

INDEPENDENT AUDITORS' COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

July 31, 2017

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

We have audited the financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the *Great Lakes Water Authority* (the "Authority") as of and for the year ended June 30, 2016, and have issued our report thereon dated July 31, 2017. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated February 3, 2017, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Authority solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding internal control over financial reporting and compliance noted during our audit in a separate letter to you dated July 31, 2017. In addition, we noted certain other matters which are included in Attachment A to this letter.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and in our meeting about planning matters on February 10, 2017.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm has complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Authority's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Authority is included in Note 1 to the financial statements.

As described in Note 1, Note 12 and Management's Discussion and Analysis, the Authority commenced operations on January 1, 2016 and its opening balances on that date were based on GASB 69 acquisition values from the City of Detroit.

No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on 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 and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Acquisition value of the assets acquired and liabilities acquired by lease agreement from the City of Detroit.
- Allocation of the debt service responsibilities between the Authority and the City of Detroit.
- Shared services between the Authority and the City of Detroit are not yet finalized and amounts recorded are subject to negotiation.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- Management's estimate of the allowance for uncollectible receivable balances is based on past experience and future expectation for collection of various account balances.
- Management's estimate of the insurance claims incurred but not reported is based on information provided by the entity's third party administrators and subsequent claims activity.

We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units. In addition, the financial statements include a net pension liability and other pension-related amounts, which are dependent on estimates made by the City of Detroit General Employees' Retirement System. These estimates are based on historical trends and industry standards, but are not within the control of management.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements relate to the acquisition value of assets acquired and liabilities assumed when the Authority was created. Independent experts provided estimates regarding the acquisition value of capital assets, useful lives of those assets and the related debt. See Note 8 for discussion of the lease from the City of Detroit that is the basis for the acquisition transaction.

Significant Difficulties Encountered During the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

The schedule of adjustments passed is included with management's written representations in Attachment C to this letter, and summarizes uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole and each applicable opinion unit.

Disagreements with Management

For purposes of this letter, 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, which could be significant to the Authority's financial statements or the auditors' report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in Attachment C to this letter.

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 the same auditors for the City of Detroit were consultants on the accounting for the formation of the Authority due to the bifurcation impacting both entities, significantly. As part of the consultation, an "Accounting Playbook" was created to facilitate the accounting for the bifurcation of the Detroit Water and Sewerage Department balance sheet, but also for the Authority's ongoing operational items. Management informed us that, and to our knowledge, there were no other consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Authority, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our appointment as the Authority's auditors.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole. 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.

Upcoming Changes in Accounting Standards

Generally accepted accounting principles (GAAP) are continually changing in order to promote the usability and enhance the applicability of information included in external financial reporting. While it would not be practical to include an in-depth discussion of every upcoming change in professional standards, Attachment B to this letter contains a brief overview of recent pronouncements of the Governmental Accounting Standards Board (GASB) and their related effective dates. Management is responsible for reviewing these standards, determining their applicability, and implementing them in future accounting periods.

This information is intended solely for the use of the governing body and management of the *Great Lakes Water Authority* and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Lehmann Lobson LLC". The signature is written in a cursive, flowing style.

GREAT LAKES WATER AUTHORITY

Attachment A - Comments and Recommendations

For the June 30, 2016 Audit

During our audit, we became aware of certain other matters that are opportunities for strengthening internal control and/or improving operating efficiency. This memorandum summarizes our comments and recommendations regarding those matters. Our consideration of the Authority's internal control over financial reporting is described in our report, dated July 31, 2017, issued in accordance with *Government Auditing Standards*. This memorandum does not affect that report or our report dated July 31, 2017, on the financial statements of the Great Lakes Water Authority.

Information Technology (IT) Matters

Processes and policies related to information technology were reviewed, and through related procedures, instances were identified that represent opportunities for management to improve upon the Authority's internal control structure. There were no high priority issues noted; however, the matters that were noted as moderate priority issues are as follows:

- ♦ *Back-up Processes Review* - Back-ups to the Storage Area Network (SAN) are currently retained on-site. We recommend utilization of an off-site storage solution for backups to ensure quick recovery of critical data.
- ♦ *Vendor Risk Assessment and Oversight* - The risk assessment process and monitoring of vendor performance is not formalized. Management should ensure that all vendor relationships are formally reviewed on a periodic basis depending on the risk they pose to the Authority. Management should ensure that a risk assessment is performed on all IT vendors that identifies and ranks the vendors based on overall risk as it relates to critical need to operations and access to internal information.
- ♦ *Procedures over Network Access Rights* - The Authority performs quarterly reviews for privileged access, but does not perform a periodic review of all system users. Such a review should confirm whether the rights to all user accounts are still appropriate, given shifting responsibilities.
- ♦ *Password Policies* - The Authority has software level password controls in place to secure BS&A, Domain, WAM, and Ceridian applications/systems; however, the password settings for each system vary and do not align with recommended best practice settings. We recommend that management implement best practice password settings to each system's capability including:
 - Minimum Length: 8 characters
 - Maximum Age: 45-90 days
 - Password History: 12-24 previous passwords
 - Complexity: Required special character or upper/lowercase
 - Invalid Lockout: 3 invalid attempts

Fraud Hotline

The Authority does not currently have a fraud hotline in place to anonymously report fraudulent activity. We recommend the Authority implement a fraud hotline to encourage employees to report fraud.

Capital Asset Tracking

The Authority tags its physical assets to facilitate counts and accurate recordkeeping of capital assets. Certain items that were examined during an on-site review had asset tags that did not match up with the entity's records. We recommend the Authority do a complete count and verify that assets are properly tagged.

GREAT LAKES WATER AUTHORITY

Attachment A - Comments and Recommendations

For the June 30, 2016 Audit

Bank Accounts

The Authority has three bank accounts recorded totaling \$65,823 which are in the City of Detroit's name as of June 30, 2016. This is the result of those accounts not being transferred to GLWA at bifurcation. We understand that this is a matter being addressed in the Memorandum of Understanding discussions between DWSD, GLWA, and the City. It is recommended this matter be resolved.

Journal Entry Review

We noted that general journal entries are reviewed by someone independent of the preparer in the financial accounting software. However, we noted one instance in which the same individual entered, approved and posted the transaction to the accounting records. We recommend that the reviewer and preparer be independent of each other in all instances and that review be properly documented.

Purchasing Card Approval

We noted one instance in which a department manager signed off on an expense, but the "for finance" section was not completed. The financial services area should review all expenses to ensure proper recognition in the accounting records. We recommend that the form be completed in its entirety for all transactions.

Salary Documentation

We noted one instance in which an employee's salary documentation was not available and another in which the pay rate being used did not agree to the approved pay rate in the employee's personnel records. This appears to be the result of pay rates carrying over from the City of Detroit without the supporting documentation. We recommend the Authority obtain and verify pay rates being used.

Fire Remediation

In early 2016, a fire occurred at the water resources recovery facility. This fire damaged several pieces of equipment along with part of a building. The Authority did not record the capital asset impairment in its accounting records. This amount was not material to the financial statements, but was an event that required disclosure. We recommend the Authority conduct impairment tests on a regular basis to verify the assets in service are properly recorded.

■ ■ ■ ■ ■

GREAT LAKES WATER AUTHORITY

Attachment B - Upcoming Changes in Accounting Standards / Regulations

For the June 30, 2016 Audit

The following pronouncements of the Governmental Accounting Standards Board (GASB) have been released recently and may be applicable to the Authority in the near future. We encourage management to review the following information and determine which standard(s) may be applicable to the Authority. For the complete text of these and other GASB standards, visit www.gasb.org and click on the "Standards & Guidance" tab. If you have questions regarding the applicability, timing, or implementation approach for any of these standards, please contact your audit team.

GASB 74 ■ Postemployment Benefit Plans Other than Pension Plans

Effective 06/15/2017 (your FY 2017)

This standard requires the calculation of a net other postemployment benefit (OPEB) liability based on an actuarial valuation of retiree healthcare and similar benefits administered by an OPEB trust. It mirrors the new accounting and financial reporting requirements of GASB 67 for pension plans. We do not expect this standard to have any significant effect on the Authority.

GASB 75 ■ Postemployment Benefits Other than Pensions

Effective 06/15/2018 (your FY 2018)

This standard builds on the requirements of GASB 74 by requiring employers that provide other postemployment benefits (OPEB) to recognize a net OPEB liability on their statements of net position. It mirrors the new accounting and financial reporting requirements of GASB 68 for pension benefits. We do not expect this standard to have any significant effect on the Authority.

