



Financial Services Audit Committee Communication

Date: December 8, 2023

To: Great Lakes Water Authority Audit Committee

From: Steve Hoover, CPA, Financial Reporting Manager

Re: FY 2023 Year-end Financial Audit Update

Background and Analysis: See attached draft Board Letter.

Proposed Action: The Audit Committee recommends that the Board of Directors receives and files the Reports pertaining to the Fiscal Year Ended June 30, 2023 Financial Audit (the FY 2023 Annual Comprehensive Financial Report, FY 2023 Single Audit Act Compliance Report, and FY 2023 Independent Auditor's Communication with those Charged with Governance) and authorizes staff to proceed with the completion and filing of the annual audit reports prior to the due date with the state of Michigan; and authorizes the Chief Executive Officer (CEO) to take such other action as may be necessary to accomplish the intent of this vote.



Great Lakes Water Authority Audit Committee Draft Report on Fiscal Year 2023 Financial and Single Audit

Presented by:

Jodi Dobson, CPA, Partner
Baker Tilly US, LLP

December 8, 2023



Today's agenda

- > Audit overview
- > Auditor Communication with Those Charged with Governance
- > Internal control communication
- > Questions



Audit overview

- > Audit was conducted smoothly with no major snags or difficulties.
- > Management and staff were cooperative and readily available.
- > Audit schedule was maintained and communication between management and auditors was good.
- > Remote fieldwork began October 2nd and concluded October 13th.
- > ACFR preparation and review through November.
- > No audit adjusting journal entries were noted.
- > No single audit findings noted.



Audit overview

- > Audit performed in accordance with Generally Accepted Auditing Standards and Government Auditing Standards.
- > Audit is based on assessment of control risk in key business process areas. Below are several key areas of review:
 - Cash and investments
 - Revenues and receivables
 - General disbursements
 - Payroll
 - Pension liabilities
 - Long-term debt
 - Intangible asset and related obligation
 - Assets under construction and plant in service
 - Leased assets
 - Net position calculations
 - Analytical review of statement of net position and statement of revenues, expenses and changes in net position



Audit overview

- > Audit objective – obtain reasonable assurance that financial statements are free from material misstatement.
- > Financial statements receive an *Unmodified Opinion* (clean opinion).
- > Single audit results in *Unmodified Opinion* on compliance and controls over major program.

Communication with those charged with governance

Area to Be Communicated	Auditor's Response
Auditor's View on Qualitative Aspects of Significant Accounting Policies	<ul style="list-style-type: none"><li data-bbox="1107 548 2529 711">> The significant accounting policies used in the preparation of your financial statements are discussed in Note 1 to the financial statements.<li data-bbox="1107 764 2529 1101">> Accounting estimates are an integral part of the financial statements prepared by management's knowledge and experience about past and current events and assumptions about future events. We feel that all estimates made by management are in accordance with generally accepted accounting principles.



Communication with those charged with governance

Area to be Communicated	Auditor's Response
Significant Difficulties Encountered in Performing the Audit	> We encountered no difficulties in performing our audit.
Uncorrected Misstatements	> By Professional Auditing Standards, uncorrected misstatements refer to immaterial passed audit adjustments – there were no passed audit adjustments.



Communication with those charged with governance

Area to be Communicated	Auditor's Response
Disagreements with Management	<ul style="list-style-type: none">> Professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements were encountered during the course of the audit.
Other Findings or Issues	<ul style="list-style-type: none">> There are no other issues to disclose as part of the audit in connection with these Professional Auditing Standards.



Communication with those charged with governance

Area to be Communicated	Auditor's Response
Material Corrected Misstatements	<ul style="list-style-type: none"><li data-bbox="1104 548 2421 841">> Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.<li data-bbox="1104 963 2381 1073">> There were no adjustments as part of this year's audit.



Communication with those charged with governance

Area to be Communicated	Auditor's Response
Management Representations	<p>> We have requested certain representations from management that are included in the management representation letter. A copy of this letter is included with our final communication document.</p>

Communication with those charged with governance

Area to Be Communicated	Auditor's Response
Management's Consultations with Other Accountants	<p>> Professional standards require the consulting accountant to discuss any such contacts with the current auditor to determine that the consultant has all the relevant facts. We have been involved in any such consultations with other accountants.</p>

Communication with those charged with governance

Area to be Communicated	Auditor's Response
Auditor Independence	<p>> We are not aware of any relationships between Baker Tilly US, LLP, and Great Lakes Water Authority that, in our professional judgment, may reasonably be thought to bear on our independence.</p>

Internal control communication

AU-C Section 265

Communicating Internal Control Related Matters Identified in an Audit

Material weaknesses noted in GLWA's internal control:

None noted

Significant deficiencies noted in GLWA's internal control:

None noted

Single Audit – Federal Audit Clearinghouse submissions

OMB is waiving the 30-day deadline for 2023 submissions

For any 2023 submissions with fiscal periods ending between January 1, 2023 and September 30, 2023, requirement 2 CFR 200.512(1) stating that single audits are due to the Federal Audit Clearinghouse 30 days after receipt of the auditor's report(s), is waived. These audits will be considered on time if they are submitted within nine months after their fiscal period end date.

Thank You!

We appreciate the work performed by GLWA's accounting staff and management in preparing for and assisting in the audit!

We would be happy to answer any questions regarding the audit.

