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TO: John W. Prymack, Director
Greater Detroit Resource Recovery Authority

FROM: David Whittaker, Director 

DATE: March 10, 2021

RE: 2021-2022 Budget Analysis

Attached is our budget analysis regarding your authority's budget for the upcoming 2021-2022 Fiscal Year.

Please be prepared to respond to the issues/questions raised in our analysis during your scheduled hearing on **Monday, March 15 at 10 a.m.** We would then appreciate a written response to the issues/questions after your budget hearing. Please forward a copy of your responses to each of the Councilmembers and the City Clerk's Office.

Please contact us if you have any questions regarding our budget analysis.

Thank you for your cooperation in this matter.

Attachments

cc: Councilmembers
Auditor General
Jay Rising, Acting Chief Financial Officer
Tanya Stoudemire, Chief Deputy Chief Financial Officer
Steve Watson, Budget Director
Avery Peoples, Mayor's Office

Greater Detroit Resource Recovery Authority

FY 2021-2022 Budget Analysis by the Legislative Policy Division

Issues and Questions

1. Please provide Council with an updated description of the activity that GDRRA conducts, including what services GDRRA purchases from whom, and what services GDRRA provides and who is charged for the services.
2. Since the incinerator was closed, what activity has taken place at the facilities?
3. What's the budgetary impact on DPW's tipping fee since the closure of the incinerator and the hauling of trash to landfills? Why is the GDDRA appropriation increasing by over \$2 million?
4. Why were there no budgeted positions for FY 2021? Are there currently any vacancies? Why are the positions being restored for 2022?
5. Is there still revenue coming in? If so, besides the tipping fee, from what sources?
6. Are there plans to dissolve the authority now? What are next steps?
7. Please provide a current copy of the GDRRA budget approved by the GDRRA board.
8. Have the current owners discussed brownfield cleanup activities at the site?

**GREATER DETROIT RESOURCE
RECOVERY AUTHORITY**

(a component unit of the City of Detroit)

FINANCIAL REPORT WITH SUPPLEMENTAL INFORMATION

June 30, 2020 and 2019

GREATER DETROIT RESOURCE RECOVERY AUTHORITY

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Greater Detroit Resource Recovery Authority

We have audited the accompanying financial statements of Greater Detroit Resource Recovery Authority (the "Authority"), a component unit of the City of Detroit, which comprise the statements of net position as of June 30, 2020 and 2019, and the statements of revenues, expenses and change in net position and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

To the Board of Directors
Greater Detroit Resource Recovery Authority
Page Two

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Greater Detroit Resource Recovery Authority as of June 30, 2020 and 2019, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis schedules on pages 3–7 be presented to supplement the basic financial statements. Such information although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with accounting 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 statement, 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 assurance.

The image shows a handwritten signature in dark ink that reads "UHY LLP". The letters are stylized and cursive.

Farmington Hills, Michigan
September 30, 2020

Management's Discussion and Analysis

GREATER DETROIT RESOURCE RECOVERY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020

The Management of Greater Detroit Resource Recovery Authority, (the "Authority"), provides this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2020 for the benefit of the readers of these financial statements. This management discussion and analysis is intended to assist the reader in focusing on significant financial issues, provide an overview of the Authority's financial activity, identify changes in the Authority's financial position and its ability to address future decisions. The basic financial statements are designed to provide readers with a broad overview of the Authority's finances in a manner similar to a private-sector business. The Authority encourages the reader to consider the information presented here in conjunction with the financial statements and notes taken as a whole.

The Authority is a component unit of the City of Detroit and provides efficient disposal of municipal solid waste.

GASB Statement on Basic Financial Statements

GASB Statement on Basic Financial Statements – Management Discussion and Analysis for State and Local Governments establishes standards for external financial reporting for state and local governments. The Authority classifies its resources for accounting and reporting purposes into the following three net position categories as defined by GASB.

Net Investment in capital assets which consist of capital assets, net of accumulated depreciation, deferred outflows of resources and reduced by the outstanding balances of bonds, mortgages, notes or other borrowings, and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets. The Authority has no significant unspent related debt proceeds or deferred inflow of resources as of June 30, 2020.

Restricted net position which results when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, laws or regulations of other governments or imposed by law through constitutional provision or enabling legislation.

Unrestricted net position which consists of assets, deferred outflows of resources, liabilities and deferred inflows of resources which do not meet the definition of the two preceding categories. In the governmental environment, resources are often assigned or committed to specific purposes, indicating that those amounts are not considered to be available for general operations. In contrast to restricted amounts, these types of constraints on resources are internal and can be removed or modified. The Authority's unrestricted net position has constraints on resources which are imposed by the board of directors.

GREATER DETROIT RESOURCE RECOVERY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020

The Summary of Net Position presents information regarding all assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Net position increases when revenues exceed expenses.

