

October 29, 2021

To the City Council
City of Saline, Michigan

We have audited the financial statements of the City of Saline, Michigan (the "City") as of and for the year ended June 30, 2021 and have issued our report thereon dated October 29, 2021. 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 Related Information

Section III - Legislative and Informational Items

Section I includes information that we are required to communicate to those individuals charged with governance of the City. 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 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 control and accounting procedures, but also in operational or administrative efficiency and effectiveness.

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 of Saline, Michigan 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



Martin J. Olejnik, CPA
Partner



Joshua L. Yde, 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 June 10, 2021, 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 September 8, 2021.

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. As described in Note 1, the City changed accounting policies related to the implementation of GASB Statement No. 84, *Fiduciary Activities*, which changed how fiduciary activities are presented on the statements.

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

We noted 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 the net pension liability, net retiree health care (OPEB) liability, and the deferred inflows and outflows and expenses related to these liabilities.

The net pension liability and the net retiree health care liability are based on third-party actuarial valuations received and internally calculated amounts. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Management's estimate of the net pension liability and net OPEB liability (and related pension/OPEB amounts) is highly sensitive to the various assumptions used by the actuary within the actuarial valuation. Those assumptions include the long-term rate of return, the discount rate, mortality assumptions, health care cost trend rates, and various other assumptions. While the actuary uses these assumptions to calculate the total pension liability and total OPEB liability, as management is ultimately responsible for the accuracy of its financial statements, it is management's responsibility to assess whether the assumptions made are supportable and appropriate based on the facts of its individual plan. Generally accepted accounting principles require that such assumptions be the best estimate as of the measurement date.

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

The City has chosen a long-term rate of return assumption of 7.00 percent for the measurement of the net OPEB liability and 7.35 percent for the measurement of the net pension liability (net of investment administrative expenses), despite the target asset allocation in each plan being the same. The long-term rate of return of 7.35 percent is supported by information provided by MERS (the asset fiduciary); however, management has elected a lower rate for OPEB. The total estimated difference in the net OPEB liability from the amount recorded is approximately \$401,000. Management has determined that the effects of any differences are immaterial, both individually and in the aggregate, to the financial statements.

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 attached schedules summarize uncorrected misstatements of the financial statements that were requested to be recorded. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

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 29, 2021.

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.

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 section and statistical section, 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.

Attachments

Client: **City of Saline, Michigan**
Opinion Unit: **Governmental Activities**
Y/E: **6/30/2021**

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Deferred Outflows of Resources	Current Liabilities	Long-term Liabilities	Deferred Inflows of Resources	Equity	Revenue	Expenses	Net income Statement Impact
FACTUAL MISSTATEMENTS:											
A1	General accrual	\$ -	\$ -	\$ -	\$ 100,000	\$ -	\$ -	\$ -	\$ -	\$ 100,000	\$ (100,000)
JUDGMENTAL ADJUSTMENTS:											
B1	The long-term rate of return assumption is a significant estimate used by the actuary in calculating the total OPEB liability for which we relied on the actuary's selection which conflicted with other available evidence	-	-	-	-	(281,000)	-	-	-	(281,000)	281,000
PROJECTED ADJUSTMENTS:											
C1	To adjust accrued payroll balances to actual	-	-	-	(122,000)	-	-	-	-	(122,000)	122,000
	Total	\$ -	\$ -	\$ -	\$ (22,000)	\$ (281,000)	\$ -	\$ -	\$ -	\$ (303,000)	\$ 303,000
PASSED DISCLOSURES AND FINANCIAL STATEMENT PRESENTATION ISSUES:											
D1	None noted										

Client: **City of Saline, Michigan**
Opinion Unit: **Business-type Activities**
Y/E: **6/30/2021**

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Deferred Outflows of Resources	Current Liabilities	Long-term Liabilities	Deferred Inflows of Resources	Equity	Revenue	Expenses	Net Income Statement Impact
FACTUAL MISSTATEMENTS:											
A1	None noted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
JUDGMENTAL ADJUSTMENTS:											
B1	The long-term rate of return assumption is a significant estimate used by the actuary in calculating the total OPEB liability for which we relied on the actuary's selection which conflicted with other available evidence	-	-	-	-	(120,000)	-	-	-	(120,000)	120,000
PROJECTED ADJUSTMENTS:											
C1	To adjust accrued payroll balances to actual	-	-	-	-	(31,000)	-	-	-	(31,000)	31,000
	Total	\$ -	\$ -	\$ -	\$ -	\$ (151,000)	\$ -	\$ -	\$ -	\$ (151,000)	\$ 151,000
PASSED DISCLOSURES AND FINANCIAL STATEMENT PRESENTATION ISSUES:											
D1	None noted										

