

December 8, 2022

To the City Council
City of Garden City, Michigan

We have audited the financial statements of the City of Garden City, Michigan (the "City") as of and for the year ended June 30, 2022 and have issued our report thereon dated December 8, 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 - Internal Control Related Matters Identified in an Audit

Section II - Required Communications with Those Charged with Governance

Section III - Legislative Items and Other Information

Sections I and II include information that we are required to communicate to those individuals charged with governance of the City. Section I communicates a deficiency we observed in the City's internal control that we believe is a significant deficiency. Section II communicates significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. We will report this information annually to the City Council of the City of Garden City, Michigan.

Section III represents legislative and other items that would be of interest to the City.

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

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

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

Very truly yours,

Plante & Moran, PLLC



David H. Helisek

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, 2022, 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 a certain deficiency in internal control that we consider to be a significant deficiency.

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.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We consider the following deficiency in the City's internal control to be a significant deficiency:

Timely Reconciliation of Bank Accounts

During testing, it was noted that the treasurer's receiving account bank reconciliation was not performed timely for the months of July 2021 through December 2021. The risk is that potential misstatements would not be caught in a timely manner. Plante & Moran, PLLC recommends that bank reconciliations be done within 45 days of month end. Beginning in January 2022, it was noted that the treasurer's receiving account bank reconciliation was being kept up to date.

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 September 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 October 5, 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 2 to the financial statements.

No new accounting policies were adopted, and the application of existing policies was not changed during the year ended June 30, 2022. GASB Statement No. 87, *Leases*, was deemed to be immaterial overall to the City's financial statements.

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 incurred but not reported claims of the workers' compensation and general liability funds; the assumptions used by the actuaries to calculate the required contributions for pension and postemployment health care, net pension liability, and net OPEB liability; and the historical cost of the City's infrastructure (roads and buildings). The workers' compensation and general liability funds are based on management's calculation using historical claim information. The net pension and net OPEB liabilities are based on actuarial valuations obtained from a third-party actuary. The historical cost of the City's infrastructure is based on the City's capital asset records. 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.

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

Difficulties Encountered in Performing the Audit

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

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. The attached schedule summarizes 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 December 8, 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 III - Legislative Items and Other Information

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.

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.

Section III - Legislative Items and Other Information (Continued)

Updated Uniform Chart of Accounts

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. The State issued a memo that sets an implementation date for fiscal years ending on October 31, 2022 and thereafter. 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 2023 governor's budget recommendation includes \$1.5 billion for revenue sharing. Further details of the breakdown of this amount are available at https://www.michigan.gov/treasury/0,,7-121-1751_2197---,00.html.

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

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

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.

Federal Procurement Threshold Changes

The Office of Management and Budget 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 Items and Other Information
(Continued)**

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

- During the original adoption of the Uniform Guidance procurement standards, were specific amounts included within the City’s procurement policy, or were references to the Uniform Guidance 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.

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.

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

	Pension - City	Pension - Court	OPEB
2021	58%	64%	0%
2020	55%	59%	0%
2019	58%	61%	0%

Maintaining or even improving the funded status of the plans 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 plans.

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

ARPA and SLFRF for Affordable Housing Production and Preservation

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

Section III - Legislative Items and Other Information (Continued)

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. 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. 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.

Attachment

Client: City of Garden City, Michigan
 Opinion Unit: Governmental Activities
 Y/E: 6/30/2022

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										\$ -
JUDGMENTAL ADJUSTMENTS:											
B1	Estimate of potential chargebacks for property taxes				\$ 157,700				\$ (157,700)		(157,700)
PROJECTED ADJUSTMENTS:											
C1	None	\$ -	\$ -	\$ -	-	\$ -	\$ -	\$ -	-	\$ -	-
	Combined effect	-	-	-	157,700	-	-	-	(157,700)	-	(157,700)
	Less: Effect of adjustments for which auditor's report is qualified	-	-	-	-	-	-	-	-	-	-
	Total	\$ -	\$ -	\$ -	\$ 157,700	\$ -	\$ -	\$ -	\$ (157,700)	\$ -	\$ (157,700)

PASSED DISCLOSURES AND FINANCIAL STATEMENT PRESENTATION ISSUES:

D1 None

Client: City of Garden City, Michigan
 Opinion Unit: General Fund
 Y/E: 6/30/2022

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										\$ -
JUDGMENTAL ADJUSTMENTS:											
B1	Estimate of potential chargebacks for property taxes				\$ 109,278				\$ (109,278)		(109,278)
PROJECTED ADJUSTMENTS:											
C1	None	\$ -	\$ -	\$ -	-	\$ -	\$ -	\$ -	-	\$ -	-
	Combined effect	-	-	-	109,278	-	-	-	(109,278)	-	(109,278)
	Less: Effect of adjustments for which auditor's report is qualified	-	-	-	-	-	-	-	-	-	-
	Total	\$ -	\$ -	\$ -	\$ 109,278	\$ -	\$ -	\$ -	\$ (109,278)	\$ -	\$ (109,278)

PASSED DISCLOSURES AND FINANCIAL STATEMENT PRESENTATION ISSUES:

D1 None

Client: City of Garden City, Michigan
 Opinion Unit: Debt Service Fund
 Y/E: 6/30/2022

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										\$ -
JUDGMENTAL ADJUSTMENTS:											
B1	Estimate of potential chargebacks for property taxes				\$ 39,281				\$ (39,281)		(39,281)
PROJECTED ADJUSTMENTS:											
C1	None	\$ -	\$ -	\$ -	-	\$ -	\$ -	\$ -	-	\$ -	-
	Combined effect	-	-	-	39,281	-	-	-	(39,281)	-	(39,281)
	Less: Effect of adjustments for which auditor's report is qualified	-	-	-	-	-	-	-	-	-	-
	Total	\$ -	\$ -	\$ -	\$ 39,281	\$ -	\$ -	\$ -	\$ (39,281)	\$ -	\$ (39,281)

PASSED DISCLOSURES AND FINANCIAL STATEMENT PRESENTATION ISSUES:

D1 None

Attachment (Continued)

Client: City of Garden City, Michigan
 Opinion Unit: Aggregate Remaining Fund Info
 Y/E: 6/30/2022

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										\$ -
JUDGMENTAL ADJUSTMENTS:											
B1	Estimate of potential chargebacks for property taxes				\$ 9,141				\$ (9,141)		(9,141)
PROJECTED ADJUSTMENTS:											
C1	None	\$ -	\$ -	\$ -	-	\$ -	\$ -	\$ -	-	\$ -	-
	Combined effect	-	-	-	9,141	-	-	-	(9,141)	-	(9,141)
	Less: Effect of adjustments for which auditor's report is qualified	-	-	-	-	-	-	-	-	-	-
	Total	\$ -	\$ -	\$ -	\$ 9,141	\$ -	\$ -	\$ -	\$ (9,141)	\$ -	\$ (9,141)
PASSED DISCLOSURES AND FINANCIAL STATEMENT PRESENTATION ISSUES:											
D1	None										