The Summary of Revenues, Expenses, and Changes in Net Position presents information showing how net position changed during the fiscal year. The Summary of Cash Flows provides additional information about the Authority's financial results, by reporting the major sources and uses of cash.

Overview of Financial Information

Summary of Net Positions	2020	2019	2018
ASSETS			
Current assets, unrestricted	\$ 6,353,780	\$ 6,075,057	\$ 5,291,740
Cash with escrow agent, restricted	-	2,686,928	3,138,511
Capital assets, net	16,440,960	17,532,106	18,698,692
Total Assets	\$ 22,794,740	\$ 26,294,091	\$ 27,128,943
LIABILITIES			
Current liabilities	\$ 1,108,881	\$ 1,167,426	\$ 1,049,761
NET POSITIONS			
Invested in capital assets	16,440,960	17,532,106	18,698,692
Net position, restricted	-	2,686,928	3,138,511
Net position, unrestricted	5,244,899	4,907,631	4,241,979
Total Net Positions	21,685,859	25,126,665	26,079,182
Total Liabilities and Net Positions	\$ 22,794,740	\$ 26,294,091	\$ 27,128,943

GREATER DETROIT RESOURCE RECOVERY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020

The largest portion of the decrease in total assets between 2020-2019 and 2019-2018, respectively, reflects the release of funds previously held as escrow deposits in adherence to the 1991 Energy Purchase agreement between DTE and the Authority. The decrease in Capital Assets in 2020-2019, and 2019-2018, respectively, reflects the scheduled depreciation of the remaining capital assets - Steamline and Southfield Transfer Station Refurbishment, which remain in the Authority's asset pool after the Authority's option to repurchase the facility was not exercised prior to its expiration in 2009.

The current liability for 2020 is completely comprised of Accounts Payable. There is no balance due to the City of Detroit at June 30, 2020 and 2019, respectively.

Net position exceeded liabilities by \$21,685,859 and \$25,126,665 at the end of fiscal years 2020 and 2019, respectively. The change in 2020-2019 represents a decrease of \$3,440,806, comprised mostly of the stipulated settlement and release of balances to DTE held in escrow deposits in March 2020, and \$952,517 at the end of fiscal year 2019-2018, mainly due to unfunded depreciation charges.

Summary of Revenue, Expenses, and Changes in Net Positions

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total operating revenues	\$ 10,820,942	\$ 9,987,265	\$ 9,681,296
Total operating expenses	(11,635,470)	(11,074,692)	(10,706,981)
Total nonoperating revenues (expenses)	<u>(2,626,278)</u>	<u>134,910</u>	<u>60,132</u>
Increase (Decrease) In Net Position	<u>\$ (3,440,806)</u>	<u>\$ (952,517)</u>	<u>\$ (965,553)</u>

The net increase in operating revenue of \$833,677 during 2020 was primarily due to the increased Tipping Fees request for hauling and disposal costs resulting from the closure of the waste to energy facility in March 2019 and an increase in total municipal solid waste tonnage across all categories of 6.4%. The net increase of \$305,969 during 2019 was primarily due to increased hauling, disposal, and curbside recycling expenses incurred during the 2019-2018 fiscal year.

The change in nonoperating revenue (expenses) of \$2,761,188 during 2020 is primarily due to the release of the escrow deposits funds to DTE and the related reduction in earnings on investments. The net increase in nonoperating income of \$74,778 during 2019, and \$51,328 during 2018, is due to the increase in interest earned on current investments.

The net increase in operating expenses of \$560,778 in 2020, compared to 2019, is primarily due to increased hauling and disposal expenses related to the closure of the waste to energy facility in March 2019. The net increase in operating expenses of \$367,711 in 2019, compared to 2018, is primarily due to increased costs related to hauling, disposal, and curbside recycling expenses.

GREATER DETROIT RESOURCE RECOVERY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020

Summary of Cash Flows	<u>2020</u>	<u>2019</u>	<u>2018</u>
Net cash provided (used) by operating activities	\$ 290,608	\$ 68,577	\$ 166,083
Net cash provided (used) by capital and financing activities	(72,349)	-	-
Net cash provided (used) by investing activities	<u>(218,548)</u>	<u>(68,545)</u>	<u>(165,719)</u>
Net Increase (Decrease) in Cash And Cash Equivalents	<u>\$ (289)</u>	<u>\$ 32</u>	<u>\$ 364</u>

Net cash provided by operating activities increased by \$222,031 in 2020 primarily due to receipt of revenues from recovered materials. Net cash provided by operating activities decreased by \$97,506 in 2019, compared to 2018, primarily due to timing constraints related to the receipt of invoices and tipping fees requested for payments to vendors. Net cash provided by operating activities increased by \$103,535 in 2018, primarily due to the receipts of revenues from recovered materials recycling and grants received from the State of Michigan for scrap tire removal and disposal.

