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November 12, 2020

To the City Council
City of Charlotte, Michigan

We have audited the financial statements of the City of Charlotte, Michigan (the "City") as of and for the year ended June 30, 2020 and have issued our report thereon dated November 12, 2020. Professional standards require that we provide you with the following information related to our audit, which is divided into the following sections:

Section I - Internal Control Related Matters Identified in an Audit

Section II - Required Communications with Those Charged with Governance

Section III - Other Recommendations and Legislative Information

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

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

Section III contains updated legislative and informational items that we believe will be of interest to you. These comments are offered in the interest of helping the City in its efforts towards continuous improvement.

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

William Brickey, CPA

Section I - Internal Control Related Matters Identified in an Audit

In planning and performing our audit of the financial statements of the City as of and for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses, and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis.

We consider the following deficiencies in the City’s internal control to be material weaknesses:

Auditor-proposed Adjustments - Auditor-identified journal entries were posted in the financial records during the audit to adjust current year activity to be in conformity with generally accepted accounting principles. The entries resulted from a lack of review of balances reported in the City’s general ledger. We are happy to assist in adjusting the general ledger but are required to communicate our role in adjusting the accounting records to you. The required entries related to accounts payable, capital assets, and OPEB obligations. Further, Plante & Moran, PLLC recommends that a second review over the census information used in preparing the actuarial valuation be done to ensure all inputs are accurate before finalization. Not identifying or correcting these misstatements could have resulted in a material misstatement of the financial statements.

Fire Department Cash Activity - During the audit, we identified a bank account of the Charlotte Volunteer Fire Department (CVFD) that was not recorded by the City of Charlotte, Michigan within the City’s general ledger system. The City operated as if the CVFD were a separate legal organization with whom they contracted for fire services; the City paid CVFD quarterly for services rendered. However, the CVFD is not a separate legal organization, and the CVFD has been operating under the City’s federal employer identification number. The following comments describe the deficiencies in the City’s internal controls related to this matter:

- The City’s internal controls should ensure all vendors complete IRS form W-9 to verify entity information. Paying vendors without documented entity information could result in noncompliance with federal and state tax regulations.

Section I - Internal Control Related Matters Identified in an Audit (Continued)

- The City's general ledger should be a complete record of the City's financial activity; as such, the City's internal controls should address the completeness of all revenue and expense activity in the accounting records. Excluding activity from the City's accounting records and financial statements could result in a material misstatement or misappropriation of assets, as those assets would not be subject to all the controls at the City.

  As it relates to CVFD, over the course of just the last fiscal year, there were bank deposits of $44,747 into the CVFD bank account, of which $36,926 was from the City for fire services, and bank withdrawals of $42,148. The CVFD did not retain appropriate supporting documentation for these deposits and withdrawals, so the nature of these financial transactions could not be determined. Based on CVFD internal documents, fiscal year 2020 expenditures consisted of volunteer reimbursements, beverages, open house expenses, Christmas events, equipment, T-shirts, Halloween candy, and dues and subscriptions.

- As discussed above, the City was not involved with the activities of this bank account and did not approve any of the transactions. The City Charter requires all withdrawals of City moneys (expenses) be approved by the City Council. Not approving bank withdrawals and expenses is a violation of the City Charter and could lead to unlawful spending and misappropriation of assets.

The City should ensure all funds under its employer ID are appropriately accounted for and subject to the same internal controls as all other city funds. In reviewing the City's relationship with the CVFD, decisions will need to be made about whether the formation of a legally separate entity is merited or whether the City should just pay the individual volunteer firefighters directly.

Section II - Required Communications with Those Charged with Governance

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated August 13, 2020, 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 2, 2020.

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 2020.

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

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

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

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 following misstatements detected as a result of audit procedures were corrected by management: journal entries related to accounts payable/expense, capital assets, and OPEB liabilities.

The following uncorrected misstatements were detected as a result of the audit and were not corrected by management: (1) Industrial Park Fund - reduce revenue and increase deferred revenue by $15,300 for receivables not collected with the period of availability and (2) General Fund/governmental activities - increase revenue $7,625, increase expense by $8,557, increase cash by $16,153, and increase fund balance by $17,085 for fire department activity not currently reported. Management has determined that the 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 November 12, 2020.

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 - Required Communications with Those Charged with Governance (Continued)

Other Information in Documents Containing Audited Financial Statements

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

Section III - Other Recommendations and Legislative Information

Other Recommendations

Bank Reconciliations

During our audit, it was identified that there is no sign off on bank reconciliations after they are prepared to signify that a review has occurred. We recommend that a process be implemented to ensure cash and investment accounts are reviewed on a timely basis in order to detect possible misappropriation of funds. The lack of timely bank reconciliation reviews increases the risk of misappropriation of funds to occur and not be detected timely.

Payroll Submission

Payroll information is submitted to MERS for use in pension calculations. Currently, there is no secondary review performed over the payroll information prior to submission. Best practice would be for two individuals to be involved in this activity to prevent the risk of error and inaccurate information being reported.

