Downriver Utility Wastewater Authority

Financial Report

December 31, 2023

Contents

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Independent Auditor's Report

To the Downriver Utility Wastewater Authority Board
Downriver Utility Wastewater Authority

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Downriver Utility Wastewater Authority (the "Authority") as of and for the year ended December 31, 2023 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Downriver Utility Wastewater Authority as of December 31, 2023 and the changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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 Authority 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.

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 Authority'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.

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 opinion. 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.

To the Downriver Utility Wastewater Authority Board
Downriver Utility Wastewater Authority

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 Authority'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 Authority'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 management's discussion and analysis 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2024 on our consideration of Downriver Utility Wastewater Authority'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 Downriver Utility Wastewater Authority'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 Downriver Utility Wastewater Authority's internal control over financial reporting and compliance.

Plante & Moran, PLLC

June 5, 2024

Using This Annual Report

Downriver Utility Wastewater Authority (the "Authority") is a joint venture of 13 communities in southeastern Michigan (the cities of Allen Park, Belleville, Dearborn Heights, Ecorse, Lincoln Park, River Rouge, Riverview, Romulus, Southgate, Taylor, and Wyandotte, Michigan and the charter townships of Brownstown and Van Buren; collectively, the "Communities"). The Authority was established in 2010 in order to acquire, finance, manage, improve, and operate the Downriver Sewage Disposal Treatment Plant and related collection systems. The system is the second largest wastewater system in Michigan, serving the Communities with a service area population of 350,000. The Authority provides services exclusively to the 13 Communities.

This annual report consists of a series of financial statements. The statement of net position and the statement of revenue, expenses, and changes in net position provide information about the activities of the Authority as a whole and present a longer-term view of the Authority’s finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year and whether the ratepayers have funded the full cost of providing services. These are followed by the statement of cash flows, which presents detailed information about the changes in the Authority's cash position during the year.

Government-wide Overall Financial Analysis

As noted earlier, net position over time may serve as a useful indicator of a government’s financial position. In the case of the Authority, assets exceeded liabilities by $108,219,121 at the close of the most recent fiscal year.

The Authority's Net Position

	2022	2023	Change	Percent Change
Assets				
Current and other assets:				
Cash and investments	$ 19,403,683	$ 16,987,463	$ (2,416,220)	(12.5)
Other current assets - Receivables	3,142,791	3,368,513	225,722	7.2
Restricted assets - Investments	18,413,355	18,404,318	(9,037)	-
Capital assets	193,743,295	189,828,392	(3,914,903)	(2.0)
Total assets	234,703,124	228,588,686	(6,114,438)	(2.6)
Liabilities				
Current liabilities	14,806,002	8,966,520	(5,839,482)	(39.4)
Noncurrent liabilities	115,323,460	111,403,045	(3,920,415)	(3.4)
Total liabilities	130,129,462	120,369,565	(9,759,897)	(7.5)
Net Position				
Net investment in capital assets	71,243,134	73,860,599	2,617,465	3.7
Restricted	16,257,688	16,261,698	4,010	-
Unrestricted	17,072,840	18,096,824	1,023,984	6.0
Total net position	**$ 104,573,662**	**$ 108,219,121**	**$ 3,645,459**	3.5

The increase in net position during 2023 is primarily due to the reduction in bonds and debt outstanding during the current fiscal year; this debt is related to the purchase of the plant in 2018 from Wayne County, Michigan and continued capital improvements at the facility.

The Authority's Changes in Net Position

	2022	2023	Change	Percent Change
Operating Revenue				
Sewage disposal and excess flow charges	$ 29,224,665	$ 30,825,245	$ 1,600,580	5.5
Other charges	1,357,098	1,277,105	(79,993)	(5.9)
Total operating revenue	30,581,763	32,102,350	1,520,587	5.0
Operating Expenses				
System operations	12,211,255	12,948,009	736,754	6.0
System management	310,684	235,194	(75,490)	(24.3)
Engineering	41,273	148,267	106,994	259.2
Utilities	3,763,059	5,020,899	1,257,840	33.4
Sludge hauling and disposal	1,950,186	1,651,215	(298,971)	(15.3)
Insurance premiums	562,275	553,093	(9,182)	(1.6)
Flow metering	300,485	306,816	6,331	2.1
Professional services	323,166	328,593	5,427	1.7
Other operating expenses	46,206	63,936	17,730	38.4
Depreciation	4,652,874	4,990,035	337,161	7.2
Total operating expenses	24,161,463	26,246,057	2,084,594	8.6
Operating Income	6,420,300	5,856,293	(564,007)	(8.8)
Nonoperating Expense	(3,510,886)	(2,210,834)	1,300,052	(37.0)
Change in Net Position	2,909,414	3,645,459	736,045	25.3
Net Position - Beginning of year	101,664,248	104,573,662	2,909,414	2.9
Net Position - End of year	**$ 104,573,662**	**$ 108,219,121**	**$ 3,645,459**	3.5