Client: **City of Saline, Michigan**
Opinion Unit: **Water Fund**
Y/E: **6/30/2021**

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Deferred Outflows of Resources	Current Liabilities	Long-term Liabilities	Deferred Inflows of Resources	Equity	Revenue	Expenses	Net Income Statement Impact
FACTUAL MISSTATEMENTS:											
A1	None noted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
JUDGMENTAL ADJUSTMENTS:											
B1	The long-term rate of return assumption is a significant estimate used by the actuary in calculating the total OPEB liability for which we relied on the actuary's selection which conflicted with other available evidence	-	-	-	-	(72,000)	-	-	-	(72,000)	72,000
PROJECTED ADJUSTMENTS:											
C1	To adjust accrued payroll balances to actual	-	-	-	(11,000)	-	-	-	-	(11,000)	11,000
	Total	\$ -	\$ -	\$ -	\$ (11,000)	\$ (72,000)	\$ -	\$ -	\$ -	\$ (83,000)	\$ 83,000
PASSED DISCLOSURES AND FINANCIAL STATEMENT PRESENTATION ISSUES:											
D1	None noted										

Attachments (Continued)

Client: **City of Saline, Michigan**
Opinion Unit: **Sewer Fund**
Y/E: **6/30/2021**

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Deferred Outflows of Resources	Current Liabilities	Long-term Liabilities	Deferred Inflows of Resources	Equity	Revenue	Expenses	Net Income Statement Impact
FACTUAL MISSTATEMENTS:											
A1	None noted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
JUDGMENTAL ADJUSTMENTS:											
B1	The long-term rate of return assumption is a significant estimate used by the actuary in calculating the total OPEB liability for which we relied on the actuary's selection which conflicted with other available evidence	-	-	-	-	(48,000)	-	-	-	(48,000)	48,000
PROJECTED ADJUSTMENTS:											
C1	To adjust accrued payroll balances to actual	-	-	-	(20,000)	-	-	-	-	(20,000)	20,000
	Total	\$ -	\$ -	\$ -	\$ (20,000)	\$ (48,000)	\$ -	\$ -	\$ -	\$ (68,000)	\$ 68,000

PASSED DISCLOSURES AND FINANCIAL STATEMENT PRESENTATION ISSUES:

D1 None noted

Client: **City of Saline, Michigan**
Opinion Unit: **General Fund**
Y/E: **6/30/2021**

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Deferred Outflows of Resources	Current Liabilities	Long-term Liabilities	Deferred Inflows of Resources	Equity	Revenue	Expenses	Net Income Statement Impact
FACTUAL MISSTATEMENTS:											
A1	General accrual	\$ -	\$ -	\$ -	\$ 100,000	\$ -	\$ -	\$ -	\$ -	\$ 100,000	\$ (100,000)
JUDGMENTAL ADJUSTMENTS:											
B1	None noted										
PROJECTED ADJUSTMENTS:											
C1	To adjust accrued payroll balances to actual	-	-	-	(83,000)	-	-	-	-	(83,000)	83,000
	Total	\$ -	\$ -	\$ -	\$ 17,000	\$ -	\$ -	\$ -	\$ -	\$ 17,000	\$ (17,000)

PASSED DISCLOSURES AND FINANCIAL STATEMENT PRESENTATION ISSUES:

D1 None noted

Client: **City of Saline, Michigan**
Opinion Unit: **Aggregate Remaining Fund Info**
Y/E: **6/30/2021**

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Deferred Outflows of Resources	Current Liabilities	Long-term Liabilities	Deferred Inflows of Resources	Equity	Revenue	Expenses	Net Income Statement Impact
FACTUAL MISSTATEMENTS:											
A1	None noted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
JUDGMENTAL ADJUSTMENTS:											
B1	None noted										
PROJECTED ADJUSTMENTS:											
C1	To adjust accrued payroll balances to actual	-	-	-	(39,000)	-	-	-	-	(39,000)	39,000
	Total	\$ -	\$ -	\$ -	\$ (39,000)	\$ -	\$ -	\$ -	\$ -	\$ (39,000)	\$ 39,000

PASSED DISCLOSURES AND FINANCIAL STATEMENT PRESENTATION ISSUES:

D1 None noted

Section II - Other Recommendations and Related Information

During our audit, we noted areas where we believe there are opportunities for the City to further strengthen internal control or to increase operating efficiencies. Our observations on those areas are presented below for your consideration:

Password Change Requirement

During our assessment of the IT environment, we noted the City does not have a requirement in place for IT users to change their passwords. We recommend the City implement controls requiring users to periodically change passwords.