DRAFT 12/01/2023



**Reporting and insights
from 2023 audit:**
Great Lakes Water Authority

June 30, 2023

Executive summary

December 13, 2023

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

We have completed our audit of the financial statements of the Great Lakes Water Authority (the Authority) for the year ended June 30, 2023, and have issued our report thereon dated December 13, 2023. This letter presents communications required by our professional standards.

Your audit should provide you with confidence in your financial statements. The audit was performed based on information obtained from meetings with management, data from your systems, knowledge of the Authority's operating environment and our risk assessment procedures. We strive to provide you clear, concise communication throughout the audit process and of the final results of our audit.

Additionally, we have included information on key risk areas Great Lakes Water Authority should be aware of in your strategic planning. We are available to discuss these risks as they relate to your organization's financial stability and future planning.

If you have questions at any point, please connect with us:

- Jodi L Dobson, Partner: jodi.dobson@bakertilly.com or +1 (608) 240 2469
- Gwen Zech, Senior Manager: gwen.zech@bakertilly.com or +1 (608) 240 2443

Sincerely,

Baker Tilly US, LLP

Jodi L Dobson, CPA, Partner

Gwen Zech, CPA, Senior Manager

THIS COMMUNICATION IS INTENDED SOLELY FOR THE INFORMATION AND USE OF THOSE CHARGED WITH GOVERNANCE, AND, IF APPROPRIATE, MANAGEMENT, AND IS NOT INTENDED TO BE AND SHOULD NOT BE USED BY ANYONE OTHER THAN THESE SPECIFIED PARTIES.

BAKER TILLY US, LLP, TRADING AS BAKER TILLY, IS A MEMBER OF THE GLOBAL NETWORK OF BAKER TILLY INTERNATIONAL LTD., THE MEMBERS OF WHICH ARE SEPARATE AND INDEPENDENT LEGAL ENTITIES.

Responsibilities

Our responsibilities

As your independent auditor, our responsibilities include:

- Planning and performing the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high level of assurance.
- Assessing the risks of material misstatement of the financial statements, whether due to fraud or error. Included in that assessment is a consideration of the Authority's internal control over financial reporting.
- Performing appropriate procedures based upon our risk assessment.
- Evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management.
- Forming and expressing an opinion based on our audit about whether the financial statements prepared by management, with the oversight of the Board of Directors:
 - Are free from material misstatement
 - Present fairly, in all material respects and in accordance with accounting principles generally accepted in the United States of America
- Performing tests related to compliance with certain provisions of laws, regulations, contracts and grants, as required by *Government Auditing Standards*
- Considering internal control over compliance with requirements that could have a direct and material effect on major federal programs to design tests of both controls and compliance with identified requirements
- Forming and expressing an opinion based on our audit in accordance with OMB's *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance) about the entity's compliance with requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs.
- Our audit does not relieve management or the Board of Directors of their responsibilities.

We are also required to communicate significant matters related to our audit that are relevant to the responsibilities of the Board of Directors, including:

- Internal control matters
- Qualitative aspects of the Authority's accounting practice including policies, accounting estimates and financial statement disclosures
- Significant unusual transactions
- Significant difficulties encountered
- Disagreements with management
- Circumstances that affect the form and content of the auditors' report
- Audit consultations outside the engagement team
- Corrected and uncorrected misstatements
- Other audit findings or issues

Audit status

Significant changes to the audit plan

There were no significant changes made to either our planned audit strategy or to the significant risks and other areas of emphasis identified during the performance of our risk assessment procedures.

Audit approach and results

Planned scope and timing

Audit focus

Based on our understanding of the Authority and environment in which you operate, we focused our audit on the following key areas:

- Key transaction cycles
- Areas with significant estimates
- Implementation of new accounting standards

Our areas of audit focus were informed by, among other things, our assessment of materiality. Materiality in the context of our audit was determined based on specific qualitative and quantitative factors combined with our expectations about the Authority's current year results.

Key areas of focus and significant findings

Significant risks of material misstatement

A significant risk is an identified and assessed risk of material misstatement that, in the auditor's professional judgment, requires special audit consideration. Within our audit, we focused on the following areas below.

Significant risk areas	Testing approach	Conclusion
Management override of controls	Incorporate unpredictability into audit procedures, emphasize professional skepticism and utilize audit team with industry expertise	Procedures identified provided sufficient evidence for our audit opinion
Improper revenue recognition due to fraud	Confirmation or validation of certain revenues supplemented with detailed predictive analytics based on nonfinancial data and substantive testing of related receivables	Procedures identified provided sufficient evidence for our audit opinion

Other areas of emphasis

We also focused on other areas that did not meet the definition of a significant risk, but were determined to require specific awareness and a unique audit response.

