368,328)
Sewage Disposal Fund - Component II - Net pension liability	17,359,579	10,693,851	4,949,668
Sewage Disposal Fund - Component I - Net pension liability (asset)	2,253,689	(57,636)	(1,944,815)

Required Supplementary Information

City of Detroit Water and Sewerage Department

Required Supplementary Information Schedule of Changes in the Net Pension Liability and Related Ratios Component II

Last Nine Fiscal Years (Based on Measurement Date)

	2022	2021	2020	2019	2018	2017	2016*	2015	2014
Total Pension Liability									
Service cost	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,746,003
Interest	13,445,721	14,496,067	15,329,127	15,505,000	15,452,925	15,981,838	17,060,232	73,105,847	66,690,581
Changes in benefit terms	-	-	-	-	-	-	-	(216,739,841)	(27,617,959)
Differences between expected and actual experience	(51,636)	(3,888,597)	(4,336,765)	1,462,609	(135,450)	1,000,921	(2,139,381)	(607,587)	-
Changes in assumptions	(12,104,637)	9,831,093	5,535,733	-	(9,017,883)	6,401,809	7,447,135	(28,150,723)	(74,737,651)
Benefit payments, including refunds	(19,042,740)	(18,773,330)	(19,052,938)	(19,648,437)	(20,023,732)	(21,580,612)	(29,420,988)	(77,231,357)	(98,853,724)
Net Change in Total Pension Liability	(17,753,292)	1,665,233	(2,524,843)	(2,680,828)	(13,724,140)	1,803,956	(7,053,002)	(249,623,661)	(124,772,750)
Total Pension Liability - Beginning of year	216,378,626	214,713,393	217,238,236	219,919,064	233,643,204	231,839,248	238,892,250	1,053,974,670	1,178,747,420
Total Pension Liability - End of year	\$ 198,625,334	\$ 216,378,626	\$ 214,713,393	\$ 217,238,236	\$ 219,919,064	\$ 233,643,204	\$ 231,839,248	\$ 804,351,009	\$ 1,053,974,670
Plan Fiduciary Net Position									
Contributions - Employer	\$ 12,741,300	\$ 12,741,300	\$ 12,741,300	\$ 12,741,300	\$ 12,741,300	\$ 12,741,300	\$ 12,741,300	\$ 42,888,889	\$ 21,491,022
Contributions - Member	-	-	-	-	-	-	-	186,274	3,335,706
Net investment (loss) income	(11,017,104)	40,551,379	(1,526,864)	3,884,419	12,820,925	16,397,207	(917,059)	24,580,775	102,177,233
Administrative expenses	-	-	-	-	-	-	-	(30,290)	(3,416,015)
Benefit payments, including refunds	(19,042,740)	(18,773,330)	(19,052,938)	(19,648,437)	(20,023,732)	(21,580,612)	(29,420,988)	(77,231,357)	(98,853,724)
Other	429,941	556,850	499,426	(50,473)	585,561	631,198	469,357	39,485,858	-
Net Change in Plan Fiduciary Net Position	(16,888,603)	35,076,199	(7,339,076)	(3,073,191)	6,124,054	8,189,093	(17,127,390)	29,880,149	24,734,222
Plan Fiduciary Net Position - Beginning of year	188,824,239	153,748,040	161,087,116	164,160,307	158,036,253	149,847,160	166,974,550	532,323,722	507,589,500
Plan Fiduciary Net Position - End of year	\$ 171,935,636	\$ 188,824,239	\$ 153,748,040	\$ 161,087,116	\$ 164,160,307	\$ 158,036,253	\$ 149,847,160	\$ 562,203,871	\$ 532,323,722
Department's Net Pension Liability - Ending	\$ 26,689,698	\$ 27,554,387	\$ 60,965,353	\$ 56,151,120	\$ 55,758,757	\$ 75,606,951	\$ 81,992,088	\$ 242,147,138	\$ 521,650,948
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	86.56 %	87.27 %	71.61 %	74.15 %	74.65 %	67.64 %	64.63 %	69.90 %	50.51 %
Covered Payroll	\$ 12,777,868	\$ 14,485,553	\$ 18,517,661	\$ 19,014,424	\$ 22,726,143	\$ 22,864,010	\$ 57,607,917	\$ 60,782,192	\$ 64,835,429
Department's Net Pension Liability as a Percentage of Covered Payroll	208.87 %	190.22 %	329.23 %	295.31 %	245.35 %	330.68 %	142.33 %	398.39 %	804.58 %

*As described in Note 9, the Great Lakes Water Authority was established on January 1, 2016. On this date, GLWA assumed a portion of the net position and liabilities of the Department. The 2016 amounts have been adjusted to reflect only the portion allocated to the Department.