Online Banking Account Information

During our assessment of online banking controls, we noted that online banking access is shared among employees for certain bank accounts. We recommend the City work with the bank to set up separate accounts for all necessary employees so that each user can have a unique username and password.

Regular Vendors

We recommend the City have regular vendors set up in the banking system so that the City can make automatic payments and avoid the risk of improper vendors sending fraudulent routing numbers.

Section III - Legislative and Informational Items

COVID-19 Resource Center and ARPA

Throughout the COVID-19 pandemic, Plante & Moran, PLLC's COVID-19 task force of leaders across the firm has monitored, addressed, and provided insight related to the virus and the unique challenges our local governments have faced while continuing to provide essential services to their communities through our COVID-19 resource center at <https://www.plantemoran.com/explore-our-thinking/areas-of-focus/covid-19-government-resource-center>. This will continue as our nation emerges from this crisis.

In March 2021, the president signed the American Rescue Plan Act (ARPA) into law, which included federal stimulus funding for state and local governments of all sizes. The largest of all funding streams, the Coronavirus State and Local Fiscal Recovery Funds (CSLFRF), represents a \$350 billion top-line allocation for state and local governments. Funding began to be distributed nationwide in May 2021, although smaller municipalities will need to wait for the funding to pass through their state governments. The U.S. Department of Treasury recently published the interim final rule (IFR), which establishes a framework for determining the types of programs and services that are eligible uses of the CSLFRF funding.

The ARPA award terms provide that payments from the Fiscal Recovery Funds as a general matter will be subject to the provision of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"), including the cost principles and restrictions on general provisions for selected items of cost. The City will need to understand these reforms and may be required to evaluate, document, and monitor internal procedures around compliance, including maintaining certain required policies.

The COVID-19 resource center is being continuously updated for the latest guidance and strategy related to CSLFRF and will help keep the City running smoothly through our nation's recovery.

Want to receive relevant content directly to your email? Subscribe at <https://www.plantemoran.com/subscribe> where you can customize your subscription preferences based on your specific interests and industry selection.

2021 Public Sector Webinar Series - Insight to Help You Prepare for What is Next:

Plante & Moran, PLLC is proud to have hosted a six-session CPE-eligible webinar series, [Public Sector Webinar Series](#), in which our experts break down what you need to know about regulatory updates, the impact of COVID-19 funds, and more. The webinar series covered the following topics:

- Charting GASB's course - Available on demand
- Preparing for your single audit: A roadmap for funding compliance - Available on demand
- Navigating the AICPA's revised *State and Local Government Client Affiliates* independence guidance - Available on demand
- GASB 87: Your advanced implementation questions answered - Available on demand
- 2021 Compliance Supplement and single audit update - Available on demand
- Financial sustainability: A framework to address budgetary and operational challenges - Available on demand

We welcome the City's participation in what we hope are very informative programs.

Michigan's COVID-19 Updates and Related Grant Programs

The Michigan Department of Treasury has developed a webpage with numbered letters, memorandums, webinars, and resources regarding COVID-19 updates and related grant programs: https://www.michigan.gov/treasury/0,4679,7-121-1751_98769---,00.html.

Section III - Legislative and Informational Items (Continued)

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.

Michigan's Virtual Meeting Legislation (PA 228 of 2020)

Public Act 228 of 2020 was adopted on October 16, 2020 by Governor Whitmer, providing authorization for virtual meetings for certain circumstances. For virtual meetings, each member of the public body that is meeting remotely must announce the county, city, township, or village and state from which the member is attending remotely, and this must be included in the meeting minutes. Specifically, this legislation provides the following circumstances for virtual meetings:

- March 31, 2021 - December 31, 2021 - For only those circumstances requiring accommodation of members absent due to military duty, a medical condition, or a statewide or local state of emergency (SOE) or state of disaster. If absence is due to military duty or a medical condition, the accommodation only applies to that individual, and the other members must be physically present at the meeting.
- After December 31, 2021, only for reason of military duty

On April 19, 2021, the Michigan Department of Health and Human Services amended its Gatherings and Face Mask Order, continuing the exemption subject to certain limitations for gatherings of public bodies and attendees of meetings held by public bodies in compliance with the Open Meetings Act from the indoor and outdoor gatherings limits on number of persons through May 24, 2021.

The City should ensure it is familiar with this legislation to ensure compliance.

Act 51 Report Due Date

The Michigan Department of Transportation has granted an automatic 60-day extension to cities and villages that are required to file the Act 51 report. The updated policy will extend the Act 51 report deadline to be due within six months of the fiscal year end date, which will align with the due date for the audited financial statements. For cities and villages whose most current fiscal year ends before July 1, the Act 51 report must be submitted by December 31 to be included in the snow payment calculation (if eligible and qualified).