Fiscal year 2023 revenue was higher due to increased rates for charges for services. Expenses were also slightly higher in 2023 compared to 2022. System operations expenses increased by approximately $737,000, and utility costs increased by approximately $1,258,000. These increases were partially offset by decreases to sludge hauling and disposal costs of approximately $299,000.

Overall, the Authority recognized a positive change in net position of $3,645,459. Revenue primarily consisted of sewage disposal charges and excess flow charges from the municipal customers (approximately 96 percent of operating revenue). Operating expenses were primarily related to operation of the plant by an outside contractor (approximately 50 percent of operating expenses), utilities (approximately 19 percent), and depreciation (approximately 19 percent).

Operating income of $5,856,293 reflects the excess of primarily sewage operating revenue over plant operating expenses. Net nonoperating expense includes $3,943,216 of interest expense and bond-related fees, offset by $1,485,014 of interest income and $247,368 of bond premium amortization recognized in 2023.

Capital Assets and Debt Administration

Capital assets with a net book value of approximately $26.2 million were placed into service during the current year, in addition to approximately $1.7 million in assets that were capitalized as construction in progress. Depreciation expense of approximately $5.0 million was recorded in 2023.

During the current year, the Authority paid $6,285,000 in principal toward existing debt and recognized interest expense of approximately $3.7 million on outstanding debt.

Economic Factors and Next Year's Budgets and Rates

The Authority is responsible for setting the budget and rates to cover the operation of the Downriver Sewage Disposal System. The budget is based on the fiscal year period from January through December, while the rates cover the period from July through June. The budget process began in October, and the budget was adopted by the board in December. The rates were developed in March and April and were approved by the board in May. Factors that affect the budget and rates include the flows into the Downriver Sewage Disposal System, the cost of utilities and chemicals, as well as debt service and capital expenditures to maintain the operation of the plant. A significant expense that is affecting the Authority is sludge disposal; the Authority is in the final stages of implementing a long-term solution involving a biosolids dryer methodology to offset the limited availability of landfills willing to accept the disposal of the sludge and the increased costs for disposal. In addition, chemical and utility costs continue to increase significantly and impact the operational expenditures incurred at the plant. During 2023, the Authority progressed with major capital projects, including equipment replacement projects related to several deferred maintenance and critical long-term needs that require investment to continue the reliability of the system and enhance the Authority’s environmental impact. The Authority is in the process of implementing additional upgrades to plant infrastructure and plans to work through the UV disinfection replacement project during 2024.

Requests for Further Information

This financial report is intended to provide a general overview of the Authority’s finances and demonstrate the Authority’s accountability for the money it receives. If you have questions about this report or need additional information, please contact DNS Financial Services at DNSFinancialSvcs@gmail.com. This report, authority budgets, and other financial information are available on the Authority’s website at www.DUWAuthority.org.

Statement of Net Position

	December 31, 2023
Assets	
Current assets:	
Cash and investments	$ 16,987,463
Receivables (Note 7)	3,368,513
Total current assets	20,355,976
Noncurrent assets:	
Restricted assets - Cash and investments (Note 8)	18,404,318
Capital assets: (Note 4)	
Assets not subject to depreciation	2,887,048
Assets subject to depreciation - Net	186,941,344
Total noncurrent assets	208,232,710
Total assets	228,588,686
Liabilities	
Current liabilities:	
Accounts payable	1,930,308
Unearned revenue	328,844
Current portion of bonds payable (Note 5)	6,707,368
Total current liabilities	8,966,520
Noncurrent liabilities:	
Interest payable from restricted assets	990,509
Bonds payable - Net of current portion (Note 5)	110,412,536
Total noncurrent liabilities	111,403,045
Total liabilities	120,369,565
Net Position	
Net investment in capital assets	73,860,599
Restricted: (Note 8)	
Debt service	12,661,698
Rate stabilization	2,000,000
Tunnel repair and replacement	1,600,000
Unrestricted	18,096,824
Total net position	**$ 108,219,121**