Other areas of emphasis		
Cash and investments	Revenues and receivables	General disbursements
Payroll	Pension liability	Long-term debt
Capital assets including infrastructure	Net position calculations	Financial reporting and required disclosures
Shared services with and received from DWSD	Lease payables	Due to and due from other governments

Internal control matters

We considered the Authority’s internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing an opinion on the financial statements. We are not expressing an opinion on the effectiveness of the Authority’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

A material weakness is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

Required communications

Qualitative aspect of accounting practices

- Accounting policies: Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we have advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing accounting policies was not changed during 2023. We noted no transactions entered into by the Authority during the year for which accounting policies are controversial or for which there is a lack of authoritative guidance or consensus or diversity in practice.
- Accounting estimates: Accounting estimates, including fair value estimates, are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements, the degree of subjectivity involved in their development and because of the possibility that future events affecting them may differ significantly from those expected. The following estimates are of most significance to the financial statements:

Estimate	Management's process to determine	Baker Tilly's conclusions regarding reasonableness
Net pension liability and related deferrals	Key assumptions set by management with the assistance of a third-party actuary	Reasonable in relation to the financial statements as a whole
Allowance for doubtful accounts	Evaluation of historical revenues and loss levels with the analysis on collectability of individual amounts	Reasonable in relation to the financial statements as a whole
Depreciation	Evaluate estimated useful life of the asset and original acquisition value	Reasonable in relation to the financial statements as a whole
Shared services subject to joint review and true up	Evaluation based on joint review and agreement between parties	Reasonable in relation to the financial statements as a whole

There have been no significant changes made by management to either the processes used to develop the particularly sensitive accounting estimates, or to the significant assumptions used to develop the estimates, noted above.

- Financial statement disclosures: The disclosures in the financial statements are neutral, consistent and clear.

Significant unusual transactions

There have been no significant transactions that are outside the normal course of business for the Authority or that otherwise appear to be unusual due to their timing, size or nature.

Significant difficulties encountered during the audit

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

Disagreements with management

Professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the basic financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Audit report

There have been no departures from the auditors' standard report.

Audit consultations outside the engagement team

We encountered no difficult or contentious matters for which we consulted outside of the engagement team.

Uncorrected misstatements and corrected misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no misstatements identified.

Other audit findings or issues

We encountered no other audit findings or issues that require communication at this time.

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Management's consultations with other accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing or accounting matters.

Written communications between management and Baker Tilly

The attachments include copies of other material written communications, including a copy of the management representation letter.

Compliance with laws and regulations

We did not identify any non-compliance with laws and regulations during our audit.

Fraud

We did not identify any known or suspected fraud during our audit.

Going concern

Pursuant to professional standards, we are required to communicate to you, when applicable, certain matters relating to our evaluation of the Authority's ability to continue as a going concern for a reasonable period of time but no less than 12 months from the date of the financial statements, including the effects on the financial statements and the adequacy of the related disclosures, and the effects on the auditor's report. No such matters or conditions have come to our attention during our engagement.

Independence

We are not aware of any relationships between Baker Tilly and the Authority that, in our professional judgment, may reasonably be thought to bear on our independence.

Related parties

We did not have any significant findings or issues arise during the audit in connection with the Authority's related parties.

Other matters

We applied certain limited procedures to the required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplementary information which accompanies the financial statements but is not RSI. With respect to the supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the other information, which accompanies the financial statements but are not RSI. We did not audit or perform other procedures on this other information, and we do not express an opinion or provide any assurance on it.

Audit committee resources

Visit our resource page for regulatory updates, trending challenges and opportunities in your industry and other timely updates.

Visit the resource page at <https://www.bakertilly.com/insights/audit-committee-resource-page>.

Management representation letter



DRAFT

December 13, 2023

Baker Tilly US, LLP
4807 Innovate Ln
PO Box 7398
Madison, WI 53707

Dear Baker Tilly US, LLP:

We are providing this letter in connection with your audit of the financial statements of the Great Lakes Water Authority (Authority) as of June 30, 2023 and for the year then ended for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the financial position of the Authority, each major enterprise fund, and the respective changes in financial position and cash flows, where applicable, in conformity with generally accepted accounting principles (GAAP) in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with GAAP. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control over financial reporting, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

Financial Statements

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter.
- 2) The financial statements referred to above are fairly presented in conformity with GAAP and include all properly classified funds and other financial information of the Authority required by GAAP to be included in the financial reporting entity.

- 3) We acknowledge our responsibility 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.
- 4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- 5) Significant assumptions we used in making accounting estimates, including those measured at fair value, if any, are reasonable.
- 6) All events subsequent to the date of the financial statements and for which GAAP require adjustment or disclosure have been adjusted or disclosed. No other events, including instances of noncompliance, have occurred subsequent to the financial statement date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements or in the schedule of findings and questioned costs.
- 7) All material transactions have been recorded in the accounting records and are reflected in the financial statements and the schedule of expenditures of federal and state awards.
- 8) The effects of all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements, have been accounted for and disclosed in accordance with GAAP. There are no unasserted litigation, claims or assessments that our lawyer has advised us are probable of assertion.
- 9) Guarantees, whether written or oral, under which the Authority is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

- 10) We have provided you with:
 - a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as financial records and related data, documentation, and other matters and all audit or relevant monitoring reports, if any, received from funding sources.
 - b) Additional information that you have requested from us for the purpose of the audit.
 - c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

- d) Minutes of the meetings of Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 11) We have disclosed to you results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 12) We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - a) Management,
 - b) Employees who have significant roles in internal control, or
 - c) Others where the fraud could have a material effect on the financial statements.
- 13) We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, regulators, or others.
- 14) We have no knowledge of known instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
- 15) There are no related parties or related party relationships and transactions, including side agreements, of which we are aware.

Other

- 16) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 17) We have taken timely and appropriate steps to remedy fraud, noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse that you have reported to us.
- 18) We have a process to track the status of audit findings and recommendations.
- 19) We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for our report.
- 20) The Authority has no plans or intentions that may materially affect the carrying value or classification of assets, deferred outflows of resources, liabilities, deferred inflows of resources or net position.