All debt related obligations were satisfied in 2009. Net cash used in capital and related financing activities increased by \$72,349 due to leasehold improvement upgrades made at the Southfield Transfer Station in 2020-2019. Net cash used in capital and related financing activities show no additions to capital assets during 2019-2018 and 2018-2017, respectively. Net cash used in investing activities increased by \$150,003 in 2020 due to the sales of investment securities to release the balance in the Escrow Deposits fund and the subsequent release of the funds to DTE in February 2020. Net cash used in investing activities decreased by \$97,714 in 2019 and \$3,998,956 in 2018, respectively, due to the strategic and timely purchase of short-term investments.

Commitment

Strategic Planning Process

The Greater Detroit Resource Recovery Authority Board of Directors elected officers June 26, 2019, and approved a resolution presented by Miller Canfield, authorizing the Authority Director to continue to negotiate vendor contracts on a month to month basis through June 30, 2020. As of the date of this report, the Authority continues to operate under the contracts approved at that time for the hauling, processing, and disposal of municipal solid waste for the City of Detroit.

The Authority and Facility Operator continue to operate within the Atlas Holdings Agreement, dated October 7, 2010, through October 1, 2021, and the Authority continued to deliver the City of Detroit's municipal solid waste to the facility through June 30, 2020.

In early 2019, the Facility Operator reviewed their business model and expressed concern the current issues facing the facility would impede their ability to be profitable in the future. Issues including aging infrastructure, cost to retrofit the facility to bring operational function to current day standards, community opposition to "burning trash" as a business model, state and local sanctions regarding facility odor and hygiene, and competitive pricing of other disposal options available in a limited market made their operational framework no longer cost effective.

GREATER DETROIT RESOURCE RECOVERY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020

In March 2019, the Facility Operator did not meet requirement (c) Section 6 of the Energy Purchase agreement, failing to notify Detroit Edison of their intent to continue operations through June 30, 2020. The City of Detroit and the Facility Operator are in the process of negotiating agreements to modify the facility site waste to energy permitting to include use as a designated solid waste transfer station, serving as the City of Detroit hauling and disposal municipal solid waste staging satellite location.

Request for Information

This financial report is designed to provide a general overview of the Authority's finances. Questions concerning any information provided in this report or request for additional information should be addressed to the Director, Greater Detroit Resources Recovery Authority, 5700 Russell Street, Administration Building, and Detroit, MI 48211-2545.

GREATER DETROIT RESOURCE RECOVERY AUTHORITY
STATEMENTS OF NET POSITION

	June 30,	
	2020	2019
ASSETS		
Current Assets		
Cash and cash equivalents - unrestricted	\$ 2,501	\$ 2,790
Investments - unrestricted	5,214,998	4,935,800
Investments - restricted	-	2,686,928
Total investments	5,214,998	7,622,728
Accounts receivable, net	1,136,281	1,136,467
Total Current Assets	6,353,780	8,761,985
Capital Assets, Net		
Steamline, net of accumulated depreciation of \$27,847,618 and \$26,876,190 at June 30, 2020 and 2019, respectively	6,152,381	7,123,810
Southfield Transfer Station and MRS System, net of accumulated depreciation of \$2,268,804 and \$2,149,087 at June 30, 2020 and 2019, respectively	1,415,345	1,535,062
Land	8,873,234	8,873,234
Total Capital Assets, net	16,440,960	17,532,106
Total Assets	\$ 22,794,740	\$ 26,294,091
Liabilities And Net Position		
LIABILITIES		
Accounts payable	\$ 1,108,881	\$ 1,167,426
NET POSITION		
Invested in capital assets	16,440,960	17,532,106
Restricted net position	-	2,686,928
Unrestricted net position	5,244,899	4,907,631
Total Net Position	21,685,859	25,126,665
Total Liabilities and Net Position	\$ 22,794,740	\$ 26,294,091

GREATER DETROIT RESOURCE RECOVERY AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET POSITION

	For the fiscal years ended June 30,	
	<u>2020</u>	<u>2019</u>
Operating Revenues		
Tipping fees	\$ 10,624,660	\$ 9,828,162
Other	196,282	159,103
Total Operating Revenues	<u>10,820,942</u>	<u>9,987,265</u>
Operating Expenses		
Facility operations	2,621,275	3,474,084
Waste disposal costs	7,739,770	6,304,626
Depreciation	1,163,495	1,166,587
General and administrative expenses	110,930	129,395
Total Operating Expenses	<u>11,635,470</u>	<u>11,074,692</u>
Operating Loss	(814,528)	(1,087,427)
Nonoperating Revenues (Expenses)		
Earnings on investments	90,724	134,910
Extraordinary Item (Note 8)	<u>(2,717,002)</u>	<u>-</u>
Total Nonoperating Revenues (Expenses)	<u>(2,626,278)</u>	<u>134,910</u>
Decrease In Net Position	(3,440,806)	(952,517)
Net Position - Beginning of Year	<u>25,126,665</u>	<u>26,079,182</u>
Net Position - End of Year	<u><u>\$ 21,685,859</u></u>	<u><u>\$ 25,126,665</u></u>