GASB Statement No. 67 was implemented for fiscal year 2014 and does not require retroactive implementation. Data will be added as information is available until 10 years of such information is available.

See note to required supplementary information.

City of Detroit Water and Sewerage Department

Required Supplementary Information Schedule of Changes in the Net Pension (Asset) Liability and Related Ratios Component I

Last Eight Fiscal Years (Based on Measurement Date)

	2022	2021	2020	2019	2018	2017	2016	2015
Total Pension Liability								
Service cost	\$ 3,587,008	\$ 2,593,752	\$ 2,390,105	\$ 2,074,670	\$ 2,438,165	\$ 4,535,838	\$ 5,556,742	\$ 5,853,312
Interest	1,925,255	1,684,967	1,476,696	1,152,253	1,089,198	986,953	704,400	210,719
Differences between expected and actual experience	(2,049,181)	(496,714)	(848,439)	1,064,454	(2,555,229)	(3,118,495)	(1,577,654)	-
Changes in assumptions	(2,972,590)	1,944,320	880,759	-	(855,251)	583,770	521,263	(352,686)
Benefit payments, including refunds	(946,041)	(896,611)	(453,391)	(557,569)	(463,955)	(375,730)	(1,827,192)	-
Voluntary member contributions	-	479,032	511,684	693,042	689,984	585,787	1,085,989	1,662,483
Net Change in Total Pension Liability	(455,549)	5,308,746	3,957,414	4,426,850	342,912	3,198,123	4,463,548	7,373,828
Total Pension Liability - Beginning of year	29,071,331	23,762,675	19,805,261	15,378,411	15,035,499	11,837,376	7,373,828	-
Total Pension Liability - End of year	\$ 28,615,782	\$ 29,071,421	\$ 23,762,675	\$ 19,805,261	\$ 15,378,411	\$ 15,035,499	\$ 11,837,376	\$ 7,373,828
Plan Fiduciary Net Position								
Contributions - Employer	\$ 1,421,133	\$ 1,364,072	\$ 1,447,354	\$ 1,329,961	\$ 1,328,993	\$ 1,012,219	\$ 1,884,087	\$ 2,596,022
Contributions - Member	1,134,568	1,078,204	1,208,589	1,069,825	993,710	838,418	1,529,722	2,103,576
Net investment (loss) income	(1,857,428)	5,729,274	(334,134)	486,278	1,524,214	1,903,831	(33,400)	6,011
Administrative expenses	(253,916)	(182,006)	(221,800)	(299,865)	(382,260)	(375,730)	(912,491)	(436,927)
Benefit payments, including refunds	(946,041)	(896,611)	(453,391)	(557,569)	(463,955)	(557,335)	(1,827,192)	-
Voluntary member contributions	541,128	479,032	511,684	693,042	689,984	585,787	1,085,989	1,662,483
Other	5,403	4,458	178,199	1,268,283	-	13,057	(2,570)	-
Net Change in Plan Fiduciary Net Position	44,847	7,576,423	2,336,501	3,989,955	3,690,686	3,420,247	1,724,145	5,931,165
Plan Fiduciary Net Position - Beginning of year	28,669,122	21,092,699	18,756,198	14,766,243	11,075,557	7,655,310	5,931,165	-
Plan Fiduciary Net Position - End of year	\$ 28,713,969	\$ 28,669,122	\$ 21,092,699	\$ 18,756,198	\$ 14,766,243	\$ 11,075,557	\$ 7,655,310	\$ 5,931,165
Department's Net Pension (Asset) Liability - Ending	\$ (98,187)	\$ 402,299	\$ 2,669,976	\$ 1,049,063	\$ 612,168	\$ 3,959,942	\$ 4,182,066	\$ 1,442,663
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	100.34 %	98.62 %	88.76 %	94.70 %	96.02 %	73.66 %	64.67 %	80.44 %
Covered Payroll	\$ 28,542,858	\$ 29,865,224	\$ 27,685,882	\$ 26,810,527	\$ 22,726,143	\$ 22,864,010	\$ 57,607,917	\$ 60,782,192
Department's Net Pension (Asset) Liability as a Percentage of Covered Payroll	(0.34)%	1.35 %	9.64 %	3.91 %	96.02 %	73.66 %	64.67 %	80.44 %

GASB Statement No. 67 was implemented for fiscal year 2014 and does not require retroactive implementation. Data will be added as information is available until 10 years of such information is available.