- 21) We are responsible for compliance with federal, state, and local laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits, debt contracts, and IRS arbitrage regulations; and we have identified and disclosed to you all federal, state, and local laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
- 22) There are no:
- a) Violations or possible violations of budget ordinances, federal, state, and local laws or regulations (including those pertaining to adopting, approving and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, or for reporting on noncompliance, except those already disclosed in the financial statement, if any.
 - b) Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GAAP.
 - c) Charges and/or rates being charged to customers other than the charges and/or rates as authorized by the applicable authoritative body.
 - d) Violations of restrictions placed on revenues as a result of bond resolution covenants such as revenue distribution or debt service funding.
- 23) The Authority has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- 24) The Authority has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.
- 25) The financial statements properly classify all funds and activities.
- 26) Components of net position (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.
- 27) The Authority has no derivative financial instruments such as contracts that could be assigned to someone else or net settled, interest rate swaps, collars or caps.
- 28) Provisions for uncollectible receivables, if any, have been properly identified and recorded.

- 29) Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
- 30) Deposits and investments are properly classified, valued, and disclosed (including risk disclosures, collateralization agreements, valuation methods, and key inputs, as applicable).
- 31) Provision, when material, has been made to reduce excess or obsolete inventories to their estimated net realizable value.
- 32) Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated/amortized. Any known impairments have been recorded and disclosed.
- 33) Tax-exempt bonds issued have retained their tax-exempt status.
- 34) We have appropriately disclosed the Authority's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available and have determined that net position was properly recognized under the policy.
- 35) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
- 36) With respect to the supplementary information(SI):
 - a) We acknowledge our responsibility for presenting the SI in accordance with GAAP, and we believe the SI, including its form and content, is fairly presented in accordance with GAAP, as applicable. The methods of measurement and presentation of the SI have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
 - b) If the SI is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.

- 37) We have evaluated and considered all debt reported as defeased in substance and believe all material amounts held in trust that are not expressly prohibited from substitution in monetary assets that are not essentially risk-free are properly disclosed.
- 38) We have implemented Governmental Accounting Standards Board (GASB) Statement No. 91, *Conduit Debt Obligations*, and believe that all required disclosures and accounting considerations have been identified and properly classified in the financial statements in compliance with the Standard.
- 39) We have evaluated GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, and did not identify any existing transactions that the standard was applicable.
- 40) We have implemented GASB Statement No. 100, *Accounting Changes and Error Corrections-an amendment of GASB Statement No. 62*, however there were no changes or corrections to be reported or disclosed in the current period.
- 41) We have identified any leases or other contracts that are required to be reported as leases or SBITA and are in agreement with the key assumptions used in the measurement of any lease or subscription related assets, liabilities or deferred inflows of resources.
- 42) We are responsible for the estimation methods and assumptions used in measuring assets and liabilities reported or disclosed at fair value, including information obtained from brokers, pricing services or third parties. Our valuation methodologies have been consistently applied from period to period. The fair value measurements reported or disclosed represent our best estimate of fair value as the measurement date in accordance with the requirements of GASB 72 – *Fair Value Measurement*. In addition, our disclosures related to fair value measurements are consistent with the objectives outlined in GASB 72. We have evaluated the fair value information provided to us by brokers, pricing services or other parties that has been used in the financial statements and believe this information to be reliable and consistent with the requirements.
- 43) We have evaluated the existing outstanding debt for potential arbitrage liability. No liability has been recorded as no known liability exists.
- 44) We have evaluated existing contracts and agreements and are responsible for the accounting and financial reporting of any related capital or intangible assets, liabilities, receivables or deferred items in compliance with generally accepted accounting principles.
- 45) We are responsible for compliance with the funding requirements and the flow of funds as outlined in the Master Bond Ordinance.

- 46) We are responsible for the fair presentation of the Authority's net pension liability based upon calculations by the City of Detroit General Employees' Retirement System (GRS) and related amounts. We appropriately allocated the net pension liability based on the assumptions in the lease agreements, pension agreement and the allocation letter signed by the Authority's Chief Executive Officer and the Detroit Water & Sewerage Department (DWSD) Director on January 24, 2017. We have properly disclosed our special funding situation under GASB 68, Accounting and Financial Reporting for Pension Plans. We have reviewed the information provided by GRS for inclusions in the Authority's financial statements.
- 47) The auditing standards define an annual report as "a document, or combination of documents, typically prepared on an annual basis by management or those charged with governance in accordance with law, regulation, or custom, the purpose of which is to provide owners or similar stakeholders with information on the entity's operations and the financial results and financial position as set out in the financial statements." Among other items, an annual report contains, accompanies, or incorporates by reference the financial statements and the auditors' report thereon. The annual comprehensive financial report (ACFR) is an annual report. We have provided you with the final version of the annual report. There are no material inconsistencies between the financial statements and any other information contained within the annual report.
- 48) With respect to federal award programs:
- a) We are responsible for understanding and complying with and have complied with the requirements of the Single Audit Act Amendments of 1996, *OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), including requirements relating to preparation of the schedule of expenditures of federal awards (SEFA).
 - b) We acknowledge our responsibility for preparing and presenting the SEFA and related disclosures in accordance with the requirements of the Uniform Guidance and we believe the SEFA, including its form and content, is fairly presented in accordance with the Uniform Guidance. The methods of measurement and presentation of the SEFA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the SEFA.
 - c) If the SEFA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFA no later than the date we issue the SEFA and the auditors' report thereon.