This extension does not apply to counties. Counties are required to submit the Act 51 report to MDOT by May 1 every year, regardless of their fiscal year end.

Section III - Legislative and Informational Items (Continued)

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, the State has extended the deadline for compliance. On April 20, 2020, the State issued a memo that sets an implementation date for fiscal years ending on October 31, 2022 and thereafter. The State has committed to releasing various tools to help local units with implementation, including FAQs and clarification on which accounts should be used when implementing GASB 84. A final release of the chart of accounts was issued in November 2020 and is available at this link: https://www.michigan.gov/documents/uniformchart_24524_7.pdf. This final version follows various exposure drafts and revisions in order to comply with changing GASB standards and statutory changes and reformats the document to make it more user-friendly. The Treasury will provide alerts for any guidance and resources, and local units can sign up for alerts at this link: https://public.govdelivery.com/accounts/MITREAS/subscriber/new?qsp=MITREAS_1.

Revenue Sharing

The fiscal year 2021 governor's budget recommendation includes \$1.4 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.

In order to receive the City, Village, and Township Revenue Sharing (CVTRS) payments in FY 2021, 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

Rules Governing Management of Federal Programs

The Office of Management and Budget (OMB) issued significant reforms to the compliance requirements that must be followed by nonfederal entities receiving federal funding related to awards on or after December 26, 2014. While these revisions were not too recent, the revisions were the most significant change to occur to federal grants management in recent history. While many communities have historically been below the \$750,000 single audit threshold, recent legislation provides for an increase in federal spending and, therefore, may be subject to an audit requirement; the City will need to understand these reforms and may be required to make changes to internal procedures, processes, and controls.

- Cost principles - There were certain changes made to allowable costs and significant changes in the area of time and effort reporting and indirect costs.
- Administrative requirements - Nonfederal entities receiving federal funding must adhere to revised rules related to administering federal awards. Most notably, the requirements may impact the City's procurement systems, including maintaining written conflict of interest policies and disclosures.

The City will need to ensure that consideration of the implementation of these regulations has occurred; if it has not, the City needs to work quickly to put the requirements into practice. Plante & Moran, PLLC has many experts in this area and welcomes any questions or needs you may have.

Federal Procurement Threshold Changes

The Office of Management and Budget (OMB) has issued significant reforms to the compliance requirements that must be followed by nonfederal entities. The Office of Management and Budget recently issued Memorandum M-18-18, which provides guidance on changes to micropurchases and simplified acquisition threshold requirements. The key changes are as follows:

- Threshold for micropurchases is increased to \$10,000.
- Threshold for simplified acquisitions (small purchase procedures limit) increased to \$250,000.

Section III - Legislative and Informational Items (Continued)

Key adoption considerations for micropurchase and simplified acquisition thresholds include the following:

- During the original adoption of the Uniform Guidance (UG) procurement standards, were specific amounts included within the City procurement policy, or were references to the UG sections or amounts as adjusted referenced? If specific amounts were referenced, the procurement policy will need to be updated to take advantage of the changes.
- If the City's procurement policy was written to allow for changes in amounts, the procedures will need to be updated to conform.
- If this change is inconsistent with other procurement policies within the organization, the City must decide how the policy will be enacted. Remember local ordinances in place may limit full utilization of changes.
- If the City has chosen not to fully adopt the change and maintain a lower threshold, then the City is not required to use these thresholds but cannot exceed them.

Pension/OPEB Bonds

Originally, the public act allowing for the issuance of pension/OPEB borrowings was set to sunset effective December 31, 2015, but it was extended until December 31, 2018 through Public Act 46 of 2015. Therefore, communities meeting certain criteria, such as maintaining a credit rating of AA or higher and closing or freezing plans, were able to issue bonds up until December 31, 2018. This was further extended through December 31, 2023 by Public Act 575 of 2018. This public act has additional stipulations that can be found in more detail at <http://www.legislature.mi.gov/documents/2017-2018/publicact/pdf/2018-PA-0575.pdf>.

Launch of MI Community Financial Dashboard

The Michigan Department of Treasury launched the MI Community Financial Dashboard. This dashboard will provide you and your community members with easy-to-use visual data regarding your municipality. The data presented on the dashboard is pulled from the Annual Local Fiscal Report (F65) submitted by your local unit. The dashboard will present data from fiscal years 2010 forward. You can sign in and review the dashboard here: <http://micommunityfinancials.michigan.gov/#!/dashboard/COUNTY/?lat=44.731431779455505&lng=-83.018211069625&zoom=5>.