GASB 77 ■ Tax Abatement Disclosures

Effective 12/15/2016 (your FY 2017)

This standard requires governments to disclose certain information about tax abatement agreements made to foster economic development or otherwise benefit the government or its citizens. Required disclosures include a brief description of the arrangement, the gross dollar amount of taxes abated in the current period, and any additional commitments made by the government as part of the agreement. We do not expect this standard to have any significant effect on the Authority.

GASB 78 ■ Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans

Effective 12/15/2016 (your FY 2017)

This standard is an amendment to GASB 68, and provides guidance to governments that participate in non-governmental cost-sharing pension plans. We do not expect this standard to have any significant effect on the Authority.

GREAT LAKES WATER AUTHORITY

Attachment B - Upcoming Changes in Accounting Standards / Regulations

For the June 30, 2016 Audit

GASB 80 ■ Blending Requirements for Certain Component Units

Effective 06/15/2017 (your FY 2017)

This standard is an amendment to GASB 14, *The Financial Reporting Entity*, and requires blending component units incorporated as not-for-profit corporations in which the government is the sole corporate member. We do not expect this standard to have any significant effect on the Authority.

GASB 81 ■ Irrevocable Split-Interest Agreements

Effective 12/15/2017 (your FY 2018)

This standard addresses the accounting for split-interest agreements for which the government serves as the intermediary and/or the beneficiary. It requires governments to record assets, liabilities, and deferred inflows of resources at the inception of the agreement when serving as intermediary, or when the government controls the present service capacity of a beneficial interest. We do not expect this standard to have any significant effect on the Authority.

GASB 82 ■ Pension Issues

Effective 06/15/2017 (your FY 2017)

This standard is an amendment to GASB 67/68 to clarify several issues related to pensions. We do not expect this standard to have any significant effect on the Authority.

GASB 83 ■ Certain Asset Retirement Obligations

Effective 06/15/2019 (your FY 2019)

This standard addresses accounting and financial reporting for certain asset retirement obligations--legally enforceable liabilities associated with the retirement of a tangible capital asset. We do not expect this standard to have any significant effect on the Authority.

GASB 84 ■ Fiduciary Activities

Effective 12/15/2019 (your FY 2020)

This standard establishes new criteria for determining how to report fiduciary activities in governmental financial statements. The focus is on whether the government is controlling the assets, and who the beneficiaries are. Under this revised standard, certain activities previously reported in agency funds may be reclassified in future periods. Due to the number of specific factors to consider, we will continue to assess the degree to which this standard may impact the Authority.

GREAT LAKES WATER AUTHORITY

Attachment B - Upcoming Changes in Accounting Standards / Regulations

For the June 30, 2016 Audit

GASB 85 ■ Omnibus 2017

Effective 06/15/2018 (your FY 2018)

This standard includes a variety of small technical revisions to previously issued GASB statements. We do not expect this standard to have any significant effect on the Authority.

GASB 86 ■ Certain Debt Extinguishment Issues

Effective 06/15/2018 (your FY 2018)

This standard provides guidance for reporting the in-substance defeasance of outstanding debt obligations using existing resources. Qualifying transactions will remove both the assets placed into trust and the related debt obligation from the government's statement of net position. We do not expect this standard to have any significant effect on the Authority.

GASB 87 ■ Leases

Effective 12/15/2020 (your FY 2021)

This standard establishes a single model for reporting all leases (including those previously classified as operating and capital). Lessees will now report offsetting intangible lease assets and lease liabilities equal to the present value of future lease payments. Lessors will report offsetting lease receivables and deferred inflows of resources.

■ ■ ■ ■ ■

GREAT LAKES WATER AUTHORITY

■ Attachment C - Management Representations For the June 30, 2016 Audit

The following pages contain the written representations that we requested from management.



July 31, 2017

Rehmann Robson
675 Robinson Road
Jackson, MI 49203

This representation letter is provided in connection with your audit of the financial statements of the business-type activities, each major fund and the aggregate remaining fund information of **Great Lakes Water Authority** (the "Authority"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, for the purpose of expressing opinions on whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the Authority in conformity with accounting principles generally accepted for governments in the United States of America (U.S. GAAP).

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.

We confirm that, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of July 31, 2017:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated February 3, 2017, for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP. We have reviewed, approved, and taken responsibility for the financial statements and related notes.
2. We have reviewed and approved the various adjusting journal entries that were proposed by you for recording in our books and records and reflected in the financial statements.
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 used by us in making accounting estimates, including transactions with the City of Detroit and those other transactions measured at fair value, are reasonable.
6. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP. For the purposes of this letter, related parties mean members of the governing body; board members; administrative officials; immediate families of administrative officials, board members, and members of the governing body; and any companies affiliated with or owned by such individuals.
7. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.