- d) We have identified and disclosed to you all of our government programs and related activities subject to the Uniform Guidance and included in the SEFA, expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.
- e) We are responsible for understanding and complying with, and have complied with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal program.
- f) We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provide reasonable assurance that we are administering our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended. Also, no changes have been made in the internal control over compliance or other factors to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to control deficiencies reported in the schedule of findings and questioned costs.
- g) We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relevant to the programs and related activities.
- h) We have received no requests from a federal agency to audit one or more specific programs as a major program.
- i) We have complied with the direct and material compliance requirements including when applicable, those set forth in the OMB Compliance Supplement relating to federal awards.
- j) We have disclosed any communications from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditors' report.
- k) Amounts claimed or used for matching were determined in accordance with relevant guidelines in the Uniform Guidance.

- l) We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
- m) We have made available to you all documentation related to the compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- n) We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.
- o) We are not aware of any instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditors' report.
- p) No changes have been made in internal control over compliance or other factors that might significantly affect internal control, subsequent to the date as of which compliance was audited.
- q) Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
- r) The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
- s) We have monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of the Uniform Guidance.
- t) We have taken appropriate action, including issuing management decisions, on a timely basis after receipt of subrecipients' auditors' reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements to ensure that subrecipients have taken the appropriate and timely corrective action on findings.
- u) We have considered the results of subrecipient audits and made any necessary adjustments to our books and records.
- v) We have charged costs to federal awards in accordance with applicable cost principles.

- w) We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by the Uniform Guidance *and* we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
- x) We are responsible for and have ensured the reporting package does not contain protected personally identifiable information.
- y) We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by the Uniform Guidance.

Sincerely,

Suzanne R. Coffey, P.E., Chief Executive Officer

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

Client service team



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Accounting changes relevant to Great Lakes Water Authority

Future accounting standards update

GASB Statement Number	Description	Potentially Impacts you	Effective Date
101	Compensated Absences	✓	6/30/25

Further information on upcoming [GASB pronouncements](#).

Updated accounting and reporting for compensated absences

The Governmental Accounting Standards Board (GASB) issued its Statement No. 101, *Compensated Absences*, in June 2022. The objective of GASB 101 is to update the recognition and measurement guidance for compensated absences for state & local government employers. It supersedes GASB No. 16, *Accounting for Compensated Absences*, issued in 1992, as well as earlier guidance, and addresses changes resulting from the types of leave now being offered. GASB 101 is effective for fiscal years beginning after December 15, 2023 (i.e., June 30, 2025 year-end reporting entities).

GASB 101 more appropriately reflects a liability *when* a government incurs an obligation for compensated absences and will improve comparability of reporting between governments that offer different types of leave. It requires that liabilities be recognized for (1) leave that has not been used, and (2) leave that has been used but not yet paid in cash or settled-up via non-cash means. Compensated absences are defined as leave for which employees may receive one or more of the following:

- Cash payments when the leave is used for time off;
- Other cash payments, such as payment for unused leave upon termination of employment, or;
- Noncash settlements, such as conversion to defined benefit postemployment benefits.

Examples of compensated absences provided in GASB 101 include vacation, sick leave, paid time off (PTO), holidays, parental leave, bereavement leave, and certain types of sabbatical leave. Payment or settlement of compensated absences could occur during employment, or upon termination of employment. GASB 101 does not apply to benefits that are within the scope of GASB 47, *Accounting for Termination Benefits*.

GASB 101 requires that a liability should be recognized for leave that has not been used if all of the following are true:

- The leave is attributable to services already rendered;
- The leave accumulates, and;
- The leave is “more likely than not” (i.e., likelihood of more than 50%) to be used for time off or otherwise paid in cash or settled through noncash means (1 provides factors to assess this criteria).

GASB 101 requires liabilities for compensated absences to be recognized in financial statements prepared using the economic resources measurement focus equal to the amount of leave that has not yet been used and leave that has been used but not yet paid or settled. GASB 101 did not change the report for financial statements prepared using the current financial resources measurement focus (i.e., governmental funds).

Other changes in financial statement disclosures include the change in compensated absences liability can now be disclosed as a net change, rather than gross increases/decreases in the liability. Also, governments are no longer required to disclose which fund has typically liquidated the liability.

We recommend that governments begin to review the guidance contained in GASB 101 within the context of your existing compensated absences policies and accounting practices, in order to be better informed in terms of the information that you will need for this implementation.

Two-way audit communications

As part of our audit of your financial statements, we are providing communications to you throughout the audit process. Auditing requirements provide for two-way communication and are important in assisting the auditor and you with more information relevant to the audit.

