

November 14, 2019

To the City Council  
City of Charlotte, Michigan

We have audited the financial statements of City of Charlotte, Michigan (the "City") as of and for the year ended June 30, 2019 and have issued our report thereon dated November 14, 2019. Professional standards require that we provide you with the following information related to our audit, which is divided into the following sections:

Section I - Internal Control Related Matters Identified in an Audit

Section II - Required Communications with Those Charged with Governance

Section III - Other Recommendations and Related Information

Section I includes any deficiencies we observed in the City's accounting principles or internal control that we believe are significant. Current auditing standards require us to formally communicate annually matters we note about the City's accounting policies and internal control.

Section II includes information that current auditing standards require independent auditors to communicate to those individuals charged with governance. We will report this information annually to the City Council of City Charlotte, Michigan.

Section III contains updated legislative and informational items that we believe will be of interest to you.

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 any of these or other questions that you might have at your convenience.

Very truly yours,

**Plante & Moran, PLLC**



William Brickey, CPA

## Section I - Internal Control Related Matters Identified in an Audit

In planning and performing our audit of the financial statements of the City as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 significant deficiencies or material weaknesses, and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 a 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 consider the following deficiencies in the City's internal control to be material weaknesses:

**Auditor-proposed Adjustments** - Auditor-identified journal entries were posted in the financial records during the audit to adjust current year activity to be in conformity with generally accepted accounting principles. The entries resulted from a lack of review of balances reported in the City's general ledger. We are happy to assist in adjusting the general ledger, but are required to communicate our role in adjusting the accounting records to you. The required entries related to accounts payable, debt, and capital assets. The result of not identifying or correcting these misstatements could have resulted in a material misstatement of the financial statements.

**Duplicate Payments** - During the year under audit, three duplicate vendor payments were erroneously made by the City. As a result of these duplicate payments, the adjustments noted above were required to adjust current year activity to be in conformity with generally accepted accounting principles. We recommend that the City review the invoice payment process to ensure that invoices are only paid once. Not having the controls in place to prevent duplicate payments could result in the misappropriation of assets.

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

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

As stated in our engagement letter dated August 5, 2019, 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.

### **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 August 7, 2019.

### **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 2019.

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.

The most sensitive estimates affecting the financial statements were as follows:

- Valuation of the total pension liability and the other postemployment benefits liability recorded in the financial statements. Our audit included an examination of the data provided to the actuary or used in the alternative measurement method and an evaluation of the reasonableness of the assumptions and methodologies used in determining that they are reasonable in relation to the financial statements taken as a whole.

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

- Liability recorded for potential Michigan tax tribunal refunds. Our audit included an examination of data provided by the assessor and the inputs into the calculation of the estimated liability in determining that it is reasonable in relation to the financial statements taken as a whole.

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

We encountered no significant difficulties in dealing with management 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. The material misstatements detected as a result of audit procedures were corrected by management. The following uncorrected misstatements of the financial statements were identified; however, management has determined that the effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

- General Fund/Governmental Activities - Cash was understated, and expenses were overstated by \$24,059. This amount was reported on the bank reconciliation but was not recorded in the general ledger.
- General Fund/Governmental Activities - Airport hangar revenue and accounts receivable/deferred inflows were understated by approximately \$23,000 due to bills not being sent timely.

### ***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 November 14, 2019.

### ***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.

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

**Other Information in Documents Containing Audited Financial Statements**

Our responsibility for other information in documents containing the City's financial statements and report does not extend beyond the financial statements. We do not have an obligation to determine whether or not such other information is properly stated. However, we read the introductory and statistical sections, and nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information or manner of its presentation appearing in the financial statements.

## Section III - Legislative and Informational Items

### Legacy Cost Estimates

As of June 30, 2019, the City has chosen a mortality assumption using the RP 2000 tables for its OPEB plan. In 2017, the Society of Actuaries (SOA) issued the Mortality Improvement Scale MP-2017 table, which reflects increasing longevity rates. The City has not yet adopted those newer tables. We encourage the City to review this assumption annually.