8. The effects of uncorrected misstatements summarized in the attached schedule and aggregated by you during the current engagement are immaterial, both individually and in the aggregate, to the applicable opinion units and to the financial statements as a whole.
9. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
10. With regard to items reported at fair value:
 - a. The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action.
 - b. The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
 - c. The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.
 - d. There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.
11. There are no component units, as well as joint ventures with an equity interest, required to be included and no joint ventures and related organizations to be disclosed.
12. All funds and activities are properly classified.
13. All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, for presentation as major are identified and presented as such and all other funds that are presented as major are considered important to financial statement users.
14. All components of net position have been properly reported.
15. All revenues within the statement of activities have been properly classified as operating revenues or nonoperating revenues.
16. All expenses have been properly classified as operating or nonoperating.
17. All interfund and intra-entity transactions and balances have been properly classified and reported.
18. There are no special items and extraordinary items have been properly classified and reported.
19. Deposit and investment risks have been properly and fully disclosed.
20. Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
21. All required supplementary information is measured and presented within the prescribed guidelines.
22. 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 GLWA Chief Executive Officer and DWSD Director and 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 inclusion in the Authority's financial statements.
23. We have reviewed capital assets and certain identifiable intangibles to be held and used for impairment whenever events or changes in circumstances have indicated that the carrying amount of the assets might not be recoverable and have appropriately recorded the adjustment.
24. We agree with the findings of specialists in evaluating the valuation of capital assets and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.
25. We are responsible for all assumptions and underlying transactional data regarding the Authority's acquisition of the regional water and sewage disposal operations from the City of Detroit under GASB 69, *Government Combinations and Disposals of Government Operations*. We acknowledge that significant estimates and allocations were required, and we believe the estimates are reasonable

and the transaction is properly recorded. All liabilities and assets assumed during the transaction are recorded at acquisition value as required under GAAP.

Information Provided

26. 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 of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;
 - b. Additional information that you have requested from us for the purpose of the audit; and
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
27. All transactions have been recorded in the accounting records and are reflected in the financial statements.
28. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
29. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
- d. Management;
 - e. Employees who have significant roles in internal control; or
 - f. Others where the fraud could have a material effect on the financial statements.
30. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, vendors, regulators, or others.
31. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial.
32. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
33. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
34. The government has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
35. We have no guarantees, whether written or oral, under which the government is contingently liable.
36. We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
37. There are no:
- g. Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
 - h. Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB-62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.
 - i. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.
38. The government has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
39. We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

40. We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB-62. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.

Supplementary Information in Relation to the Financial Statements as a Whole

41. With respect to the supplementary information accompanying the financial statements:
- a. We acknowledge our responsibility for the presentation of the supplementary information in accordance with accounting principles generally accepted in the United States of America.
 - b. We believe the supplementary information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America.
 - c. The methods of measurement or presentation have not changed from those used in the prior period or as modified and disclosed on the schedule.
 - d. We believe the significant assumptions or interpretations underlying the measurement or presentation of the supplementary information, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.

Required Supplementary Information

42. With respect to the required supplementary information accompanying the financial statements:
- a. We acknowledge our responsibility for the presentation of the required supplementary information in accordance with accounting principles generally accepted in the United States of America.
 - b. We believe the required supplementary information, including its form and content, is measured and fairly presented in accordance with accounting principles generally accepted in the United States of America.
 - c. The methods of measurement or presentation have not changed from those used in the prior period or as modified and disclosed on the schedule.
 - d. We believe the significant assumptions or interpretations underlying the measurement or presentation of the required supplementary information, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.

Uniform Guidance (2 CFR 200)

43. With respect to federal awards, we represent the following to you:
- j. We are responsible for understanding and complying with and have complied with the requirements of the Uniform Guidance.
 - k. We are responsible for the preparation and presentation of the schedule of expenditures of federal awards in accordance with the Uniform Guidance.
 - l. We believe the schedule of expenditures of federal awards, including its form and content, is fairly presented in accordance with the Uniform Guidance.
 - m. The methods of measurement or presentation have not changed from those used in the prior period or as modified and disclosed on the schedule.
 - n. We believe the significant assumptions or interpretations underlying the measurement or presentation of the schedule of expenditures of federal awards, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.
 - o. We are responsible for including the auditor's report on the schedule of expenditures of federal awards in any document that contains the schedule and that indicates that the auditor has reported on such information.

