

November 28, 2022

To the Mayor and City Council
City of Davison, Michigan

We have audited the financial statements of the City of Davison, Michigan (the "City") as of and for the year ended June 30, 2022 and have issued our report thereon dated November 28, 2022. 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 - Legislative and Information Items

Section I 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 mayor and City Council of the City of Davison, Michigan.

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

We would like to take this opportunity to thank the City's staff, especially Andrea and Julie, 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 mayor, the City Council, and others within 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 Hill, CPA
Partner



Chris Gilbert, CPA
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 May 16, 2022, 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 23, 2022.

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 the year, except for the adoption of GASB 87, *Leases*.

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 the estimated net pension liability and net other postemployment benefit liability. Management's estimates of the net pension liability and net other postemployment benefit liability are based on the pension actuarial valuations and the other postemployment benefit valuation, respectively. 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.

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.

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

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. We did not detect any misstatements as a result of audit procedures.

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 28, 2022.

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 - 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 ARPA and COVID-19 resource center for government 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 (SLFRF), represents a \$350 billion top-line allocation for state and local governments. Funding was provided in two tranches beginning in May 2021, with the second tranche not being released until 12 months after the first payment. Effective April 1, 2022, the U.S. Department of the Treasury published the final rule for determining the types of programs and services that are eligible uses of the SLFRF funding. Overall information about the program, including a frequently asked questions document and an overview of the final rule, is available on the U.S. Department of the Treasury's website at <https://home.treasury.gov/policy-issues/coronavirus/assistance-for-state-local-and-tribal-governments>.

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.

Plante & Moran, PLLC's COVID-19 resource center is being continuously updated for the latest guidance and strategy related to SLFRF 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.

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.

Coronavirus State and Local Fiscal Recovery Funds 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.

Section II - 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.

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, more communities 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.

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. In addition to the summaries below and to stay up to date, Plante & Moran, PLLC issues a biannual GASB accounting standard update. The most recent spring 2022 update and a link to previous fall and spring updates are available [here](#).

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.

Section II - Legislative and Informational Items (Continued)

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.

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.

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.