Downriver Utility Wastewater Authority

Statement of Revenue, Expenses, and Changes in Net Position

	Year Ended December 31, 2023
Operating Revenue	
Sewage disposal and excess flow charges	$ 30,825,245
Other charges	1,277,105
Total operating revenue	32,102,350
Operating Expenses	
System operations	12,948,009
System management	235,194
Engineering	148,267
Utilities	5,020,899
Sludge hauling and disposal	1,651,215
Insurance premiums	553,093
Flow metering	306,816
Professional services	328,593
Other operating expenses	63,936
Depreciation	4,990,035
Total operating expenses	26,246,057
Operating Income	5,856,293
Nonoperating Revenue (Expense)	
Investment income - Net	1,485,014
Interest and bond issuance charges	(3,695,848)
Total nonoperating expense	(2,210,834)
Change in Net Position	3,645,459
Net Position - Beginning of year	104,573,662
Net Position - End of year	**$ 108,219,121**

Statement of Cash Flows

	Year Ended December 31, 2023
Cash Flows from Operating Activities	
Receipts from member communities for monthly charges	$ 31,540,787
Payments to suppliers and professionals	(23,979,573)
Other receipts	664,685
Net cash and cash equivalents provided by operating activities	8,225,899
Cash Flows from Capital and Related Financing Activities	
Payments for capital assets and construction projects	(1,894,907)
Principal and interest paid on capital debt	(10,241,263)
Net cash and cash equivalents used in capital and related financing activities	(12,136,170)
Cash Flows Provided by Investing Activities - Interest received on investments	1,485,014
Net Decrease in Cash and Cash Equivalents	(2,425,257)
Cash and Cash Equivalents - Beginning of year	37,817,038
Cash and Cash Equivalents - End of year	**$ 35,391,781**
Classification of Cash and Cash Equivalents	
Cash and investments	$ 16,987,463
Restricted cash and investments	18,404,318
Total cash and cash equivalents	**$ 35,391,781**
Reconciliation of Operating Income to Net Cash and Cash Equivalents from Operating Activities	
Operating income	$ 5,856,293
Adjustments to reconcile operating income to net cash and cash equivalents from operating activities:	
Depreciation	4,990,035
Changes in assets and liabilities:	
Receivables	103,122
Accounts payable	(2,723,551)
Total adjustments	2,369,606
Net cash and cash equivalents provided by operating activities	**$ 8,225,899**

See notes to financial statements.

Note 1 - Nature of the Authority

Downriver Utility Wastewater Authority (the "Authority" or DUWA) is a joint venture of 13 communities in southeastern Michigan (the cities of Allen Park, Belleville, Dearborn Heights, Ecorse, Lincoln Park, River Rouge, Riverview, Romulus, Southgate, Taylor, and Wyandotte, Michigan and the charter townships of Brownstown and Van Buren; collectively, the "Communities"). The Authority was established in 2010 in order to acquire, finance, manage, improve, and operate the Downriver Sewage Disposal Treatment Plant and related collection systems. The system is the second largest wastewater system in Michigan, serving the Communities with a service area population of 350,000. The Authority provides services exclusively to the 13 Communities.

On September 27, 2018, the treatment plant and collection systems were transferred from Wayne County, Michigan (the "County") to the Authority at a purchase price of $57.5 million, of which $54 million was paid at closing to the County, and the remaining $3.5 million is scheduled to be paid 5 years from closing. In the fall of 2018, the Authority engaged a private operator to operate the system under an operations agreement for a period of 20 years. In September, 2023, the Authority and the County modified the agreement to defer the remaining amount due of $3.5 million over a period of 5 years at an interest rate of 4 percent, with the first annual payment due during 2023.

Note 2 - Significant Accounting Policies

Accounting and Reporting Principles

The Authority follows accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board (GASB). The Authority accounts for its various activities in one proprietary fund, as it provides services to users in exchange for charges of fees. The following is a summary of the significant accounting policies used by the Authority:

Basis of Accounting

The Authority uses the economic resources measurement focus and 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.