GREATER DETROIT RESOURCE RECOVERY AUTHORITY
STATEMENTS OF CASH FLOWS

	For the fiscal years ended	
	June 30,	
	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from City of Detroit and customers	\$ 10,821,128	\$ 9,859,017
Payments to suppliers	<u>(10,530,520)</u>	<u>(9,790,440)</u>
Net Cash Provided By Operating Activities	<u>290,608</u>	<u>68,577</u>
CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES		
Acquisition of capital assets	<u>(72,349)</u>	<u>-</u>
Net Cash Used In Capital and Financing Activities	<u>(72,349)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(5,461,003)	(5,769,562)
Sales of investment securities	7,868,733	5,566,107
Release of escrow deposit	(2,717,002)	-
Interest received from investment securities	<u>90,724</u>	<u>134,910</u>
Net Cash Used In Investment Activities	<u>(218,548)</u>	<u>(68,545)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(289)	32
Cash and Cash Equivalents, beginning	<u>2,790</u>	<u>2,758</u>
Cash and Cash Equivalents, ending	<u><u>\$ 2,501</u></u>	<u><u>\$ 2,790</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO		
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Change in net position	\$ (814,528)	\$ (1,087,427)
Adjustments to reconcile change in net position to net cash provided by operating activities		
Depreciation	1,163,495	1,166,587
Decrease (increase) in accounts receivable	186	(128,248)
Increase (decrease) in accounts payable	<u>(58,545)</u>	<u>117,665</u>
Net Cash Provided By Operating Activities	<u><u>\$ 290,608</u></u>	<u><u>\$ 68,577</u></u>

GREATER DETROIT RESOURCE RECOVERY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

The Greater Detroit Resource Recovery Authority (the “Authority”), created August 1984, is a component unit of the City of Detroit, established by the Cities of Detroit and Highland Park, Michigan, under Act No. 179, Michigan Public Acts 1947, as amended. The Authority was established for the acquisition, construction, and operation of a waste-to-energy facility. The following is a summary of the significant accounting policies followed by the Authority (an enterprise fund of the City of Detroit):

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting. The Authority reports as a Business Type Activity, as defined by Governmental Accounting Standards Board (“GASB”). Business Type Activities are those that are financed in whole or in part by fees charged to external parties for goods or services. In preparing the financial statements, the Authority has applied all Financial Accounting Standards Board statements and Interpretations issued after November 30, 1989, except those that conflict or contradict GASB pronouncements.

Operating Revenues

The majority of the Authority’s revenues consist of tipping fees received from the City of Detroit to be used for the hauling and disposal of municipal solid waste, the sale of reclaimed metal extracted from the waste stream, and grants from the State of Michigan for the collection and disposal of scrap tires. The Authority currently has no other significant revenue stream that would necessitate distinguishing tipping fees for any purpose other than the hauling and disposal of the City of Detroit’s municipal solid waste.

Operating Expenses

Consist of costs incurred related to the hauling and disposal of municipal solid waste. Included are the costs associated with the transportation and disposal of municipal solid waste, bulky material, yard waste, household, hazardous waste, recyclable materials, and expenses incurred in the daily operations of the Authority.

Concentration of Credit Risk

The Authority from time to time during the year covered by these financial statements may have bank balances in excess of its insured limits. Management has deemed this as a normal business risk.

Bank Deposits and Investments

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of one year or less when acquired. Investments are stated at fair value, based on quoted market prices.

GREATER DETROIT RESOURCE RECOVERY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Accounts Receivable, Net

The Authority carries its accounts receivable at net realizable value less an allowance for doubtful accounts. Management assesses the collectability of the accounts receivable balances and estimates the portion, if any, of that balance that will not be collected. Management has determined that as of June 30, 2020 and 2019, no allowance is deemed necessary. Accounts receivable, net includes \$1,091,281 and \$1,063,467 for 2020 and 2019, respectively, due from the City of Detroit, a related party.

Capital Assets

Capital assets are recorded at historical cost and depreciated using the straight-line method over the following useful lives:

Steamline	35 years
Southfield Transfer Station	20 years
Equipment	5 years

Net Position

Invested In Capital Assets, Net of Related Debt

Consist of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to acquisition, construction, or improvements to those assets.

Restricted Net Position

Amounts that are legally restricted by creditors, grantors, contributors, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position

Amounts which do not meet the definition of the two preceding categories. Unrestricted net position often have constraints on resources which are imposed by management, but can be removed or modified.