As this past audit is concluded, we use what we have learned to begin the planning process for next year's audit. It is important that you understand the following points about the scope and timing of our next audit:

- a. We address the significant risks of material misstatement, whether due to fraud or error, through our detailed audit procedures.
- b. We will obtain an understanding of the five components of internal control sufficient to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing and extent of further audit procedures. We will obtain a sufficient understanding by performing risk assessment procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented. We will use such knowledge to:
 - Identify types of potential misstatements.
 - Consider factors that affect the risks of material misstatement.
 - Design tests of controls, when applicable, and substantive procedures.
- c. We will not express an opinion on the effectiveness of internal control over financial reporting or compliance with laws, regulations and provisions of contracts or grant programs. For audits performed in accordance with *Government Auditing Standards*, our report will include a paragraph that states that the purpose of the report is solely to describe the scope of testing of internal control over financial reporting and compliance and the result of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance and that the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance. The paragraph will also state that the report is not suitable for any other purpose.
- d. The concept of materiality recognizes that some matters, either individually or in the aggregate, are important for fair presentation of financial statements in conformity with generally accepted accounting principles while other matters are not important. In performing the audit, we are concerned with matters that, either individually or in the aggregate, could be material to the financial statements. Our responsibility is to plan and perform the audit to obtain reasonable assurance that material misstatements, whether caused by errors or fraud, are detected.

Our audit will be performed in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, *OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

We will not express an opinion on the effectiveness of internal control over financial reporting or compliance with laws, regulations, and provisions of contracts or grant programs. For audits done in accordance with *Government Auditing Standards*, the Uniform Guidance, our report will include a paragraph that states that the purpose of the report is solely to describe (a) the scope of testing of internal control over financial reporting and compliance and the result of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance, (b) the scope of testing internal control over compliance for major programs and major program compliance and the result of that testing and to provide an opinion on compliance but not to provide an opinion on the effectiveness of internal control over compliance and (c) that the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance and the Uniform Guidance, in considering internal control over compliance and major program compliance. The paragraph will also state that the report is not suitable for any other purpose.

We are very interested in your views regarding certain matters. Those matters are listed here:

- a. We typically will communicate with your top level of management unless you tell us otherwise.
- b. We understand that the governing board has the responsibility to oversee the strategic direction of your organization, as well as the overall accountability of the entity. Management has the responsibility for achieving the objectives of the entity.
- c. We need to know your views about your organization's objectives and strategies, and the related business risks that may result in material misstatements.
- d. We anticipate that the Authority will receive an unmodified opinion on its financial statements.
- e. Which matters do you consider warrant particular attention during the audit, and are there any areas where you request additional procedures to be undertaken?
- f. Have you had any significant communications with regulators or grantor agencies?
- g. Are there other matters that you believe are relevant to the audit of the financial statements?

Also, is there anything that we need to know about the attitudes, awareness and actions of the governing body concerning:

- a. The entity's internal control and its importance in the entity, including how those charged with governance oversee the effectiveness of internal control?
- b. The detection or the possibility of fraud?

We also need to know if you have taken actions in response to developments in financial reporting, laws, accounting standards, governance practices, or other related matters, or in response to previous communications with us.

With regard to the timing of our audit, here is some general information. If necessary, we may do preliminary financial audit work during the months of August or September. Our final financial fieldwork is scheduled during the fall to best coincide with your readiness and report deadlines. After fieldwork, we wrap up our financial audit procedures at our office and may issue drafts of our report for your review. Final copies of our report and other communications are issued after approval by your staff.

Keep in mind that while this communication may assist us with planning the scope and timing of the audit, it does not change the auditor's sole responsibility to determine the overall audit strategy and the audit plan, including the nature, timing and extent of procedures necessary to obtain sufficient appropriate audit evidence.

We realize that you may have questions on what this all means, or wish to provide other feedback. We welcome the opportunity to hear from you.

December 13, 2023

Great Lakes Water Authority
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Detroit, MI 48226

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F: +1 (888) 264 9617

bakertilly.com

To the Great Lakes Water Authority Audit Committee:

We are presenting, for your consideration, our comments and management recommendations which were identified during our audit of the financial statements of the Great Lakes Water Authority (Authority) for the year ended June 30, 2023.

This letter, by its nature, focuses on improvements and does not comment on the many strong areas of the Authority's systems and procedures. The comments and suggestions are not intended to reflect in any way on the integrity or ability of the personnel of Authority's operations. Additionally, this letter is meant to provide management with information which may be useful when considering operating enhancements to your operation and are provided in the spirit of advisory assistance. The comments in this report are not required as part of our annual audit but are offered only as a process to assist your operations.

Information Technology Overview

The focus for the 2023 Information Technology (IT) review was to continue developing our understanding of the general computer control (GCC) environment at Authority and perform detailed tests as part of our annual audit of the financial statements. This document is intended to summarize the results of our review and provide any additional guidance regarding the IT environment at Authority.

The GCC review utilized the IT Risk Assessment Standards framework to obtain a more detailed understanding of the Authority IT control environment. As part of the GCC review, the following areas related to the IT function were reviewed:

- > New system implementations and significant upgrades
- > Application changes
- > Database changes
- > Server operating system changes
- > Application access
- > Privileged access
- > Authentication
- > User account management, new and modified access
- > User account terminations
- > User access reviews
- > Backups
- > Interfaces and automated processing

General Computer Control Findings

Below lists some of the specific GCC findings that did not warrant a management letter comment but should be considered by the Authority.