### Updated Uniform Chart of Accounts

In April 2017, the State released an updated Uniform Chart of Accounts. Originally, local units of government were expected to comply with the changes beginning with June 30, 2018 year ends. However, on June 4, 2018, the State extended the deadline for compliance to “sometime in 2019.” On September 18, 2019, the State issued a memo that sets an implementation date for fiscal years ending on September 20, 2021 and thereafter. In the coming months, the State has committed to releasing various tools to help local units with implementation. On October 31, 2019, the FAQs will be released along with clarification on what accounts should be used when implementing GASB 84.

A significant revision will be issued on December 31, 2019, which will incorporate feedback that the Treasury has received. This revision will include significant changes to the expenditure accounts 700-999, which will now mirror the old approach that allowed for various numbers within certain ranges. Going forward, the Treasury will issue the following three documents for any future revisions: a revised chart of accounts, a marked up version of the chart showing the changes, and a summary of the revisions report. In addition, the FAQ will be a live document that will be updated as questions arise. Local units can sign up for alerts at this link: [https://public.govdelivery.com/accounts/MITREAS/subscriber/new?gps=MITREAS\\_1](https://public.govdelivery.com/accounts/MITREAS/subscriber/new?gps=MITREAS_1).

### Revenue Sharing

The fiscal year 2020 governor’s budget recommendation includes \$1.4 billion for revenue sharing broken down as follows:

Description	Final 2019 Budget	Final 2020 Budget
Constitutionally required payments	\$835.3 M	\$886.5 M
CVTRS	243.0 M	262.8 M
CVTRS - One-time payments	5.8 M	0 M
County revenue sharing	177.2 M	184.8 M
County incentive program	43.3 M	43.3 M
County one-time payments	1.0 M	0 M
Fiscally distressed community grants	2.5 M	5.0 M
Supplemental CVTRS	6.2 M	0 M
<b>Total</b>	<b>\$1,314.3 M</b>	<b>\$1,382.4 M</b>

For the third year in a row, local units will experience an increase in 2020 based on the governor’s budget recommendation, as the constitutional payment budget has been increased by \$68.1 million over the 2019 budget act appropriated amount. The FY 2020 budget also includes the “City, Village, and Township Revenue Sharing” (CVTRS) appropriation that was established in FY 2015, and that number increased to \$262.8 million. Each community’s overall increase will vary, as each has a different mix of constitutional and CVTRS.

### **Section III - Legislative and Informational Items (Continued)**

In order to receive the CVTRS payments in FY 2020, 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

The amount budgeted for distressed CVTRS has been increased from \$2.5 million in 2019 to \$5 million in 2020. The governor's recommendation has removed \$6.2 million for "supplemental CVTRS" payments in FY 2020.

#### **Administrative Charges**

The services provided by employees that are traditionally charged to the General Fund, like treasury, finance, HR, etc., oftentimes significantly benefit other funds. As a result, it is a fairly common practice to allocate a portion of these costs via an administrative charge to other funds of the government. Administrative charges can take many forms, such as interfund allocations, chargebacks, and payment in lieu of taxes to other funds (such as a golf courses). While the practice of charging for administrative services provided to other funds may certainly be justified, there seems to be a heightened focus lately on the methodology and amount of charges. Given the fact that many cost allocation methodologies were implemented several years ago, it would be prudent to revisit your current methodology and the related inputs to ensure that any administrative charges are fully substantiated.

#### **Public Act 57 Consolidation of Tax Increment Authorities**

Public Act 57 of 2018, otherwise known as The Recodified Tax Increment Financing Act (PA 57), went into effect on January 1, 2019. PA 57 consolidated the ability to create and operate tax increment authorities (other than brownfield redevelopment authorities) into a single statute. All previously created authorities will remain; however, the following acts were repealed, and the corresponding authorities will now operate under PA 57:

- Downtown Development Authority Act (PA 197 of 1975)
- Tax Increment Finance Authority Act (PA 450 of 1980)
- Local Development Finance Authority Act (PA 281 of 1986)
- Nonprofit Street Railway Act (PA 35 of 1867)
- Corridor Improvement Authority Act (PA 280 of 2005)
- Water Resource Improvement Tax Increment Finance Authority Act (PA 94 of 2008)
- Neighborhood Improvement Authority Act (PA 61 of 2007)

Note that the above acts were repealed and recodified into PA 57. The acts listed below were repealed; however, they were not recodified:

- Historical Neighborhood Tax Increment Finance Authority Act (PA 530 of 2004)
- Private Investment Infrastructure Funding Act (PA 250 of 2010)

Any obligation, or refunding of an obligation, that was issued by an authority or by the municipality that created the authority under a statute that was repealed by Public Act 57 will continue in effect under its original terms under the corresponding part of PA 57.