- p. When the schedule of expenditures of federal awards is not presented with the audited financial statements, management will make the audited financial statements readily available to the intended users of the schedule of expenditures of federal awards no later than the date of issuance by the entity of the schedule of expenditures of federal awards and the auditor's report thereon.
- q. We have, in accordance with the Uniform Guidance, identified in the schedule of expenditures of federal awards, 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, food commodities, direct appropriations, and other assistance.
- r. We are responsible for complying 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; and we have complied, in all material respects, with these requirements.
- s. We have provided to you our interpretations of any compliance requirements that have varying interpretations.
- t. We are responsible for establishing and maintaining effective internal control over compliance requirements applicable to federal programs that provide reasonable assurance that we are managing 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. Also, no changes have been made in the internal control system to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to significant deficiencies, including material weaknesses, reported in the schedule of findings and questioned costs.
- u. 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 relating to federal programs.
- v. We have received no requests from a federal agency to audit one or more specific programs as a major program.
- w. We have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal awards, including the results of other audits or program reviews. We also know of no instances of noncompliance occurring subsequent to the end of the period audited.
- x. We have charged costs to federal awards in accordance with applicable cost principles, including amounts claimed or used for matching determined in accordance with relevant guidelines in the Uniform Guidance.
- y. We have made available to you all documentation related to the compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- z. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared (and are prepared on a basis consistent with the schedule of expenditures of federal awards).
- aa. The copies of federal program financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
- bb. 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.
- cc. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.

- dd. We are responsible for and have accurately completed the appropriate sections of the Data Collection Form as required by the Uniform Guidance, and we are responsible for preparing and implementing a correction action plan for each audit finding.
- ee. We have disclosed all contracts or other agreements with service organizations and disclosed to you all communications from these service organizations relating to noncompliance at the organizations.
- ff. We have reviewed, approved, and taken responsibility for the financial statements and related notes.
- gg. We have disclosed to you the nature of any subsequent events that provide additional evidence with respect to conditions that existed at the end of the reporting period that affect noncompliance during the reporting period.



Sue F. McCormick, Chief Executive Officer



Nicolette N. Bateson, Chief Financial Officer/Treasurer

GREAT LAKES WATER AUTHORITY

Schedule of Adjustments Passed (SOAP)

For the June 30, 2016 Audit

In accordance with generally accepted auditing standards, we have prepared the following schedule of proposed audit adjustments, which we believe are immaterial both individually and in the aggregate. We are providing this schedule to both management and those charged with governance to receive their assurance that they agree that the amounts listed below are not material to the financial statements, either individually or in the aggregate, and do not need to be recorded.

	Effect of Passed Adjustment - Over(Under)Statement				
	Assets	Liabilities	Beginning Balance *	Revenues	Expenses/ Expenditures
Water fund					
Understated accounts receivable	\$ (1,645,252)	\$ (1,645,252)	\$ -	\$ -	\$ -
Overstated capital assets	907,545	-	-	-	(907,545)
Overstated accounts payable	-	92,789	92,789	-	-
Overstated compensated absences	-	2,066,456	2,066,456	-	-
Understated legal reserve	-	(130,650)	-	-	(130,650)
Overstated health care claims liability	-	500,000	-	-	500,000
Overstated long-term debt premium	-	1,000,000	-	-	1,000,000
Total water fund	<u>\$ (737,707)</u>	<u>\$ 1,883,343</u>	<u>\$ 2,159,245</u>	<u>\$ -</u>	<u>\$ 461,805</u>
Sewage disposal fund					
Understated long-term debt premium	<u>\$ -</u>	<u>\$ (1,060,538)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,060,538)</u>
Business-type activities					
Cumulative effect of items noted above	<u>\$ (737,707)</u>	<u>\$ 822,805</u>	<u>\$ 2,159,245</u>	<u>\$ -</u>	<u>\$ (598,733)</u>
Misstatement as a percentage of					
total expenses - business-type activities	-0.2%	0.2%	0.5%	0.0%	-0.1%

*GLWA was formed as an acquisition under GASB 69, and as a result any amount of the assets acquired that exceeded the liabilities assumed was recorded as a reduction to capital assets. Any amounts shown in the beginning balance are reflecting the passed overstatement or understatement of capital assets.