Control Objective	Observation	Recommendation to Address Observation	Management's Response
Deprovisioning	Although the Authority has a procedure for removing user access, there is not a policy in place stating how timely a separated employee or contractor access should be removed. Baker Tilly viewed a ticket to remove a contractor's access and noted that the contractor's last day was 1/23/23 and his access was not removed until 5/23/23.	We recommend the Authority put in place a formal policy to ensure timely removal of access for separated employees and contractors. In addition, user access reviews should be performed to ensure all separated accounts have been deprovisioned.	By the end of third quarter FY 2024, the Authority will put in place a formal policy to ensure timely removal of access for separated employees and contractors. In addition, GLWA will also perform user access reviews to ensure all separated accounts have been deprovisioned.
User Access Reviews	User access reviews were not performed in FY23 for Ceridian Dayforce or Active Directory.	We recommend the Authority perform access reviews on an annual basis to revalidate access rights are appropriate based on functional responsibilities and segregation of duties. Reviewers should sign off indicating completion of the review, and any identified discrepancies should be resolved.	Users with administrative access are reviewed. We will modify the process going forward to address this expanded recommendation by third quarter Fiscal Year 2024.

We appreciate the courtesy and assistance extended to us by all your personnel during the audit. If you have any questions on our comments, or if we can offer our services in any other way during the year, please do not hesitate to contact us. Thank you for allowing us to serve you.

Sincerely,

BAKER TILLY US, LLP



December 13, 2023

DRAFT – For Audit Committee Review

Baker Tilly US, LLP
4807 Innovate Ln
PO Box 7398
Madison, WI 53707

Dear Baker Tilly US, LLP:

We are providing this letter in connection with your audit of the financial statements of the Great Lakes Water Authority (Authority) as of June 30, 2023 and for the year then ended for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the financial position of the Authority, each major enterprise fund, and the respective changes in financial position and cash flows, where applicable, in conformity with generally accepted accounting principles (GAAP) in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with GAAP. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control over financial reporting, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

Financial Statements

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter.
- 2) The financial statements referred to above are fairly presented in conformity with GAAP and include all properly classified funds and other financial information of the Authority required by GAAP to be included in the financial reporting entity.

- 3) We acknowledge our responsibility 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.
- 4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- 5) Significant assumptions we used in making accounting estimates, including those measured at fair value, if any, are reasonable.
- 6) All events subsequent to the date of the financial statements and for which GAAP require adjustment or disclosure have been adjusted or disclosed. No other events, including instances of noncompliance, have occurred subsequent to the financial statement date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements or in the schedule of findings and questioned costs.
- 7) All material transactions have been recorded in the accounting records and are reflected in the financial statements and the schedule of expenditures of federal and state awards.
- 8) The effects of all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements, have been accounted for and disclosed in accordance with GAAP. There are no unasserted litigation, claims or assessments that our lawyer has advised us are probable of assertion.
- 9) Guarantees, whether written or oral, under which the Authority is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

- 10) We have provided you with:
 - a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as financial records and related data, documentation, and other matters and all audit or relevant monitoring reports, if any, received from funding sources.
 - b) Additional information that you have requested from us for the purpose of the audit.
 - c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

- d) Minutes of the meetings of Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 11) We have disclosed to you results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 12) We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - a) Management,
 - b) Employees who have significant roles in internal control, or
 - c) Others where the fraud could have a material effect on the financial statements.
- 13) We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, regulators, or others.
- 14) We have no knowledge of known instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
- 15) There are no related parties or related party relationships and transactions, including side agreements, of which we are aware.

Other

- 16) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 17) We have taken timely and appropriate steps to remedy fraud, noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse that you have reported to us.
- 18) We have a process to track the status of audit findings and recommendations.
- 19) We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for our report.
- 20) The Authority has no plans or intentions that may materially affect the carrying value or classification of assets, deferred outflows of resources, liabilities, deferred inflows of resources or net position.

- 21) We are responsible for compliance with federal, state, and local laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits, debt contracts, and IRS arbitrage regulations; and we have identified and disclosed to you all federal, state, and local laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
- 22) There are no:
- a) Violations or possible violations of budget ordinances, federal, state, and local laws or regulations (including those pertaining to adopting, approving and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, or for reporting on noncompliance, except those already disclosed in the financial statement, if any.
 - b) Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GAAP.
 - c) Charges and/or rates being charged to customers other than the charges and/or rates as authorized by the applicable authoritative body.
 - d) Violations of restrictions placed on revenues as a result of bond resolution covenants such as revenue distribution or debt service funding.
- 23) The Authority has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- 24) The Authority has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.
- 25) The financial statements properly classify all funds and activities.
- 26) Components of net position (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.
- 27) The Authority has no derivative financial instruments such as contracts that could be assigned to someone else or net settled, interest rate swaps, collars or caps.
- 28) Provisions for uncollectible receivables, if any, have been properly identified and recorded.

- 29) Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
- 30) Deposits and investments are properly classified, valued, and disclosed (including risk disclosures, collateralization agreements, valuation methods, and key inputs, as applicable).
- 31) Provision, when material, has been made to reduce excess or obsolete inventories to their estimated net realizable value.
- 32) Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated/amortized. Any known impairments have been recorded and disclosed.
- 33) Tax-exempt bonds issued have retained their tax-exempt status.
- 34) We have appropriately disclosed the Authority's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available and have determined that net position was properly recognized under the policy.
- 35) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
- 36) With respect to the supplementary information (SI):
 - a) We acknowledge our responsibility for presenting the SI in accordance with GAAP, and we believe the SI, including its form and content, is fairly presented in accordance with GAAP, as applicable. The methods of measurement and presentation of the SI have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
 - b) If the SI is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.

