



Financial Services Audit Committee Communication

Date: May 22, 2018

To: Great Lakes Water Authority Audit Committee

From: Nicolette N. Bateson, CPA, Chief Financial Officer/Treasurer

Re: Detroit General Retirement System Plan Reporting Request

Background: When the Great Lakes Water Authority (GLWA) assumed operations of the regional water and sewer systems on January 1, 2016, it also assumed a pro-rata share of the frozen legacy defined benefit pension (referenced as "Component II") liabilities related to service provided to the regional systems for the Detroit Water & Sewerage Department (DWSD) Division of the Detroit General retirement System Plan (DGRS) pension plan. Pursuant to the "Agreement Re GRS Defined Benefit Plan Among City of Detroit and General Retirement System of City of Detroit and Great Lakes Water Authority" dated December 1, 2015, certain reporting requirements are in place. Section 2.2 (a)(4) is provided below.

(iv) An audit of the Statement of Changes in Fiduciary Net Position by Division expressing an opinion on each divisional column commencing with the Fiscal Year ending June 30, 2015. In lieu of a direct audit opinion on this schedule, the parties may agree in writing to secure an in-relation-to audit opinion on this schedule (in-relation-to the audited financial statement of the GRS) on a regular or occasional basis at any time after the Fiscal Year ending June 30, 2017. The audit firm indicated that the audit of this Statement will be performed after the Leases become effective on the Effective Date. To the extent that the actual net asset amounts as reflected in the final audit report differ from the net assets utilized to determine the UAAL for the DWSD Pension Pool reflected in Section 2.1, the difference shall be adjusted in a future GRS actuarial report and the UAAL provided in Section 2.1 shall be considered amended accordingly.

Analysis: Representatives from GRS have reached out to GLWA to modify the above audit requirement under the pension reporting agreement to "an in relation to opinion". This would reduce the administrative expenses for the cost of the annual audit. The GRS auditors have suggested a further refinement the GRS request. This includes the divisional allocation schedule within the regular GRS financial statements, as supplementary information. There would still be an in relation to opinion, which is the minimum allowed under the pension reporting agreement. This would be less costly, however, than preparing and issuing separate financial statements.

Recommendation: It is recommended that the Audit Committee authorize staff to work with the General Retirement System and its auditors to provide an “in relation to” opinion for the divisional allocation schedule within the regular GRS financial statements, as supplementary information.