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 course). 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.

Legacy Costs

Legacy costs and the challenge of funding them continue to be topics of discussion. GASB pronouncements of late have placed even more focus on the net long-term liability arising from these benefit promises by requiring governmental financial statements to reflect the net pension and OPEB liabilities. For many governments, these net liabilities are significant. In addition, Public Act 202 of 2017 has brought further focus on the funding level of these plans.

Section III - Legislative and Informational Items (Continued)

The following are the funding levels per the financial statements for the last three years for both pension and OPEB:

	Pension	OPEB
2021	69.6%	88.6%
2020	63.4%	57.5%
2019	60.5%	57.7%

Maintaining or even improving the funded status of the plan(s) is dependent upon a number of factors, including the government's contribution policies, its amortization policy for funding the unfunded actuarial accrued liability, its benefit levels, and the ability to make future changes to the plan.

That said, the challenge here is significant. We are happy to assist you in thinking through alternative ways to manage this liability.

Legacy Cost Reporting

Public Act 530 of 2016

On December 31, 2016, the governor signed Public Act 530 of 2016, which amends Public Act 314 of 1965, also known as Public Employee Retirement System Investment Act (PERSIA). This act was effective on March 29, 2017.

Under the prior act, communities were required to publish a summary annual report setting forth key information related to pension and retiree health care plans. The amendment requires that this summary annual report also be submitted to the Michigan Department of Treasury within 30 days of publication.

In addition, for any system (either pension or retiree health care) that is not funded at a level of at least 60 percent, the community must now post a report to its website indicating steps that are being undertaken to address the liability. In addition, this report must be submitted to the Department of Treasury within a reasonable time frame.

The legislation calls for the Department of Treasury to accumulate all of the reports and publish a summary of funding levels throughout the state.

Public Act 202 of 2017

On January 5, 2018, the Michigan Department of Treasury released initial reporting requirements under Public Act 202 of 2017 (the "Act"), which were primary components of the Act. These reporting requirements apply to all local units of government that offer or provide defined benefit pension and/or defined benefit OPEB retirement benefits.

Local units began reporting funded ratios and contributions in accordance with these uniform assumptions starting with their fiscal year 2019 if their audited financial statements were based on an actuarial valuation issued after December 31, 2018. If their fiscal year 2019 audited financial statements were based on an actuarial valuation issued prior to December 31, 2018, the local units will begin reporting on these uniform assumptions starting with their fiscal year 2020.

On October 21, 2019, the Michigan Department of Treasury released the updated uniform assumptions to be used for fiscal year 2020. Beginning with fiscal year 2020 reporting, all local governments must utilize the updated fiscal year 2020 uniform assumptions. Each year moving forward, the annual uniform assumptions will be updated and are expected to be utilized within Form 5572, where indicated, for that fiscal year. Local governments may utilize roll-forward procedures in nonvaluation years utilizing any updates to the uniform assumptions to calculate the data.

Section III - Legislative and Informational Items (Continued)

This means that the local unit potentially may need three calculations: a funding valuation (if the local unit chooses to have different assumptions for funding purposes), a valuation that complies with GAAP to be used for financial statement reporting, and a calculation that complies with the State's new uniform assumptions.

The releases by the Department of Treasury include the letters titled "Public Act 202: Selection of the Uniform Assumptions" and "Public Act 202: Selection of the Uniform Assumptions for Fiscal Year 2020," Numbered Letter 2018-1, Form 5572, detailed instructions for completion of Form 5572, and a listing of frequently asked questions. All documents can be located at http://www.michigan.gov/treasury/0,4679,7-121-1751_51556_84499---,00.html.

Form 5572 is due annually for both pension and OPEB plans provided by an employer no later than six months after the end of the fiscal year.

In addition to submitting this new form to the Department of Treasury, a local unit must also post this information either on its website or in a public place if it does not have a website. The governing body of a local unit will also need to receive a copy of this form, in accordance with the Act, but the Act does not require approval by the governing body before submission to the Treasury.

Public Act 202 defines that a local unit of government is in underfunded status if any of the following apply:

1. OPEB - Total plan assets are less than 40 percent of total plan liabilities according to the most recent annual report, and, for primary units of government*, the annual required contribution for all of the retirement health systems of the local unit is greater than 12 percent of the local unit of government's governmental funds operations revenue.
2. Retirement pension plans - Total plan assets are less than 60 percent of total plan liabilities according to the most recent annual report, and, for primary units of government, the annual required contribution for all of the retirement pension systems of the local unit is greater than 10 percent of the local unit of government's governmental funds operations revenue.