- 37) We have evaluated and considered all debt reported as defeased in substance and believe all material amounts held in trust that are not expressly prohibited from substitution in monetary assets that are not essentially risk-free are properly disclosed.
- 38) We have implemented Governmental Accounting Standards Board (GASB) Statement No. 91, *Conduit Debt Obligations*, and believe that all required disclosures and accounting considerations have been identified and properly classified in the financial statements in compliance with the Standard.
- 39) We have evaluated GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, and did not identify any existing transactions that the standard was applicable.
- 40) We have implemented GASB Statement No. 100, *Accounting Changes and Error Corrections-an amendment of GASB Statement No. 62*, however there were no changes or corrections to be reported or disclosed in the current period.
- 41) We have identified any leases or other contracts that are required to be reported as leases or SBITA and are in agreement with the key assumptions used in the measurement of any lease or subscription related assets, liabilities or deferred inflows of resources.
- 42) We are responsible for the estimation methods and assumptions used in measuring assets and liabilities reported or disclosed at fair value, including information obtained from brokers, pricing services or third parties. Our valuation methodologies have been consistently applied from period to period. The fair value measurements reported or disclosed represent our best estimate of fair value as the measurement date in accordance with the requirements of GASB 72 – *Fair Value Measurement*. In addition, our disclosures related to fair value measurements are consistent with the objectives outlined in GASB 72. We have evaluated the fair value information provided to us by brokers, pricing services or other parties that has been used in the financial statements and believe this information to be reliable and consistent with the requirements.
- 43) We have evaluated the existing outstanding debt for potential arbitrage liability. No liability has been recorded as no known liability exists.
- 44) We have evaluated existing contracts and agreements and are responsible for the accounting and financial reporting of any related capital or intangible assets, liabilities, receivables or deferred items in compliance with generally accepted accounting principles.
- 45) We are responsible for compliance with the funding requirements and the flow of funds as outlined in the Master Bond Ordinance.

- 46) We are responsible for the fair presentation of the Authority's net pension liability based upon calculations by the City of Detroit General Employees' Retirement System (GRS) and related amounts. We appropriately allocated the net pension liability based on the assumptions in the lease agreements, pension agreement and the allocation letter signed by the Authority's Chief Executive Officer and the Detroit Water & Sewerage Department (DWSD) Director on January 24, 2017. We have properly disclosed our special funding situation under GASB 68, Accounting and Financial Reporting for Pension Plans. We have reviewed the information provided by GRS for inclusions in the Authority's financial statements.
- 47) The auditing standards define an annual report as "a document, or combination of documents, typically prepared on an annual basis by management or those charged with governance in accordance with law, regulation, or custom, the purpose of which is to provide owners or similar stakeholders with information on the entity's operations and the financial results and financial position as set out in the financial statements." Among other items, an annual report contains, accompanies, or incorporates by reference the financial statements and the auditors' report thereon. The annual comprehensive financial report (ACFR) is an annual report. We have provided you with the final version of the annual report. There are no material inconsistencies between the financial statements and any other information contained within the annual report.
- 48) With respect to federal award programs:
- a) We are responsible for understanding and complying with and have complied with the requirements of the Single Audit Act Amendments of 1996, *OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), including requirements relating to preparation of the schedule of expenditures of federal awards (SEFA).
 - b) We acknowledge our responsibility for preparing and presenting the SEFA and related disclosures in accordance with the requirements of the Uniform Guidance and we believe the SEFA, including its form and content, is fairly presented in accordance with the Uniform Guidance. The methods of measurement and presentation of the SEFA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the SEFA.
 - c) If the SEFA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFA no later than the date we issue the SEFA and the auditors' report thereon.

- d) We have identified and disclosed to you all of our government programs and related activities subject to the Uniform Guidance and included in the SEFA, expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.
- e) We are responsible for understanding and complying with, and have complied with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal program.
- f) We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provide reasonable assurance that we are administering our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended. Also, no changes have been made in the internal control over compliance or other factors to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to control deficiencies reported in the schedule of findings and questioned costs.
- g) We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relevant to the programs and related activities.
- h) We have received no requests from a federal agency to audit one or more specific programs as a major program.
- i) We have complied with the direct and material compliance requirements including when applicable, those set forth in the OMB Compliance Supplement relating to federal awards.
- j) We have disclosed any communications from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditors' report.
- k) Amounts claimed or used for matching were determined in accordance with relevant guidelines in the Uniform Guidance.

- l) We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
- m) We have made available to you all documentation related to the compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- n) We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.
- o) We are not aware of any instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditors' report.
- p) No changes have been made in internal control over compliance or other factors that might significantly affect internal control, subsequent to the date as of which compliance was audited.
- q) Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
- r) The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
- s) We have monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of the Uniform Guidance.
- t) We have taken appropriate action, including issuing management decisions, on a timely basis after receipt of subrecipients' auditors' reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements to ensure that subrecipients have taken the appropriate and timely corrective action on findings.
- u) We have considered the results of subrecipient audits and made any necessary adjustments to our books and records.
- v) We have charged costs to federal awards in accordance with applicable cost principles.

- w) We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by the Uniform Guidance *and* we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
- x) We are responsible for and have ensured the reporting package does not contain protected personally identifiable information.
- y) We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by the Uniform Guidance.

Sincerely,

Suzanne R. Coffey, P.E., Chief Executive Officer

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