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.

The Authority changed accounting policies related to capitalized interest during the construction period for business-type activities by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This accounting change had no cumulative effect on the beginning of the year balances.

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.

- Management's estimate of the acquisition value of the assets and liabilities acquired by lease agreement from the City of Detroit at the inception of the Authority's fiscal operations, which has a lasting impact.

- Management's estimate of the allocation of the debt service responsibilities between the Authority and the City of Detroit.

- Management's estimate of the shared services between the Authority and the City of Detroit are not yet finalized and 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 14 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.

GREAT LAKES WATER AUTHORITY

Attachment A - Comments and Recommendations

For the June 30, 2018 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 December 14, 2018, issued in accordance with *Government Auditing Standards.* This memorandum does not affect that report or our report dated December 14, 2018, on the financial statements of the Great Lakes Water Authority.

Salary Documentation

Salary documentation was not available for one out of twenty-five employees selected for testing. Pay rates should be properly documented.

Conflict of Interest Policy

The current conflict of interest policy requires that Board members sign a form only when sworn in and that top management and contractors do not sign any form related to conflict of interest matters. We suggest that the Authority review and update its policies and procedures to require that Board members, top management and contractors sign a conflict of interest form, annually.

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Attachment B – Upcoming Changes in Accounting Standards / Regulations

For the June 30, 2018 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 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. 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.

GASB 88 ■ Certain Disclosures Related to Debt

Effective 06/15/2019 (your FY 2019)

This standard provides guidance on note disclosures related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. We do not expect this standard to have any significant effect on the Authority.

Attachment B – Upcoming Changes in Accounting Standards / Regulations
For the June 30, 2018 Audit

GASB 90 ■ Majority Equity Interests
Effective 12/15/2019 (your FY 2020)

This standard addresses situations in which a government acquires a majority of the equity interest in a legally separate organization, and whether such holdings should be reported as an investment or a component unit. We do not expect this standard to have any significant effect on the Authority.

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GREAT LAKES WATER AUTHORITY

Attachment C – Management Representations
For the June 30, 2018 Audit

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

GREAT LAKES WATER AUTHORITY

Schedule of Adjustments Passed (SOAP)

For the June 30, 2018 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	Net Position	Revenues	Expenses
Water fund					
Prior year overstated health care claims claims (corrected in FY 2018)	$ -	$ -	$ (597,922)	$ -	$ (597,922)
Misstatement as a percentage of total revenues - water fund	0.0%	0.0%	-0.2%	0.0%	-0.2%
Business-type activities					
Prior year overstated health care claims claims (corrected in FY 2018)	$ -	$ -	$ (597,922)	$ -	$ (597,922)
Misstatement as a percentage of total revenues - business-type activities	0.0%	0.0%	-0.1%	0.0%	-0.1%