*Primary units of government are cities, villages, townships, and counties.

If, after submission of Form 5572, the Treasury determines your community to have underfunded status, you will have the opportunity to file a waiver under Section 6 of the Act. The waiver needs to provide a plan for how the underfunding is being addressed. This waiver will then be submitted to the Treasury.

In the event that a local unit has underfunded plans and does not submit a waiver or the waiver is not approved, the Treasury will perform an internal review. The local unit will also need to submit a corrective action plan to the Municipal Stability Board (under Section 7 of the Act). The local unit will be responsible for creating the corrective action plan (CAP) and must begin implementation within 180 days of CAP approval. The corrective action plan will be monitored by the Municipal Stability Board for substantial compliance with the Act every two years, which will require the local unit to complete the CAP Monitoring Form. If, at any time after a CAP has been approved, the local unit determines its previous submission is no longer substantially in effect, the local unit may file an updated CAP.

For governments with OPEB plans, Section 4(l)(a)(i)(ii) of Public Act 202 of 2017 requires the local unit to pay retiree insurance premiums for the year, as well as the normal costs for the new employees hired after June 30, 2018. The actuary likely will need to calculate this number in order for governments to comply. In addition, if communities must essentially prefund this additional cost, those communities without a qualifying OPEB trust will need to consider where these contributions will go.

Questions should be directed via email to the Treasury offices at LocalRetirementReporting@michigan.gov or by visiting its website at www.Michigan.gov/LocalRetirementReporting.

Section III - Legislative and Informational Items (Continued)

Numbered Letter 2018-3

On March 13, 2020, the Treasury issued Numbered Letter 2018-3 (Revised) as a revision to Numbered Letter 2018-3 that was first issued in September 2018. This revised numbered letter provides additional clarity and guidance for compliance with Public Act 202 related to the calculation and reporting of the actuarial determined contribution (ADC) for other postemployment benefit (OPEB) systems. The revision emphasized the following two key points:

1. The ADC, regardless of funding policy, must be calculated as the normal cost plus the amortization of the unfunded liability.
2. The ADC, calculated in accordance with the Act, must be reported in the audited financial statements. Note that OPEB plans that are not administrated through a trust are not required by GAAP to disclose the ADC in the required supplemental information section of the audited financial statements, but those plans should disclose this information in the footnotes to the financial statements, as required by this revised numbered letter.

Failure to calculate the ADC in compliance with this Numbered Letter 2018-3 (Revised) will be considered statutory noncompliance and shall be reported in the notes to the financial statements and result in an auditor finding for statutory noncompliance. Failure to report a compliance ADC in audited financial statements may result in the rejection of Form 5572 submissions and noncompliance with the Act and/or rejection of the local government's audited financial statements.

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.

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).

Section III - Legislative and Informational Items (Continued)

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 5 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 60 days after 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 at [http://www.legislature.mi.gov/\(S\(nhb oq4doz1h4bwbqb0gcxqim\)\)/mileg.aspx?page=GetObject&objectname=mcl-Act-57-of-2018](http://www.legislature.mi.gov/(S(nhb oq4doz1h4bwbqb0gcxqim))/mileg.aspx?page=GetObject&objectname=mcl-Act-57-of-2018).

Other New Legislation

Transformational Brownfields (PA 46-50 of 2017)

This reintroduced legislation became Public Acts 46-50 of 2017 with immediate effect. Public Act 46 of 2017 has created a new type of brownfield, while Public Acts 47-50 of 2017 amend prior acts for this change. The acts grant the ability to create transformational brownfields allowing the capture of income taxes and exemption of sales and use tax from certain personal property. In order to qualify, projects must obtain approval from the local brownfield redevelopment authority, the local governing body, and the Michigan Strategic Fund (MSF).

Projects should have a transformational impact on local economic development and community revitalization. Each project must meet the definition of a large-scale investment. This definition varies based upon population. The minimum is \$15 million for communities under 25,000 but increases based upon population (for example, the City of Detroit, Michigan, at over 600,000 in population, would have a minimum of \$500 million).

Section III - Legislative and Informational Items (Continued)

During the construction, renovation, or improvement phases, projects could capture up to 50 percent of income taxes (state and city, if applicable) related to the wages paid for those physically present and working on the project. Upon completion, the project would capture up to 50 percent of income taxes related to those domiciled within the property. The limit for total tax capture over the life of the bill is \$1 billion, with a maximum of \$40 million per year and a further limit of five projects in any one community prior to December 31, 2022. In addition, in one calendar year, the MSF may not approve more than five transformational brownfield plans (with the exception that, if fewer than five are approved in a year, the unused quota can carry over to the next calendar year). Tax captures per parcel are limited to 20 years.

