

October 17, 2023

To the City Council  
City of Swartz Creek, Michigan

We have audited the financial statements of the City of Swartz Creek, Michigan (the "City") as of and for the year ended June 30, 2023 and have issued our report thereon dated October 17, 2023. Professional standards require that we provide you with the following information related to our audit, which is divided into the following sections:

Section I - Required Communications with Those Charged with Governance

Section II - Other Recommendations and Legislative and Informational Items

Section I includes information that we are required to communicate to those individuals charged with governance. Section I communicates significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process.

Section II contains updated legislative and informational items that we believe will be of interest to you. It also presents recommendations related to internal control, procedures, and other matters noted during our current year audit. These comments are offered in the interest of helping the City in its efforts toward continuous improvement, not just in the areas of internal controls and accounting procedures, but also in operational or administrative efficiency and effectiveness.

We would like to take this opportunity to thank the City's staff for the cooperation and courtesy extended to us during our audit. Their assistance and professionalism are invaluable.

This report is intended solely for the use of the City Council and management of the City and is not intended to be and should not be used by anyone other than these specified parties.

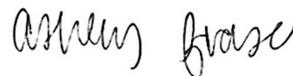
We welcome any questions you may have regarding the following communications, and we would be willing to discuss these or any other questions that you might have at your convenience.

Very truly yours,

**Plante & Moran, PLLC**



Pamela L. Hill, CPA  
Partner



Ashley Frase, CPA  
Senior Manager

## **Section I - Required Communications with Those Charged with Governance**

### **Our Responsibility Under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated February 14, 2023, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of the City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are 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 specifically to identify such matters.

Our audit of the City's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we are obligated to communicate certain matters that come to our attention related to our audit to those responsible for the governance of the City, including compliance with certain provisions of laws, regulations, contracts, and grant agreements; certain instances of error or fraud; illegal acts applicable to government agencies; and significant deficiencies in internal control that we identify during our audit. Toward this end, we issued a separate letter dated October 17, 2023 regarding our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on September 7, 2023.

### **Significant Audit Findings**

#### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in Note 1 to the financial statements.

No new accounting policies were adopted, and the application of existing policies was not changed during 2023.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting 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 and because of the possibility that future events affecting them may differ significantly from those expected.

## **Section I - Required Communications with Those Charged with Governance (Continued)**

The most sensitive estimates affecting the financial statements were the useful lives of capital assets, the net pension liability, and the other postemployment benefit liability. Management's estimate of the useful lives of capital assets is based on management's experience and history with similar assets in use at the City. The estimate for the net pension liability was based on an actuarial valuation. The significant assumptions used in that calculation include future rate of return on investments, employee eligibility rates, life expectancies, and projected salary increases. The estimate for the other postemployment benefit liability was based on the use of the GASB 75 actuarial valuation for calculating the net OPEB liability, required contribution using health care premiums, personnel information, and interest rates. We evaluated the key factors and assumptions used to develop the estimates of useful lives, net pension liability, and other postemployment benefit liability in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

### ***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in performing and completing our audit.

### ***Disagreements with Management***

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report.

We are pleased to report that no such disagreements arose during the course of our audit.

### ***Corrected and Uncorrected 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. Management has corrected all such misstatements. See the separate letter on internal controls over financial reporting issued in the single audit report for more detail on the corrected misstatements identified during the audit.

### ***Significant Findings or Issues***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the City, and business plans and strategies that may affect the risks of material misstatement, with management each year prior to our retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition of our retention.

### ***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated October 17, 2023.

### ***Management Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a second opinion on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts.

To our knowledge, there were no such consultations with other accountants.

## **Section II - Other Recommendations and Legislative and Informational Items**

### **Other Recommendations**

During the audit, we noted the following area where we believe there is an opportunity for the City to further implement best practices:

**Financial Forecasting** - Given the City's commitment to continued investment in the City's infrastructure - water and sewer lines and roads - it is imperative to adequately plan for upcoming projects to ensure that the City not only properly scopes the nature and timing of the projects but also takes into account how the City plans to fund each project going forward. As a best practice, we recommend that the City not only develop a capital plan for projects on the horizon and other factors, which it already has, but take the next step by doing a financial projection or cash flow to figure out how to fund the capital plan that the City has created. This is the final step in the planning and forecasting process and can ensure that the City has adequate time to plan for the funding needed for capital projects.