Revenue Recognition

Revenue is recognized when services are rendered or the underlying transactions have occurred. Recovered material and private hauler revenues are recognized upon shipment.

GREATER DETROIT RESOURCE RECOVERY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The carrying amounts reported in the Statements of Net Position for cash and cash equivalents, accounts receivable and accounts payable approximate fair value because of the immediate or short-term maturity of these financial instruments.

The Authority accounts for the fair value of assets and liabilities in accordance with Financial Accounting Standards Board Accounting Standards Codification (“ASC”) 820-10 “*Fair Value Measurements and Disclosures*.” ASC 820-10 provides a consistent definition of fair value that focuses on exit price and prioritizes, within a measurement of fair value, the use of market-based inputs over company-specific inputs. A three-level valuation hierarchy is used for fair value measurements. The three-level valuation hierarchy is based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions based on the best evidence available. These two types of inputs create the following:

- Level 1 Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations in which all observable inputs and significant value drivers are observable in active markets.
- Level 3 Model-derived valuations in which one or more significant inputs or significant value drivers are unobservable, including assumptions developed by the Authority.

GREATER DETROIT RESOURCE RECOVERY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Fair Value of Financial Instruments (Continued)

For recognition purposes, on a recurring basis the Authority is required to measure investments at fair value. The following table presents information about investments recorded at fair value at:

	June 30, 2020	
	Total Carrying Value in the Statement of Net Positions	Quoted Prices in Active Markets for Identical Assets (Level 1)
First American Goldman Treasury Obligation Funds	\$ 5,214,998	\$ 5,214,998
Total Investments	\$ 5,214,998	\$ 5,214,998
	June 30, 2019	
	Total Carrying Value in the Statement of Net Positions	Quoted Prices in Active Markets for Identical Assets (Level 1)
First American Goldman Treasury Obligation Funds	\$ 7,622,728	\$ 7,622,728
Total Investments	\$ 7,622,728	\$ 7,622,728

GREATER DETROIT RESOURCE RECOVERY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 2 – DEPOSITS AND INVESTMENTS

In accordance with *Government Accounting Standards Board Statement on Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments with maturities of less than one year are stated at amortized cost, and investments with maturities of greater than one year are stated at fair value (quoted market price or management's best available estimate thereof). For purposes of reporting cash flows, cash equivalents are investments with an original maturity of less than one month. Investments with an original maturity of less than one year and greater than one month when purchased are classified as investments, current, while those investments with maturity greater than one year when purchased are classified as investments, noncurrent, in the accompanying statements of net positions.

The following is a complete listing of the Authority's deposits and investments held by a trustee at:

	June 30,	
	2020	2019
Deposits	\$ 2,501	\$ 2,790
Investments	<u>5,214,998</u>	<u>7,622,728</u>
Total Cash And Investments	<u>\$ 5,217,499</u>	<u>\$ 7,625,518</u>

The deposits and investments of the Authority at June 30, 2020 and 2019 are reflected in the financial statements as follows:

	June 30,	
	2020	2019
Unrestricted		
Deposits	\$ 2,501	\$ 2,790
Investments	<u>5,214,998</u>	<u>4,935,800</u>
Total Cash And Investments	<u>\$ 5,217,499</u>	<u>\$ 4,938,590</u>
Restricted		
Deposits	<u>\$ -</u>	<u>\$ 2,686,928</u>

State law authorizes the Authority to make deposits in the accounts of federally insured financial institutions. Cash held by fiscal agents or by trustees is secured in accordance with the requirements of the agency or trust agreement.

GREATER DETROIT RESOURCE RECOVERY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)

The Authority is authorized to invest in obligations of the U.S. government or its agencies, certificates of deposit, savings and depository accounts of insured institutions, commercial paper of certain investment quality, repurchase agreements, banker’s acceptances, mutual funds of certain investment quality, and investment pools as authorized by state law.

The Authority’s cash and cash equivalents are governed by state statutes and the bond ordinance and trust indenture authorizing the issuance of the revenue bonds. These state statutes, the ordinance and indenture generally provide that the Authority is authorized to invest in obligations of the U.S. government, the principal, and interest on which is fully guaranteed, and certificates of deposit in financial institutions with equity capital of at least \$50,000,000 and bond rating of at least “A” and U.S. government repurchase agreements. The state statutes, the ordinance and indenture further provide that the Authority’s monies may be invested only in investments which mature not later than the respective dates when the monies will be required for the purposes intended. Additionally, investments in the Bond Fund may be invested only in governmental obligations bearing maturity dates before the date of the next maturity of principal and interest.

	June 30,			
	2020		2019	
	Cost	Market	Cost	Market
Deposits	\$ 2,501	\$ 2,501	\$ 2,790	\$ 2,790

For deposits, cost approximates fair value because of the short maturity of these instruments.

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 bank failure, the Authority’s deposits may not be returned by the bank. See Note 1 for disclosure.