City of Detroit Water and Sewerage Department

Required Supplementary Information Schedule of Pension Contributions Component II

	Last Ten Fiscal Years Years Ended June 30									
	2023*	2022*	2021*	2020*	2019*	2018*	2017*	2016*	2015	2014
Contractually required contribution	\$ 12,741,300	\$ 12,741,300	\$ 12,741,300	\$ 12,741,300	\$ 12,741,300	\$ 12,741,300	\$ 12,741,300	\$ 42,888,889	\$ 21,491,022	\$ 24,868,234
Contributions in relation to the contractually required contribution	12,741,300	12,741,300	12,741,300	12,741,300	12,741,300	12,741,300	12,741,300	42,888,889	21,491,022	27,301,090
Contribution Excess	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,432,856
Department's Covered Payroll**	\$ -	\$ 12,777,868	\$ 14,485,553	\$ 18,517,661	\$ 19,014,424	\$ 22,726,143	\$ 22,864,010	\$ 57,607,917	\$ 60,782,192	\$ 64,835,429
Contributions as a Percentage of Covered Payroll	- %	99.71 %	87.96 %	68.81 %	56.06 %	55.73 %	30.91 %	74.45 %	35.36 %	42.11 %

*Contributions beginning with fiscal year 2015 were determined by the provisions of the Plan of Adjustment and were not actuarially determined.

**GASB Statement No. 67, as amended, requires covered payroll to be presented, as well as the net pension liability (asset) as a percentage of covered payroll. Covered payroll for 2023 was not available; thus, no amount is reported.

City of Detroit Water and Sewerage Department

Required Supplementary Information Schedule of Pension Contributions Component I

	Last Nine Fiscal Years Years Ended June 30								
	2023	2022	2021	2020	2019	2018	2017	2016	2015
Contractually determined contribution	\$ 1,617,301	\$ 1,421,133	\$ 1,364,072	\$ 1,447,354	\$ 1,329,961	\$ 1,328,993	\$ 1,012,219	\$ 1,884,087	\$ 2,596,022
Contributions in relation to the contractually determined contribution	<u>1,617,301</u>	<u>1,421,133</u>	<u>1,364,072</u>	<u>1,447,354</u>	<u>1,329,961</u>	<u>1,328,993</u>	<u>1,012,219</u>	<u>1,884,087</u>	<u>2,596,022</u>
Contribution Excess (Deficiency)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ -	\$ 28,542,858	\$ 29,865,224	\$ 27,685,882	\$ 26,810,527	\$ 22,726,143	\$ 22,864,010	\$ 57,607,917	\$ 60,782,192
Contributions as a Percentage of Covered Payroll	-	4.76 %	5.00 %	5.23 %	5.85 %	5.81 %	2.46 %	3.27 %	4.27 %

Contributions are made in accordance with the Plan of Adjustment. Covered payroll for 2023 was not available; thus, no amount is reported.

Pension Information

Benefit Changes

Component II

In 2014, the pension plan was frozen. No new employees are allowed to participate in the plan. All benefits for actives were frozen as of June 30, 2014 based on service and average final compensation accrued as of that date.

In 2015, benefits were reduced by 4.5 percent, and the cost of living adjustments were eliminated.

Changes in Assumptions

Component II

In 2014, amounts reported as changes of assumptions resulted from adjustment of the discount rate from 5.88 to 7.2 percent, updating the mortality tables from the RP-2000 Combined Table to RP-2014 Blue Collar Mortality Table, and adjustments for longevity and unused sick leave were eliminated.

Components II and I

In 2015, amounts reported as changes of assumptions resulted from adjustment of the discount rate from 7.2 to 7.61 percent.

In 2016, amounts reported as changes of assumptions resulted from adjustment of the discount rate from 7.61 to 7.23 percent.

In 2017, amounts reported as changes of assumptions resulted from adjustment of the discount rate from 7.23 to 6.91 percent.

In 2018, amounts reported as changes of assumptions resulted from adjustment of the discount rate from 6.91 to 7.38 percent.

In 2020, amounts reported as changes of assumptions resulted from adjustment of the discount rate from 7.38 to 7.06 percent.