Public Act 47 amends the Income Tax Act to allow for the income tax captures noted above. Public Act 48 amends the General Sales Tax Act to exempt from sales tax the sale of goods for use in eligible projects. Public Act 49 amends the Use Tax Act and would not apply to goods used in the project. Public Act 50 amends the Michigan Renaissance Zone Act so that income tax exemptions would not apply.

LCSA Act Amendments

Public Acts 247 and 248 of 2018 were signed into law on June 27, 2018 by Governor Snyder. These acts significantly impact the Local Community Stabilization Authority (LCSA) Act, including how personal property tax (PPT) reimbursements are calculated.

The State Department of Treasury issued a summary of the amendments in July 2018, which can be found at the following link: https://www.michigan.gov/documents/treasury/Overview_of_2018_LCSA_Act_Amendments_627459_7.pdf.

This summary document lists the following changes that resulted from these acts:

1. Accelerate some reporting deadlines and add two new reporting requirements.
2. Change the calculation of the millage rate to be used in the calculation of the PPT reimbursements.
3. Change the calculation of the personal property exemption loss and eliminate the requirements to recalculate prior year taxable values.
4. Change the millage rate to be used in the calculation of a tax increment finance authority's (TIFA) PPT reimbursement.
5. Make the local community stabilization authority responsible for distributing the fire protection services payments.
6. Create a process for correcting PPT reimbursements.
7. Allow for a one-time PPT advance for prior year underpayments of \$500,000 or more.
8. Change the payment dates of the PPT reimbursements to allow for corrections to current year reimbursements and delay the payment of qualified loss in excess of 100 percent until May 20.
9. Change how municipalities are required to record and allocate the revenue.

While we strongly recommend reviewing the link provided above for an in-depth look at the changes, highlighted below are the more significant changes:

- PPT reimbursement calculations are changing as follows:
 - The requirements for recalculation of prior year taxable value have changed. Going forward, prior year property tax values for commercial and industrial personal property will only be modified for municipality boundary changes and to exclude any property that was classified in the municipality where it is currently located as utility personal property or real property after 2012.
 - The calculation of PPT reimbursements that are based on the acquisition cost of eligible personal property for two years has been delayed until 2021.

Section III - Legislative and Informational Items (Continued)

- Reimbursement for 100 percent of the calculated qualified loss going forward will be received in either October or February.
- Each year, any remaining balance of the local community stabilization share fund revenue for the calendar year will be distributed to counties, cities, townships, villages, and community colleges. The allocation will be based on each municipality's share of the total reimbursement based on the acquisition cost of all eligible personal property and qualified loss. These reimbursement payments will be a separate payment that will be reimbursed in May. This allows time for any errors in that year's PPT reimbursement calculation to be identified and corrected.
- There are also changes to the tax increment finance authority PPT reimbursement calculation; please refer to the link above for more details.
- Fire protection service payments were distributed by LCSA to municipalities starting in 2018. The payment distributions will continue to occur by November 30 each year. Each municipality is to continue to complete and submit the required questionnaire to the Michigan Department of Licensing and Regulatory Affairs (LARA) in order to qualify.
- The timing of PPT reimbursements has changed as follows:
 - Tax increment finance authorities - For a TIFA that previously received payments in November, reimbursements will be issued on October 20 of each year. Corrections for the underpayment of a prior year PPT reimbursement or a current year reimbursement will be issued on May 20 of each year.
 - Municipalities, excluding school districts, intermediate school districts, and TIFAs - For a municipality that previously received payments in November, reimbursements for essential services, small taxpayer exemption loss, and qualified loss up to 100 percent will be issued on October 20 of each year. For municipalities that previously received payments in February, reimbursements for essential services, small taxpayer exemption loss, and qualified loss up to 100 percent will continue to be issued on February 20 of each year. Corrections for the underpayment of a prior year PPT reimbursement or a current year reimbursement will be issued on May 20 of each year, as will the portion of qualified loss exceeding 100 percent reimbursement.

The table below provides a schedule of payment dates for all municipalities.