Custodial Credit Risk of Investments

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

GREATER DETROIT RESOURCE RECOVERY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)

Interest Rate Risk

Interest rate risk is the risk that, over time, the value of investments will decrease as a result of a rise in interest rates. The Authority's investment policy does not specifically restrict investment maturities other than commercial paper, which can only be purchased with a maximum 270-day maturity. The Trustee's policy minimizes interest rate by requiring that the Authority attempt to match its investments with anticipated cash flow requirements. Unless related to a specific cash flow, the Authority generally does not directly invest in securities maturing more than 10 years from the original date of purchase.

<u>Investments</u>	<u>Market Value</u>	<u>1 Year or Less</u>
First American Goldman Treasury Obligation Funds	\$ 5,214,998	\$ 5,214,998
	<u>\$ 5,214,998</u>	<u>\$ 5,214,998</u>

Credit Risk

The Authority's investments are restricted by Act 94 of the Revenue Bond Act of 1933. The Authority limits its investments in commercial paper, mutual funds and external investment pools that purchase commercial paper to the top two rating classifications issued by two nationally recognized statistical ratings organizations (NRSROs).

As of June 30, 2020, the Authority had the following investments and credit quality ratings of debt securities.

<u>Investments</u>	<u>Value</u>	<u>Rating</u>	<u>Rating Organization</u>
First American Goldman Treasury Obligation Funds	\$ 5,214,998	AAAmf	Moody's Rating

GREATER DETROIT RESOURCE RECOVERY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 3 – ASSETS HELD BY THE TRUSTEE

The bond ordinance for the Resource Recovery Bonds, which provided for the acquisition and construction of the waste-to-energy facility, required the proceeds of the bonds to remain with the trustee in the construction costs and certain other cost are fully paid.

The bond indenture for the Economic Development Revenue Bonds, providing financing for the construction and installation of certain pollution control equipment to the waste-to-energy facility, required the proceeds of the bonds to remain with the trustee in the Construction Fund and the Bond Fund during the construction period. This construction Project was completed in April 1996.

The Trustee for the Authority maintained the following accounts:

	June 30, 2020		
	Unrestricted Assets	Restricted Assets	Earnings (Deficit)
Resource Recovery Revenue Bonds			
Construction Fund			
Cash	\$ -	\$ -	\$ -
Short-term investments in U.S. government obligations	-	-	-
Long-term investments in U.S. government obligations	-	-	-
Accrued interest receivable	-	-	-
Deficit	-	-	(348,241,228)
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (348,241,228)</u>
Bond and interest redemption fund			
Cash	\$ -	\$ -	\$ -
Short-term investments in U.S. government obligations	-	-	-
Long-term investments in U.S. government obligations	-	-	-
Accrued interest receivable	-	-	-
Surplus	-	-	373,858,238
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 373,858,238</u>

GREATER DETROIT RESOURCE RECOVERY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 3 – ASSETS HELD BY THE TRUSTEE (Continued)

	June 30, 2019		
	Unrestricted Assets	Restricted Assets	Earnings (Deficit)
Resource Recovery Revenue Bonds			
Construction Fund			
Cash	\$ -	\$ -	\$ -
Short-term investments in U.S. government obligations	-	-	-
Long-term investments in U.S. government obligations	-	-	-
Accrued interest receivable	-	-	-
Deficit	-	-	(347,269,799)
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (347,269,799)</u>
Bond and interest redemption fund			
Cash	\$ -	\$ -	\$ -
Short-term investments in U.S. government obligations	-	-	-
Long-term investments in U.S. government obligations	-	-	-
Accrued interest receivable	-	-	-
Surplus	-	-	373,858,238
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 373,858,238</u>

GREATER DETROIT RESOURCE RECOVERY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 3 – ASSETS HELD BY THE TRUSTEE (Continued)

	June 30, 2020		
	Unrestricted Assets	Restricted Assets	Earnings (Deficit)
Resource Recovery Revenue Bonds Receiving and operation and maintenance funds			
Cash	\$ 2,501	\$ -	\$ -
Short-term investments in U.S. government obligations	5,214,998	-	-
Long-term investments in U.S. government obligations	-	-	-
Accrued interest receivable	-	-	-
Accrued receivable, net	1,136,281	-	-
Deficit	-	-	(9,074,495)
	<u>\$ 6,353,780</u>	<u>\$ -</u>	<u>\$ (9,074,495)</u>
	June 30, 2019		
	Unrestricted Assets	Restricted Assets	Earnings (Deficit)
Resource Recovery Revenue Bonds Receiving and operation and maintenance funds			
Cash	\$ 2,790	\$ -	\$ -
Short-term investments in U.S. government obligations	4,935,800	2,686,928	-
Long-term investments in U.S. government obligations	-	-	-
Accrued interest receivable	-	-	-
Accrued receivable, net	1,136,467	-	-
Deficit	-	-	(6,605,118)
	<u>\$ 6,075,057</u>	<u>\$ 2,686,928</u>	<u>\$ (6,605,118)</u>

GREATER DETROIT RESOURCE RECOVERY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 3 – ASSETS HELD BY THE TRUSTEE (Continued)

Receiving Fund

All revenues, except investment income, from various sources are deposited in the Receiving Fund until the time of disbursement as provided for in the ordinance.