### **Coronavirus State and Local Fiscal Recovery Funds (SLFRF) Alternative Compliance Examination**

In April 2022, the Office of Management and Budget amended its compliance rules to allow for a simplified single audit process for municipalities that would not be required to undergo a single audit if it were not for the expenditures of SLFRF. This alternative applies to fiscal year audits beginning after June 30, 2020. SLFRF recipients that expend \$750,000 or more during their fiscal years and meet the following two criteria have the option for their auditor to follow the alternative compliance examination engagement guidance:

1. The recipient's total SLFRF award received directly from the U.S. Department of the Treasury or received as a nonentitlement unit is \$10 million or less.
2. Other federal award funds expended by the recipient (excluding SLFRF award funds) are less than \$750,000 during its fiscal year.

We are happy to assist in evaluating the application of the changes and answer any questions about how the changes impact the City.

### **Auditor Reporting Standards**

The AICPA Auditing Standards Board (ASB) issued several new standards that were recently effective, which significantly changed the independent auditor's report (Statement on Auditing Standards No. 134) and made some changes to certain required audit procedures (Statement on Auditing Standards No. 137). The standards were both first effective for the fiscal year ended June 30, 2023.

Statement on Auditing Standards No. 137 addresses auditors' responsibilities relating to other information included in annual reports. This new standard may increase the scope of audit procedures and may result in some audit work being performed outside of the normal timing. To the extent that the City issues a document meeting the AICPA's definition of an annual report under the standard, additional audit procedures will need to be performed on that separate document before it is issued. It is important that the City continue to communicate to us regarding any new documents meeting the AICPA's definition of an annual report under the standard beyond the recent implementation date. We are happy to discuss these changes with you.

## **Section II - Other Recommendations and Legislative and Informational Items (Continued)**

### **USDA Community Facilities Loans - Continuing Compliance Requirements**

USDA has made significant changes that could result in many local governments needing a single audit beginning with June 30, 2022 year ends. USDA has changed its position and determined that Community Facilities (CF) loans have continuing compliance requirements because CF borrowers are required to fund reserves; maintain insurance; deposit funds in federally insured banks; meet financial covenants and debt service coverage ratios; comply with civil rights requirements; and, in some cases, comply with additional requirements established as part of the loan approval process. As a result, the full outstanding balance on the note or bond should be considered federal awards expended and reported as a loan on the schedule of expenditures of federal awards (SEFA) in accordance with 2 CFR Part 200, Subpart F. In previous compliance supplements, USDA instructed nonfederal entities that the repayment of the loan did not constitute a continuing compliance requirement and, therefore, was not required to be audited under 2 CFR Part 200, Subpart F.

As noted in the 2021 Compliance Supplement, the change is to be applied prospectively and will be effective for borrowers with outstanding CF loan balances for fiscal years ending on or after June 30, 2022. There is no expectation that borrowers that had existing outstanding loan balances in years prior to June 30, 2022 go back and have a single audit performed of prior periods. It is imperative that the City do the following if it received a CF loan in the past:

1. Identify the outstanding balance on the note or bond and include it on the SEFA.
2. Determine whether a single audit is required if the City expends \$750,000 or more of federal awards in a fiscal year. Remember to consider all federal awards in your evaluation.

We are happy to assist in evaluating the application of the changes and answer any questions about how the changes impact the City.

### **Cybersecurity and Information Technology Controls**

Cyberattacks are on the rise across the globe, and the cost of these attacks is ever increasing. Because of these attacks, municipalities stand to lose their reputation, the ability to operate efficiently, and proprietary information or assets. Communities potentially can also be subject to financial and legal liabilities. Managing this issue is especially challenging because even a municipality with a highly mature cybersecurity risk management program still has a residual risk that a material cybersecurity breach could occur and not be detected in a timely manner. We understand that the technology department continues to monitor and evaluate this risk, which are critical best practices. Additionally, periodic assessments of the system in order to verify that the control environment is working as intended are key parts of measuring associated business risk. We encourage administration and those charged with governance to work with the technology team on this very important topic. If we can be of assistance in the process, we would be happy to do so.

### **Revenue Sharing**

The fiscal year 2023 governor's budget recommendation includes \$1.5 billion for revenue sharing. Further details of the breakdown of this amount are available at [https://www.michigan.gov/treasury/0,,7-121-1751\\_2197---,00.html](https://www.michigan.gov/treasury/0,,7-121-1751_2197---,00.html).