In 2021, amounts reported as changes of assumptions resulted from adjustment of the discount rate from 7.06 to 6.50 percent.

In 2022, amounts reported as changes of assumptions resulted from adjustment of the discount rate from 6.50 to 6.75 percent.

Memorandum

To: The Board of Water Commissioners Finance Committee, City of Detroit Water and Sewerage Department

From: Tim St. Andrew and Stephanie Atkinson

Subject: Summary of audit observations and comments

Date: December 21, 2023

CC: Gary Brown and Istakur Rahman

We recently completed our audit of the financial statements for the City of Detroit, Michigan (the “City”), which included the Water Fund and Sewage Disposal Fund as enterprise funds of the City. As part of that audit, we have communicated relevant matters to those charged with governance of the City. With the issuance of the separate Water Fund and Sewage Disposal Fund financial statements, we felt it appropriate to summarize the information that is relevant to the City of Detroit Water and Sewerage Department (DSWD or the “Department”). Below is a summarized discussion of our observations and comments. The two of us are available to discuss these concepts with the Board of Water Commissioners at its convenience.

It is important to understand that, due to the financial environment in place, the DWSD is reliant on certain accounting procedures and controls of the City and the Great Lakes Water Authority (GLWA). Please refer to the audit reports of the City and GLWA for any accounting procedure and control matters identified in their respective audits.

Audit Observations

Qualitative Aspects of Accounting Practices

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates made by management are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Estimate	Basis for Estimate
Accrued claims and judgments	The City estimates the probable loss that will result from ongoing litigation involving general and other claims.
Accrued workers’ compensation	An actuarial report prepared by an independent third party. The report was based on certain assumptions pertaining to actual loss development patterns that are augmented with industry benchmark loss development patterns.
Allowance for doubtful accounts	Management’s analysis of accounts receivable for water and sewer billings that are unlikely to be collected by the DWSD based on past collection history and current collection trends

Estimate	Basis for Estimate
Net pension liability, deferred inflows and outflows, and pension expense	Independent third-party actuary services. These valuations are based on certain assumptions pertaining to mortality, expected returns on plan assets, and future contributions from the City or the DWSD.

We evaluated the key factors and assumptions used to develop the estimates above in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were the long-term obligation disclosures included in Note 6, the risk management disclosures in Note 8, and the pension disclosures in Note 9.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during our audit.

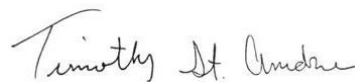
Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

We would like to take this opportunity to thank the DWSD's staff for the cooperation and courtesy extended to us during our audit. Their assistance and professionalism are invaluable. We welcome any questions you may have regarding the preceding communications, and we would be willing to discuss these or any other questions that you might have at your convenience.

Very truly yours,

Plante & Moran, PLLC



Timothy St. Andrew
Partner

Attachment

Client: **City of Detroit Water and Sewerage Department**
 Opinion Unit: **Water Fund**
 Y/E: **6/30/2023**

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Equity	Revenue	Expenses	Net Income Statement Impact
FACTUAL MISSTATEMENTS:									
A1	None								
JUDGMENTAL ADJUSTMENTS:									
B1	None								
PROJECTED ADJUSTMENTS:									
C1	None								
	Total	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

PASSED DISCLOSURES AND FINANCIAL STATEMENT PRESENTATION ISSUES:

D1 The accrued sick leave payoff liability is overstated as it is based on total sick hours, instead of using hours eligible for payout.

Client: **City of Detroit Water and Sewerage Department**
 Opinion Unit: **Sewage Disposal Fund**
 Y/E: **6/30/2023**

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Equity	Revenue	Expenses	Net Income Statement Impact
FACTUAL MISSTATEMENTS:									
A1	To adjust receivable from GLWA and unearned revenue related to the Local System Contribution Agreement with GLWA	(31,557,845)		(31,557,845)					
JUDGMENTAL ADJUSTMENTS:									
B1	None								
PROJECTED ADJUSTMENTS:									
C1	None								
	Total	\$ (31,557,845)	\$ -	\$ (31,557,845)	\$ -	\$ -	\$ -	\$ -	\$ -

PASSED DISCLOSURES AND FINANCIAL STATEMENT PRESENTATION ISSUES:

D1 The accrued sick leave payoff liability is overstated as it is based on total sick hours, instead of using hours eligible for payout.