Fire Department Overtime

The fire department uses a very manual process for tracking and approving overtime worked at the stations. Due to the nature of this process, it is susceptible to errors being made. We encourage the City to explore options for integrating the tracking and approval of overtime into the City's payroll module. Making these changes would alleviate the administrative burden on the department and also reduce the risk of errors being made.

Fuel Sales

It was noted that the cost of fuel in the Airport Fund was greater than the fuel sales during the current year. It is our understanding that the pricing model for fuel was established many years ago and has not been updated. We recommend that this model be reviewed to ensure that the City is not making up the cost for loss on fuel sales.

Construction Code Expenses

The calculation for construction code expenses and indirect costs has not be updated for a few years. We recommend that the City revisit that calculation to ensure there is a basis to support what is being charged.

Legislative and Other Information

COVID-19 Resource Center

Plante & Moran, PLLC has assembled a COVID-19 task force of leaders across the firm to monitor, address, and mitigate risks presented by the virus. We understand the unique challenges our local governments are facing in providing essential services to protect communities during the COVID-19 crisis while, going forward, they face seemingly impossible choices around staffing, capital projects, pension obligations, and dozens of other items in the face of an uncertain revenue outlook. We are sharing our insights within our government COVID-19 resource center at https://www.plantemoran.com/explore-our-thinking/areas-of-focus/covid-19-government-resource-center. We will keep you updated with relevant economic analyses, crisis management guidelines, notices of changing regulations, and more to keep the City running as smoothly as possible amidst uncertainty and unprecedented disruption.

Have questions about the CARES Act? Submit them at https://www.plantemoran.com/campaigns/firm/cares-act by simply providing your contact information and agreeing to our terms and conditions, and an expert from our task force will contact you within 24 hours.

Automated CAFR Application and Award Process

In November 2019, the GFOA announced that the Certificate of Achievement for Excellence in Financial Reporting application and award process will be completely automated by spring 2020. This electronic process will allow applicants the ability to apply, pay fees, check application status, and receive CAFR award documents electronically. In preparation for this transition, beginning on January 1, 2020, CAFRs will no longer be accepted in hard copy, on CDs, or on flash drives. The new application process will only accept PDF or other electronic files. Any questions are to be directed to cafrprogram@gfoa.org.

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 can also potentially 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.

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 significant revision to the current version of the chart of accounts will be issued in the future that will incorporate feedback received by Treasury. This revision will include significant changes to the expenditure accounts 700-999, which will now mirror the old approach that allowed for various numbers within certain ranges. Going forward, the Treasury will issue the following three documents for any future revisions: a revised chart of accounts, a marked-up version of the chart showing the changes, and a summary of the revisions report. Local units can sign up for alerts at this link: https://public.govdelivery.com/accounts/MITREAS/subscriber/new?qsp =MITREAS_1.

Revenue Sharing

Given the recent COVID-19 pandemic, there are anticipated declines in the state revenue sharing constitutional portion and an unknown impact on the statutory portion as a result of COVID-19. Please refer to the Plante & Moran, PLLC COVID-19 resource center discussed above to keep updated on the economic analysis and other up-to-date information related to the pandemic.

Administrative Charges

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

Legacy Cost Reporting

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.

This means that the local unit may potentially 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 your 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 newly created Municipal Stability Board (under Section 7 of the Act). The local unit will be responsible for creating the corrective action plan.

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 will likely 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.

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 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.

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. 84, *Fiduciary Activities*
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- Statement No. 91, *Conduit Debt Obligations*
- Statement No. 92, *Omnibus 2020*
- 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. 84 - Fiduciary Activities

This new pronouncement is effective for reporting periods beginning after December 15, 2018 (December 15, 2019 after extension within GASB Statement No. 95). This statement provides criteria for state and local governments to use in identifying whether an activity is fiduciary and should be reported as a fiduciary fund type in its financial statements. In addition, once fiduciary activities are identified, GASB 84 also provides specific reporting requirements.

This statement has the potential to significantly impact what governments currently report as a fiduciary activity. Upon adoption, we anticipate that some governments' fiduciary activities will need to move to governmental funds, while other activities that previously were not considered fiduciary may now be reported as such under certain circumstances. It is also possible that certain pension and OPEB fiduciary funds will no longer be reported in a local unit's financial statements.

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

GASB Statement No. 87 - Leases

This new accounting pronouncement will be effective for reporting periods beginning after December 15, 2019 (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 now to more efficiently implement this new standard once it becomes effective.

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

GASB Statement No. 89 - Interest Incurred during Construction

This new accounting pronouncement will be effective for reporting periods beginning after December 15, 2019 (December 15, 2020 after extension within GASB Statement No. 95). This statement eliminates capitalized interest and instead requires all interest expense, including the portion incurred during construction of a capital asset, to be expensed. Early adoption is encouraged.

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 to 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 assistance in getting started.