In order to receive the City, Village, and Township Revenue Sharing (CVTRS) payments in FY 2023, qualified local units will once again need to comply with the same best practices as they did last year as follows:

- A citizen's guide to local finances with disclosure of unfunded liabilities
- Performance dashboard
- Debt service report
- Two-year budget projection

## **Section II - Other Recommendations and Legislative and Informational Items (Continued)**

### **Inflation Rate Multiplier for 2023**

In January 2023, the Michigan State Tax Commission issued Bulletin 17 of 2022 regarding the inflation rate multiplier for use in the 2023 capped value formula and the Headlee millage reduction fraction formula. The inflation rate for property taxes as defined in Michigan Compiled Law (MCL) 211.34d has increased beyond the historical 5 percent cap to 7.9 percent for 2023. As a result, the inflation rate multiplier of 1.079 must be used in the calculation of the 2023 Headlee millage reduction fraction required by Michigan Compiled Law (MCL) 211.34d. As the inflation rate multiplier of 1.079 is higher than 1.05, the inflation rate multiplier to be used in the 2023 capped value formula is 1.05.

### **Other New Legislation**

#### ***ARPA and SLFRF for Affordable Housing Production and Preservation***

In July 2022, the U.S. Department of the Treasury announced new guidance to increase the ability of state, local, and tribal governments to use SLFRF funds to boost the supply of affordable housing in their communities. The new eligible uses for housing expenditures include projects that would be eligible for funding under an expanded list of federal housing programs and projects for the development, repair, or operation of affordable rental housing with certain income and affordability requirements. The SLFRF final rule FAQ document reflects this new guidance related to eligible housing expenditures: <https://home.treasury.gov/system/files/136/SLFRF-Final-Rule-FAQ.pdf>.

#### **Upcoming Accounting Standards Requiring Preparation**

We actively monitor new Governmental Accounting Standards Board (GASB) standards and due process documents and provide periodic updates to help you understand how the latest financial reporting developments will impact the City.

#### ***GASB Statement No. 99 - Omnibus 2022***

This new accounting pronouncement has various effective dates. This statement addresses accounting and financial reporting requirements for specific issues related to financial guarantees, derivative instruments, leases, public-public and public-private partnerships (PPPs), subscription-based information technology arrangements (SBITAs), the transition from the London Interbank Offered Rate (LIBOR), the Supplemental Nutrition Assistance Program (SNAP), nonmonetary transactions, pledges of future revenue, the focus of government-wide financial statements, and terminology.

#### ***GASB Statement No. 100 - Accounting Changes and Error Corrections***

This new accounting pronouncement will be effective for fiscal years ending June 30, 2024 and after. This statement enhances the accounting and financial reporting requirements for accounting changes and error corrections.

#### ***GASB Statement No. 101 - Compensated Absences***

This new accounting pronouncement will be effective for fiscal years ending December 31, 2024 and after. This statement updates the recognition and measurement guidance for compensated absences under a unified model, requiring that liabilities for compensated absences be recognized for leave that has not been used and leave that has been used but not yet paid in cash or settled through noncash means. This statement also establishes guidance for measuring a liability for leave that has not been used and updates disclosure requirements for compensated absences.

#### ***Significant GASB Proposals Worth Watching***

The GASB is working on three interrelated projects that result in a comprehensive look at financial reporting for state and local governments. Of these three efforts, two are likely to result in significant changes to governmental financial statements in the future.

## **Section II - Other Recommendations and Legislative and Informational Items (Continued)**

The Financial Reporting Model exposure draft was issued in June 2020, and the final statement is expected to be released in late 2023. While this standard proposes changes to many aspects of the City's financial statements, this proposed standard will most significantly impact the City's governmental fund financial statements.

The Revenue and Expense Recognition project aims to develop a comprehensive accounting and financial reporting model for transactions that result in revenue and expenses. The GASB has issued a preliminary views document that proposes a new categorization framework that replaces the exchange/nonexchange transaction notion with a four-step categorization process for classifying a transaction. In addition to this new framework, the proposal also addresses recognition and measurement of revenue and expense transactions. The exposure draft for this project is expected sometime in 2025.

Plante & Moran, PLLC has spent significant time digesting these new proposed standards and recently testified to the GASB about our feedback. We strongly encourage the City to monitor developments with these standards, as the potential impacts are quite broad.