Operation and Maintenance Fund

Payments to cover the costs of operating the Authority pursuant to operating agreements are made from this fund after the transfer of appropriate monies from the Receiving Fund.

Authority Security Fund

Funds accumulated in this account, including the reserve requirement, were solely to pay the principal of, and redemption price and interest on, the series of bonds upon maturity.

Construction Fund

After required deposits to the Bond and Interest Redemption Fund, remaining proceeds and investment earnings on amounts accumulated in these funds were maintained in the Construction Fund. Such proceeds were used to pay bond issuance costs and the cost of construction and installation of the pollution control equipment.

Bond and Interest Redemption Fund

The bond indenture required the following accounts to be maintained with the Bond and Interest Redemption Fund.

GREATER DETROIT RESOURCE RECOVERY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 3 – ASSETS HELD BY THE TRUSTEE (Continued)

At June 30, 2020, the Authority maintained retained earning balances in the following general ledger accounts:

Economic Development Revenue Bonds	June 30, 2020		
	Unrestricted Assets	Restricted Assets	Earnings (Deficit)
Construction Fund			
Cash	\$ -	\$ -	\$ -
Short-term investments in U.S. government obligations	-	-	-
Long-term investments in U.S. government obligations	-	-	-
Accrued interest receivable	-	-	-
Surplus	-	-	91,151,483
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 91,151,483</u>
June 30, 2019			
Economic Development Revenue Bonds	Unrestricted Assets	Restricted Assets	Earnings (Deficit)
Construction Fund			
Cash	\$ -	\$ -	\$ -
Short-term investments in U.S. government obligations	-	-	-
Long-term investments in U.S. government obligations	-	-	-
Accrued interest receivable	-	-	-
Surplus	-	-	91,151,483
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 91,151,483</u>

GREATER DETROIT RESOURCE RECOVERY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 3 – ASSETS HELD BY THE TRUSTEE (Continued)

	June 30, 2020		
	Unrestricted Assets	Restricted Assets	Earnings (Deficit)
Economic Development Revenue Bonds			
Bond and interest redemption fund			
Cash	\$ -	\$ -	\$ -
Short-term investments in U.S. government obligations	-	-	-
Long-term investments in U.S. government obligations	-	-	-
Accrued interest receivable	-	-	-
Surplus	-	-	8,255,794
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,255,794</u>
Authority Security Fund			
Cash	\$ -	\$ -	\$ -
Short-term investments in U.S. government obligations	-	-	-
Long-term investments in U.S. government obligations	-	-	-
Accrued interest receivable	-	-	-
Deficit	-	-	(94,263,933)
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (94,263,933)</u>

GREATER DETROIT RESOURCE RECOVERY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 3 – ASSETS HELD BY THE TRUSTEE (Continued)

	June 30, 2019		
	Unrestricted Assets	Restricted Assets	Earnings (Deficit)
Economic Development Revenue Bonds			
Bond and interest redemption fund			
Cash	\$ -	\$ -	\$ -
Short-term investments in U.S. government obligations	-	-	-
Long-term investments in U.S. government obligations	-	-	-
Accrued interest receivable	-	-	-
Surplus	-	-	8,255,794
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,255,794</u>
Authority Security Fund			
Cash	\$ -	\$ -	\$ -
Short-term investments in U.S. government obligations	-	-	-
Long-term investments in U.S. government obligations	-	-	-
Accrued interest receivable	-	-	-
Deficit	-	-	(94,263,933)
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (94,263,933)</u>

NOTE 4 – RATES AND CHANGES

The Authority is authorized to fix, charge and collect user charges for services provided to residents in the event either the tipping fees or supplement tipping fees paid by the City of Detroit and other revenues generated are not sufficient in each operating year to produce revenues equal to be at least 100% of the operating costs. The City of Detroit's obligation to pay tipping fees is a full faith credit limited tax general and unconditional obligation.

For the years ended June 30, 2020 and 2019, tipping fees paid by the City of Detroit to the Authority were \$10,624,660 and \$9,828,162, respectively.

GREATER DETROIT RESOURCE RECOVERY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 5 – RISK MANAGEMENT

The Authority is exposed to various risk of loss related to torts and theft of, damage to, or destruction of assets. As a component of the City of Detroit, the Authority participates in the City’s self-insurance programs. The City self-insures most risks (general liability, automobile liability and worker’s compensation), unless there is a catastrophic loss potential, or where insurance coverage is required by revenue bond conditions or contractual requirements. No claims for losses against the Authority have been filed under City’s self-insurance programs for the past five fiscal years.