Reporting Entity

The Authority is a public body corporate established in accordance with Michigan Public Act 233 of 1955, as amended. In addition to this statutory authority, the governance for the Authority is found in its articles of incorporation, bylaws, policies, and ordinances. The Authority's governing body is composed of 13 representative members, consisting of either mayors or supervisors (or their alternates) of each of the Communities. In accordance with government accounting principles, there are no component units appropriate to be reported within these financial statements.

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. In addition, the statement of cash flows includes both restricted and unrestricted cash and cash equivalents.

Investments

Investments are reported at fair value or estimated fair value. Short-term investments are reported at cost, which approximates fair value. Changes in the fair value of investments are reported as nonoperating revenue in the statement of revenue, expenses, and changes in net position.

Note 2 - Significant Accounting Policies (Continued)

Restricted Assets

The revenue bonds of the Authority require amounts to be set aside for debt service principal and interest on all debt and bond reserves. The bonds also require establishment of a rate stabilization fund. These amounts have been classified as restricted assets. Unspent bond proceeds, if any, are required to be set aside for construction. In addition, by agreement with the tunnel communities, a minimum of $1,500,000 is restricted for tunnel repair and replacement. These amounts have also been classified as restricted assets.

Capital Assets

Capital assets include the treatment plant, interceptors, storage tunnel, equipment, and vehicles. Capital assets are defined by the Authority as assets with an initial individual cost of more than $5,000 and an estimated useful life in excess of one year. Capital assets are recorded at historical cost if purchased or constructed or, if donated, at their acquisition value on the date donated.

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

	Depreciable Life - Years
Buildings and improvements	40
Machinery and equipment	7
Land improvements	20
Office equipment	7
Sewer system	40

Long-term Obligations

Long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized over the lives of the bond using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed at the time they are incurred.

Net Position

Net position of the Authority is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and is reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. The restricted component of net position consists of restricted assets reduced by liabilities related to those assets. Unrestricted net position is the remaining net position that does not meet the definition of invested in capital or restricted.

Net Position Flow Assumption

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

Note 2 - Significant Accounting Policies (Continued)

Proprietary Funds Operating Classification

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. Operating revenue represents billings to member communities based on the Authority's operating expenses, exclusive of depreciation and inclusive of capital outlay not financed by debt. Communities are responsible for passing along and collecting the charges to their individual system customers. Operating revenue also includes industrial pretreatment charges and surveillance fees charged directly to commercial users. Operating expenses include the cost of sales or services, administrative expenses, and may include depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

System Operations and Management

The Authority has entered into an agreement with a contract operator for a term of 20 years commencing on October 1, 2018 to operate the system. The current agreement expires on September 30, 2038. Under the terms of the operations agreement, the operator provides all the required labor, materials, and supervision necessary for the operation of the sewage treatment plant and related collection systems, with the exception of certain costs paid directly by the Authority, such as electricity, legal, accounting, engineering, capital outlay, insurance, and overall system management. The Authority pays the operator a monthly fee. In addition, the Authority has entered into a contract with an engineering firm to provide system management services. The contract is for 3 years and is based on hourly rates.

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 Authority's financial statements for the year ending December 31, 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 Authority's financial statements for the year ending December 31, 2024.

In December 2023, the Governmental Accounting Standards Board issued Statement No. 102, *Certain Risk Disclosures*, which requires governments to assess whether a concentration or constraint makes the government vulnerable to the risk of a substantial impact. It also requires governments to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date of the financial statements are issued. If certain criteria are met for a concentration or constraint, disclosures are required in the notes to the financial statements. The provisions of this statement are effective for the Authority's financial statements for the year ending December 31, 2025.

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The law also allows investments outside the state of Michigan when fully insured. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications 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.

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

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned to it. At year end, the Authority had bank deposits of $10,132,042 (checking accounts) that were uninsured and uncollateralized.

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Authority's investment policy minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity. The Authority also minimizes the risk by investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the portfolio in accordance with this policy.

At year end, the Authority held investments in a government obligations fund with a fair value of $25,009,740 and a weighted-average maturity of 41 days.

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Authority's investment policy states that the Authority will minimize credit risk by limiting the investments to the types of securities listed in Section VI of the investment policy, prequalifying the financial institutions broker/dealers, intermediaries, and advisers with which the Authority will do business, and diversifying the investment portfolio so that the impact of the potential losses from any one type of security or from any one individual issuer will be minimized.

