

December 5, 2023

To the Board of Trustees and Management
Township of Hamburg

We have audited the financial statements of the Township of Hamburg (the "Township") as of and for the year ended June 30, 2023 and have issued our report thereon dated December 5, 2023. 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 Informational Items

Section I includes information that we are required to communicate to those individuals charged with governance of the Township. It 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 contains updated legislative and informational items that we believe will be interest to you.

We would like to take this opportunity to thank the Township'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 board of trustees and management of the Township of Hamburg 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

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 15, 2023, 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 Township. 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 letter about planning matters on September 13, 2023.

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 Township 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.

We noted no transactions entered into by the Township 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 estimate affecting the financial statements was the estimate for net pension liability. Management's estimate of the net pension liability is primarily based on data and assumptions from third-party actuarial valuations. We evaluated the key factors and assumptions used to develop the estimate in determining that it is 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 Township, and business plans and strategies that may affect the risks of material misstatement, with management each year prior to our retention as the Township'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 5, 2023.

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 Township'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 governments. Following is a link to various ARPA-related articles that we believe will be of interest to you: <https://www.plantemoran.com/explore-our-thinking/search?skip=10&keyword=arpa&type=all&professional=all&practice=all&industry=85a5df97-9c41-4000-86d3-db25835731a6&areaOfFocus=all&daterange=all&sortBy=DateDesc>.

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 Township 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 Township 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.

Section II - Legislative and Informational Items (Continued)

Coronavirus State and Local Fiscal Recovery Funds (SLFRF) 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 Township.

Auditor Reporting Standards

The AICPA Auditing Standards Board (ASB) issued several new standards that were recently effective, which significantly changed the independent auditor's report (Statement on Auditing Standards No. 134) and made some changes to certain required audit procedures (Statement on Auditing Standards No. 137). The standards were both first effective for your fiscal year ended June 30, 2023.

Statement on Auditing Standards No. 137 addresses auditors' responsibilities relating to other information included in annual reports. This new standard may increase the scope of audit procedures and may result in some audit work being performed outside of the normal timing. To the extent that the Township issues a document meeting the AICPA's definition of an annual report under the standard, additional audit procedures will need to be performed on that separate document before it is issued. It is important that the Township continue to communicate to us regarding any new documents meeting the AICPA's definition of an annual report under the standard beyond the recent implementation date. We are happy to discuss these changes with you.

Monitoring Lease Activity

GASB Statement No. 87, *Leases*, was effective in fiscal year 2022. Although significant analyses were performed to determine the applicability of the new standard and record any necessary adjustments, we want to stress the importance of implementing ongoing monitoring procedures over lease activity. When the Township enters into new leases, existing leases are modified, or other facts and circumstances change, consideration must be given to the impact those changes will have on lease accounting. In order to do so, the Township must ensure there is a process in place to identify and appropriately account for new leases or changes to existing leases on an ongoing basis or least at the end of each year.

Expansion of Police and Fire Special Assessment

Effective March 28, 2023, Public Act 228 of 2022 (an amendment to Act 33, Public Acts of Michigan, 1951, as amended) expands special assessment authority for police services, fire services, or both to cities with a population of 15,500 or more. Cities with a population of 15,500 or more must seek voter approval to exercise these special assessment powers. The act continues to allow all townships and villages and those cities with a population of less than 15,500 to establish the special assessment district pursuant to certain procedures and public hearing on the governing body's own initiative, pursuant to a petition process by property owners, or by an election.

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.

Updated Uniform Chart of Accounts (UCA)

In January 2023, the Michigan Department of Treasury revised the UCA, which is available at this link: <https://lnks.qd//eyJhbGciOiJIUz11NiJ9.eyJlbWFpbCI6ImFzaGxleS5mcmFzZUBwbGFudGVtb3Jhbi5jb20iLjCjIdWxsZXRpbi9saW5rX2IkljoiMTAwliwic3Vic2NyaWJlcl9pZCI6IjcxNjI2NDM2MlIsImxpbmtpfaWQiOiIyNjlyMjc4NjU4IiwidXJpljoiYnAyOmRpZ2VzdCIsInVybCI6Imh0dHBzOi8vd3d3Lm1pY2hpZ2FuLmdvdi90cmVhc3VyeS8tL2lIZGhlL1Byb2plY3QvV2Vic2I0ZXMvdHJlYXN1cnkvQkxHU1MtQ0VGRC1GT0xERVlvQnVsbGV0aW5zLU1hbnVhbHMtYW5kLUZvcmlzL1VDQS1KYW51YXJ5LTlwMjMucGRmlwiYnVsbGV0aW5faWQiOiIyMDIzMDZMS43MDcyNTE2MSJ9.WD-azxs7cH09Pnp5lpwL93HQVe6FdgcevCmnGlaV4>.

The State has indicated that past editions of the UCA should be discarded. Prior to the January 2023 revised UCA, the State issued a memo that sets an implementation date for fiscal years ending on October 31, 2022 and thereafter. This final UCA 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?osp=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

Inflation Rate Multiplier for 2023

In January 2023, the Michigan State Tax Commission issued Bulletin 17 of 2022 regarding the inflation rate multiplier for use in the 2023 capped value formula and the Headlee millage reduction fraction formula. The inflation rate for property taxes as defined in Michigan Compiled Law (MCL) 211.34d has increased beyond the historical 5 percent cap to 7.9 percent for 2023. As a result, the inflation rate multiplier of 1.079 must be used in the calculation of the 2023 Headlee millage reduction fraction required by Michigan Compiled Law (MCL) 211.34d. As the inflation rate multiplier of 1.079 is higher than 1.05, the inflation rate multiplier to be used in the 2023 capped value formula is 1.05.

Section II - Legislative and Informational Items (Continued)

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 Township 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 Township's procurement systems, including maintaining written conflict of interest policies and disclosures.

The Township will need to ensure that consideration of the implementation of these regulations has occurred; if it has not, the Township 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.

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 Township 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 Township 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 Township must decide how the policy will be enacted. Remember local ordinances in place may limit full utilization of changes.
- If the Township has chosen not to fully adopt the change and maintain a lower threshold, then the Township is not required to use these thresholds but cannot exceed them.

Section II - Legislative and Informational Items (Continued)

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.

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

	Pension	OPEB
2023	71%	N/A
2022	85%	N/A
2021	79%	N/A

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.

Other New Legislation

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>.

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 Township. 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. 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.

Section II - Legislative and Informational Items (Continued)

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 two comprehensive projects that result in changes to financial reporting for state and local governments.

The Financial Reporting Model exposure draft was issued in June 2020, and the final statement is expected to be released in mid 2024. This standard proposes changes to many aspects of the Township's financial statements, including the management's discussion and analysis (MD&A), proprietary fund financial statements, and budgetary comparisons. In August 2023, the GASB removed issues related to reporting of governmental funds from the scope of this project.

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 Township's to monitor developments with these standards, as the potential impacts are quite broad.