## **Section III - Legislative and Informational Items (Continued)**

### ***Transparency and Reporting Requirements***

1. By April 1, 2019, each authority was required to submit its currently adopted development plan or tax increment finance plan to the Department of Treasury.
2. Annually, after January 1, 2019, each authority must submit a comprehensive annual report to the Treasury, the governing bodies of its related municipality, and each taxing unit levying taxes that are captured by the authority. This report must contain detailed information on the capture and use of tax increment revenue and is due concurrent with the authority's audit report due date (typically six months after the fiscal year end).
3. Within 180 days after the authority's fiscal year end, subsequent to January 1, 2019, the municipality that created the authority must give public access (either on its website or at a physical location within the municipality) to the following documents:
  - Minutes of all authority board meetings
  - Current authority staff contact information
  - Authority's approved budgets and annual audits
  - Currently adopted development and/or tax increment financing plans
  - Current contracts with descriptions
  - Annual synopsis of the authority's activity, which includes the following:
    - For any tax increment revenue not expended within five years of receipt, include the reasoning for accumulating the funds, their expected uses, and a time frame of when they will be expended.
    - For any tax increment revenue not expended within 10 years of receipt, include the amount of those funds, along with a written explanation for the reason the funds have not been expended.
  - For the immediately preceding fiscal year, a list of the authority's accomplishments, projects, investments, events, and promotional campaigns
4. The authority must hold, at a minimum, two informational meetings each year and give a 14-day advance notice to the public and to the governing body of each taxing unit. These meetings may be held in conjunction with other public meetings of the authority or municipality.

Any authority not in compliance with the above reporting requirements will receive a notice from the Department of Treasury. If the authority is still in noncompliance status after 60 days from receipt of the notice, the authority will be prohibited from capturing tax increment revenue in excess of the amounts needed to pay bonded indebtedness and other obligations of the authority during this period of noncompliance.

### ***Additional Information***

To view Public Act 57 of 2018, regarding the consolidation of tax increment authorities and additional reporting requirements, visit the State of Michigan's website: [http://www.legislature.mi.gov/\(S\(nhboq4doz1h4bwbqb0gcxqim\)\)/mileg.aspx?page=GetObject&objectname=mcl-Act-57-of-2018](http://www.legislature.mi.gov/(S(nhboq4doz1h4bwbqb0gcxqim))/mileg.aspx?page=GetObject&objectname=mcl-Act-57-of-2018).



### **Section III - Legislative and Informational Items (Continued)**

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

##### ***GASB Statement No. 84 - Fiduciary Activities***

This new pronouncement will be effective for reporting periods beginning after December 15, 2018. This statement provides criteria for state and local governments to use to identify whether an activity is fiduciary and should be reported as a fiduciary fund type in its financial statements. In addition, once identified as a fiduciary activity, GASB 84 also provides specific reporting requirements.

This statement has the potential to significantly impact what governments report currently as a fiduciary activity. Upon adoption, we anticipate that some governments' fiduciary activities will need to move to governmental funds, while other activities that never before were considered fiduciary will now be reported as such. It is also possible that certain pension and OPEB fiduciary funds will no longer be reported in a local unit's financial statements.

Given the potential to have a major impact on many governments, not only to its external financial statements, but also to its accounting system requirements and budget document, we encourage you to start analyzing the impact of this standard now. The first step to implementation is identifying the type of activities that should be analyzed and then running those activities through the lens of this standard.

##### ***GASB Statement No. 87 - Leases***

This new accounting pronouncement will be effective for reporting periods beginning after December 15, 2019. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

We recommend beginning to accumulate information related to all significant lease agreements now in order to more efficiently implement this new standard once it becomes effective.

Plante & Moran, PLLC will be providing trainings and other resources to our clients over the coming months in order to help prepare for the implementation of all these new standards. In the interim, please reach out to your engagement team for assistance in getting started.