At year end, the Authority held $25,009,740 in a government obligations fund with a rating of AAA, issued by S&P.

Concentration of Credit Risk

The Authority's investment policy minimizes concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

At year end, the Authority held $25,009,740 in a government obligations fund, which consisted primarily of U.S. government agency debt and U.S. Treasury repurchase agreements.

Note 3 - Deposits and Investments (Continued)

Fair Value Measurements

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

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

The Authority has the following recurring fair value measurements as of December 31, 2023:

- Government obligations funds of $25,009,740 are valued using a matrix pricing model (Level 2 inputs).

Note 4 - Capital Assets

Capital asset activity of the Authority was as follows:

	Balance January 1, 2023	Reclassifications	Additions	Disposals and Adjustments	Balance December 31, 2023
Capital assets not being depreciated:					
Land	$ 2,426,717	$ -	$ -	$ -	$ 2,426,717
Construction in progress	25,586,747	(25,962,078)	1,655,437	(819,775)	460,331
Subtotal	28,013,464	(25,962,078)	1,655,437	(819,775)	2,887,048
Capital assets being depreciated:					
Sewer system	182,822,696	25,479,662	239,470	-	208,541,828
Buildings and improvements	1,610,320	482,416	-	-	2,092,736
Machinery and equipment	144,090	-	-	-	144,090
Office equipment	33,775	-	-	-	33,775
Land improvements	553,125	-	-	-	553,125
Subtotal	185,164,006	25,962,078	239,470	-	211,365,554
Accumulated depreciation:					
Sewer system	19,067,737	-	4,890,681	-	23,958,418
Buildings and improvements	140,910	-	46,289	-	187,199
Machinery and equipment	87,483	-	20,584	-	108,067
Office equipment	20,506	-	4,825	-	25,331
Land improvements	117,539	-	27,656	-	145,195
Subtotal	19,434,175	-	4,990,035	-	24,424,210
Net capital assets being depreciated	165,729,831	25,962,078	(4,750,565)	-	186,941,344
Net business-type activities capital assets	$ 193,743,295	$ -	$ (3,095,128)	$ (819,775)	$ 189,828,392

Note 4 - Capital Assets (Continued)

Construction Commitments

The Authority has active construction projects at year end. At year end, the Authority's commitments with contractors are as follows:

	Remaining Commitment
Infrastructure and capital improvements	$ 1,498,671

Note 5 - Long-term Debt

Long-term debt activity for the year ended December 31, 2023 can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Direct borrowings - Revenue bonds:							
SRF Junior Lien Bonds - Due 2037	1.625-2.50%	$1,110,000-$4,230,000	$ 44,508,284	$ -	$ (3,875,000)	$ 40,633,284	$ 3,980,000
Wayne County Junior Lien Bond - Due 2027	4.00%	$700,000	3,500,000	-	(700,000)	2,800,000	700,000
EPA Water Infrastructure Finance and Innovation Act (WIFIA) loan - Due 2057	1.73%	$400,000-$640,000	17,850,000	-	(400,000)	17,450,000	405,000
Total direct borrowings			65,858,284	-	(4,975,000)	60,883,284	5,085,000
Other borrowings - Revenue bonds:							
Series 2018 Senior Lien Bonds - Due 2043	5.00%	$1,190,000-$4,015,000	52,785,000	-	(1,310,000)	51,475,000	1,375,000
Unamortized bond premiums			5,008,988	-	(247,368)	4,761,620	247,368
Total long-term debt			$ 123,652,272	$ -	$ (6,532,368)	$ 117,119,904	$ 6,707,368

Revenue Bonds

Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets and to pay debt service. The Authority has pledged substantially all of the revenue of the system, net of operating expenses, to repay the sewer revenue bonds listed above.