In accordance with the agreement for management, operation, and maintenance of the facility, the operator is liable for injuries to any and all persons and for damage to the facility and the property of others which occur in connection with, or arise out of, the operations of the facility. The operator is required to maintain insurance coverage for property damage, boiler and machinery damage, workers compensation, employer’s liability, general liability and business interruption.

NOTE 6 – SOUTHFIELD TRANSFER STATION

In May 2006, the Authority entered into a ground lease with the City of Detroit from March 1, 2006 through February 28, 2026, for a payment of one dollar per year, for certain land located at the southwest intersection of the Southfield and Jeffries freeways (known as the Southfield Transfer Station) as a point of transfer of solid waste from the City of Detroit to the Authority and its agents.

NOTE 7 – OPERATING LEASE INCOME

The Authority leases the steamline equipment to the operator of the facility under a non-cancelable operating lease expiring September 2035. Rent in the amount of \$30,000 annually is paid by the operator based on a calendar year.

Future minimum rental income under the lease agreement for each of the next five years and in the aggregate is as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2021	\$ 30,000
2022	30,000
2023	30,000
2024	30,000
2025	30,000
Thereafter	<u>307,500</u>
	<u>\$ 457,500</u>

GREATER DETROIT RESOURCE RECOVERY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 8 – ESCROW AGREEMENT

The Authority and the Facility Operator entered into a service agreement requiring the Authority to deliver to the facility solid waste generated by the City of Detroit through October 1, 2021. The Facility Operator entered into an agreement with Detroit Edison for the sale of electricity generated by the facility through June 30, 2024. All parties then entered into an Escrow Agreement, “securing payment of possible refunds and damages to Detroit Edison” by reserving portions of monthly energy purchase revenues.

The pertinent conditions of the Escrow Agreement were as follows: (a) the Facility is operating at the time of delivery by the Authority and Detroit Edison of the directive to the Escrow agent; and (b) there exists a written agreement with the Operator for the Authority to deliver City solid waste to the Facility; and (c) the Operator of the Facility has provided notice of its intent to continue operation of the Facility through June 30 of the following year. In any year in which the then Operator fails to provide notice of its intent to continue operation of the Facility through June 30 of the following calendar year and the other conditions precedent are satisfied at the time of the scheduled release, the scheduled release for such year shall be deferred unless and until such notice is provided or the Facility operates for such 12-month period.

In March 2019 the Facility Operator failed to deliver electric energy to Detroit Edison for a period of six consecutive months. Per the Energy Purchase Agreement, failure to meet this requirement expedites the release of funds held in Escrow to Detroit Edison. The funds released consist of the following:

Balance at June 30, 2019	\$ 2,686,928
Accrued interest July 1, 2019 - February 29, 2020	<u>30,074</u>
Funds released to Detroit Edison - February 2020	<u>\$ 2,717,002</u>

GREATER DETROIT RESOURCE RECOVERY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 9 – CAPITAL ASSETS

Capital asset activity for the current year was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets not being depreciated - Land	\$ 8,873,234	\$ -	\$ -	\$ 8,873,234
Capital assets being depreciated				
Steamline	34,000,000	-	-	34,000,000
Southfield Transfer Station	3,684,149	-	-	3,684,149
Leaseholds	-	72,349	-	72,349
Equipment	866,973	-	-	866,973
Furniture	30,738	-	-	30,738
Subtotal	38,581,860	72,349	-	38,654,209
Less accumulated depreciation for				
Steamline	26,876,190	971,429	-	27,847,619
Southfield Transfer Station	2,149,087	184,207	-	2,333,294
Leaseholds	-	7,859	-	7,859
Equipment	866,973	-	-	866,973
Furniture	30,738	-	-	30,738
Subtotal	29,922,988	1,163,495	-	31,086,483
Net capital assets being depreciated	8,658,872	(1,091,146)	-	7,567,726
Governmental activities total				
Capital assets - net of depreciation and amortization	\$ 17,532,106	\$ (1,091,146)	\$ -	\$ 16,440,960

NOTE 10 – SUBSEQUENT EVENTS

The Authority management has performed a review of events subsequent to the balance sheet date through September 30, 2020, the date the financial statements were available to be issued.

Towards the end of December 2019, an outbreak of a novel strain coronavirus (COVID-19) emerged globally. The COVID-19 pandemic has had a significant impact on global markets yielding unstable investment returns, job loss and financial hardships on various corporations. Given the evolving nature of this global emergency, long-term impact is not yet known. Management is carefully monitoring the situation. No adjustments have been recorded in the June 30, 2020 financial statements due to this uncertainty.