Description of PPT Reimbursement	Date of Reimbursement
Payment of calculated current year PPT reimbursements up to 100 percent of the calculated losses for county-allocated millage to municipalities that do not levy millage 100 percent in December and TIFAs (payment must be allocated to the funds based on millages)	October 20 (each year)
Payment of calculated current year PPT reimbursements up to 100 percent of the calculated losses for townships, county extra-voted millage, and to municipalities that levy millage 100 percent in December	February 20 (each following year)
Payment of prior year underpayment that was not advanced and current year underpayment and prorated qualified loss in excess of 100 percent. (Note that the payment does not need to be allocated based on millages. If the local unit chooses, this can be fully recorded in the General Fund.)	May 20 (each following year)

Section III - Legislative and Informational Items (Continued)

- Changes to the requirement to restrict revenue - To date, the previous LCSA act had only required a municipality to use the reimbursement amount received for debt millage to pay for debt and to use the essential service reimbursement to pay for the cost of essential services. The newly signed amendment now also requires that each municipality allocate and record the payments received in the same manner as the millage levied, up to 100 percent reimbursement. The October payment represents the 100 percent reimbursement and should be allocated by millages. The May payment does not represent reimbursement and can be receipted into the General Fund at the discretion of the local unit.

In addition, for county road millages levied under Section 20b of 1909 PA 283, MCL 224.20b, a formula for allocating a portion of the PPT reimbursement to each city and village must be decided by March 31 by the cities, villages, and road commission. If this does not occur, a formula for allocating payments will be determined by the Department of Treasury.

As a reminder, the LCSA reimbursements should not be reported on the financial statements with property taxes; instead, they should be included with other intergovernmental revenue from the State (state-shared revenue, grants, and other). The State has created a new account number for the revenue, 573, and titled it "Local Community Stabilization Share Appropriation." As always, communities should follow the State's guidance related to the Uniform Chart of Accounts.

Upcoming Accounting Standards Requiring Preparation

GASB Statement No. 95 - Postponement of the Effective Dates of Certain Authoritative Guidance

This new pronouncement was adopted in May 2020 and is effective immediately. This statement postpones the effective dates of the following pronouncements and implementation guides by one year:

- Statement No. 83, *Certain Asset Retirement Obligations*
- Statement No. 84, *Fiduciary Activities*
- Statement No. 88, *Certain Disclosures Related to Debt*
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- Statement No. 90, *Majority Equity Interests*
- Statement No. 91, *Conduit Debt Obligations*
- Statement No. 92, *Omnibus 2020*
- Statement No. 93, *Replacement of Interbank Offered Rates*
- Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*
- Implementation Guide No. 2018-1, *Implementation Guidance Update - 2018*
- Implementation Guide No. 2019-1, *Implementation Guidance Update - 2019*
- Implementation Guide No. 2019-2, *Fiduciary Activities*

The effective dates of the following pronouncement and implementation guide are postponed by 18 months:

- Statement No. 87, *Leases*
- Implementation Guide No. 2019-3, *Leases*

GASB Statement No. 87 - Leases

This new accounting pronouncement will be effective for reporting periods beginning after December 15, 2019 (June 15, 2021 after extension within GASB Statement No. 95). 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 now related to all significant lease agreements in order to more efficiently implement this new standard once it becomes effective.

Section III - Legislative and Informational Items (Continued)

Plante & Moran, PLLC will be providing trainings and other resources to our clients in the coming months 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.

GASB Statement No. 92 - Omnibus 2020

This new accounting pronouncement has various effective dates that were postponed by one year after extension within GASB Statement No. 95. This statement addresses eight unrelated practice issues and technical inconsistencies in authoritative literature. The standard addresses leases, intraentity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activities of public entity risk pools, fair value measurements, and derivative instruments.

GASB Statement No. 94 - Public-Private and Public-Public Partnerships and Availability Payment Arrangements

This new accounting pronouncement will be effective for reporting periods beginning after June 15, 2022. This statement improves accounting and financial reporting for arrangements where a governmental entity contracts with an operator to provide public services by conveying control of the right to operate or use nonfinancial assets, such as infrastructure or other capital assets, for a period of time in an exchange or exchange-like transaction. It establishes the definitions of public-private and public-public partnerships (PPPs) and availability payment arrangements (APAs) and provides uniform guidance on accounting and financial reporting for transactions that meet those definitions. The first step of implementation is identifying the types of arrangements that are PPPs and analyzing each of those arrangements through the requirements of this standard. In the interim period prior to the required implementation date, please reach out to your engagement team with any questions or for assistance in getting started.

GASB Statement No. 96 - Subscription-Based Information Technology Arrangements (SBITAs)

This new accounting pronouncement will be effective for the City's year ending June 30, 2023. This statement defines SBITAs and provides accounting and financial reporting for SBITAs by governments, including requiring a government to recognize a subscription liability and an intangible right-to-use subscription asset for SBITAs.

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.

The Financial Reporting Model is currently in exposure draft stage and is expected to be issued as a final statement next year. 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. Currently, 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 process for classifying a transaction. In addition to this new framework, the proposal also addresses recognition and measurement of revenue and expense transactions.

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.