Note 5 - Long-term Debt (Continued)

Debt Service Requirements to Maturity

Annual debt service requirements to maturity, excluding any unamortized premium, for the above bonds and note obligations are as follows:

	Direct Borrowings		Other Borrowings		
Years Ending December 31	Principal	Interest	Principal	Interest	Total
2024	$ 5,085,000	$ 1,335,525	$ 1,375,000	$ 2,539,375	$ 10,334,900
2025	5,165,000	1,205,231	1,450,000	2,468,750	10,288,981
2026	5,265,000	1,072,841	1,530,000	2,394,250	10,262,091
2027	5,095,000	938,018	1,805,000	2,310,875	10,148,893
2028	4,500,000	819,189	1,895,000	2,218,375	9,432,564
2029-2033	17,292,135	2,674,316	11,040,000	9,530,000	40,536,451
2034-2038	7,736,149	1,266,186	14,180,000	6,393,250	29,575,585
2039-2043	2,565,000	819,631	18,200,000	2,366,000	23,950,631
2044-2048	2,745,000	590,146	-	-	3,335,146
2049-2053	2,935,000	344,659	-	-	3,279,659
2054-2058	2,500,000	87,365	-	-	2,587,365
Total	$ 60,883,284	$ 11,153,107	$ 51,475,000	$ 30,220,875	$ 153,732,266

Debt Modification

During the year, the Authority and the County modified the agreement related to the to Wayne County Junior Lien Bond. The original agreement called for a principal payment of $3,500,000 payable to the County in September 2023. Under the modified agreement, the amount due of $3,500,000 will be repaid over a period of five years at an interest rate of 4 percent, with the first annual payment of $700,000 due during 2023.

Note 6 - Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, and errors and omissions. The Authority has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past fiscal years. The plans, coverage limits, retentions, and deductibles are as follows:

- General liability, hired and nonowned auto liability, public officials liability - Limits of $2,000,000 and $10,000,000; retention amount of $250,000
- Pollution liability - Limit of $5,000,000; retention amount of $25,000
- Property liability - Flood limits of $10,000,000 and $50,000,000; quake limit of $50,000,000; all risk limit of $250,000,000; deductible of $250,000

Note 7 - Receivables

Receivables as of December 31, 2023 are as follows:

Community operating charges	$ 3,140,797
Industrial pretreatment charges	220,910
Due from Wayne County, Michigan	61,588
Estimated uncollectible accounts receivable	(54,782)
Net receivables	$ 3,368,513

Note 8 - Restricted Assets

The Authority's Master Bond Ordinance has established certain accounts to be held in trust by the trustee. All revenue of the system shall be deposited with the trustee. As of the first day of each month, amounts held in the receiving fund shall be transferred as follows:

First - One-twelfth of the budgeted operation and maintenance expenses are to be transferred to the Operations and Maintenance account.

Second - One-sixth of the next senior lien debt service payment is to be transferred to the Senior Lien Debt Service account.

Third - Any shortfall in the required Senior Lien Bond Reserve account shall be transferred to the Senior Lien Bond Reserve account.

Fourth - One-sixth of the next junior lien debt service payment is to be transferred to the Bond and Interest Redemption Fund, and any shortfall in the required Junior Lien Reserve account shall be transferred to the Junior Lien Bond Reserve account.

Fifth - Any shortfall in the Rate Stabilization Fund shall be transferred to the Rate Stabilization Fund.

After the reserves are funded as noted above, the Authority may set funds aside for extraordinary repair and replacement or for improvement and extension. These reserves are discretionary. Any remaining funds will be retained in the Receiving Fund unless the Authority directs that they be transferred to the Surplus Fund. The Surplus Fund and the remaining untransferred balance in the Receiving Fund are deemed to consist of all funds not otherwise restricted for debt service, debt reserves, or rate stabilization.

The Authority is required to set aside funds for repair and replacement of the wet weather storage tunnel at a minimum amount of $1,500,000 per contractual agreement. The balance of $1,600,000 includes accumulated interest. In addition, the Authority reports restricted assets for loan proceeds that have not been obligated as of December 31, 2023.

At December 31, 2023, restricted assets are composed of the following:

Senior Lien Debt Service	$ 1,725,680
Senior Lien Bond Reserve	4,358,921
Junior Lien Bond and Interest Redemption	2,521,552
Junior Lien Bond Reserve	5,046,054
Rate Stabilization Fund	2,000,000
Tunnel Reserve	1,600,000
Loan proceeds	1,152,111
Total	$ 18,404,318

Note 9 - Related Party Transactions

The Authority receives utility services from the Wyandotte Department of Municipal Services (WDMS), which is a department created by the City of Wyandotte, Michigan, a member of the Communities. WDMS is operated and governed independently from the City of Wyandotte, Michigan by a separate commission. The Authority incurred utility expenses provided by WDMS of approximately $3,103,000 during the year.