

December 15, 2022

To the Board of Trustees and Management
Township of Scio

We have audited the financial statements of Township of Scio (the "Township") as of and for the year ended March 31, 2022 and have issued our report thereon dated December 15, 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 and Informational Items

Sections I and II include information that we are required to communicate to those individuals charged with governance of the Township. Section I communicates deficiencies we observed in the Township's internal control that we believe are material weaknesses. 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.

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

We would like to take this opportunity to thank the 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 and is not intended to be and should not be used by anyone other than these specified parties.

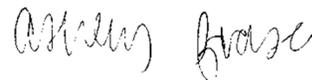
We welcome any questions you may have regarding the following communications, and we would be willing to discuss these or any other questions that you might have at your convenience.

Very truly yours,

Plante & Moran, PLLC



David H. Helisek
Partner



Ashley Frase
Senior Manager

Section I - Internal Control Related Matters Identified in an Audit

In planning and performing our audit of the financial statements of the Township as of and for the year ended March 31, 2022, in accordance with auditing standards generally accepted in the United States of America, we considered the Township'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 Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township'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 Township's internal control to be material weaknesses:

- **Cash Receipts and Deposits** - During the year ended March 31, 2022, the Township identified that on a specific date moneys had been collected and a deposit slip that was completed, but moneys were not deposited to the bank and credited to the Township. Although this was detected by the Township, the reconciliation and resolution of this error was beyond the range of timely internal controls. Without adequate procedures and controls surrounding cash receipts and reconciliations and deposit functions, there is risk of misappropriation of assets. We recommend that the Township implement procedures and controls to close and reconcile receipts on a daily basis, take deposits to the bank only with prepared deposit slips that have been reconciled to daily receipt reports, and prepare deposit slips and take deposits to the bank the same day.
- **Segregation of Duties** - During the audit, we identified that individuals with access to post adjustments to the general ledger also had access to cash receipt and custody functions. We recommend that the Township implement adequate mitigating controls or further segregate these functions in order to avoid misappropriation of assets.
- **Tax Billings** - During the year ended March 31, 2022, the Township erroneously missed billing multiple special assessments and multiple county millages on the tax roll. While the Township detected this error and will be billing on the next tax cycle, the Township's detection was well beyond the range of timely internal controls. We recommend that the Township review procedures and controls surrounding property tax and special assessment billings in order to strengthen the processes to ensure billings are complete and accurate.
- **TIF Property Tax Capture** - During the audit, we identified that the TIF capture for the Downtown Development Authority (DDA) was calculated using improper taxable values, resulting in an adjustment proposed by Plante & Moran, PLLC and recorded by the Township to increase the property tax revenue for the DDA and a related receivable. We recommend that the Township implement procedures and controls to include a level of review of TIF capture calculations in order to ensure that revenue is properly recorded.

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

- **Audit Adjustments and Supporting Schedules** - As part the audit, Plante & Moran, PLLC identified and management recorded multiple adjustments to accounting records in order for the financial statements to be in accordance with generally accepted accounting principles and GASB accounting guidance, which included adjustments to federal revenue, unearned revenue, accounts payable, expenses, receivables, and cash. Additionally, as part of the audit, there were multiple follow ups and updates needed to reconcile certain schedules that did not reconcile to the general ledger when turned over for audit. Without adequate procedures and controls in place to ensure the accounting records are recorded in accordance with accounting standards and supporting schedules properly reconcile to the general ledger, there is a risk of material misstatement to the Township's financial statements.

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 13, 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 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.

We have noted the following instances of noncompliance with laws and regulations during the course of our audit:

- 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. As of March 31, 2022, the Township has not set up a trust to pay retiree insurance premiums for the year and the normal costs for the new employees hired after June 30, 2018.
- Public Act 196 of 1997, as amended, requires the local unit to provide an investment report to the governing body on a quarterly basis. During the year ended March 31, 2022, the Township did not provide the governing body with an investment report on a quarterly basis.
- Public Act 206 of 1893, the General Property Tax Act, requires the local unit to distribute tax revenue that was collected for another taxing unit timely. During the year ended March 31, 2022, there were instances when the Township's distribution of tax revenue to other taxing units was in excess of 15 days.

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 26, 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 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 2022.

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.

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

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 unbilled water and sewer receivables, the calculation of the total other postemployment benefits liability (i.e., retiree health care), and the calculation of the net pension liability. The unbilled water and sewer receivable estimate is based on prior performance. Management's estimate of the net pension liability is based on assumptions used in the actuarial valuation. The total other postemployment benefits liability is based on an actuarial valuation that includes assumptions for the anticipated rate of return on investments, estimated future health care costs, life expectancies, and employee eligibility rates. We evaluated the key factors and assumptions used to develop these 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 are required to inform those charged with governance of any significant difficulties encountered in dealing with management related to the performance of the audit. The Township was not able to provide all requested support by the planned end of fieldwork date of September 30, 2022. There was information received to perform the audit through early December, resulting in difficulties in performing and completing the 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 material misstatement detected as a result of audit procedures to adjust unspent ARPA federal revenue totaling approximately \$682,000 as unearned revenue was corrected by management. There was an uncorrected misstatement of the financial statements to record PILOT property tax balances, collection, and distribution fiduciary activity totaling \$32,788 as current assets and current liabilities within the aggregate remaining funds and reduce current assets and current liabilities in the General Fund for \$32,788. Management has determined that its effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. However, uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future period financial statements to be materially misstated.

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.

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 15, 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 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 III - Legislative and Informational Items

COVID-19 Resource Center and ARPA

Throughout the COVID-19 pandemic, Plante & Moran, PLLC's COVID-19 task force of leaders across the firm has monitored, addressed, and provided insight related to the virus and the unique challenges our local governments have faced while continuing to provide essential services to their communities through our 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 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.

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 their 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.

Section III - Legislative and Informational Items (Continued)

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 March 31, 2022.

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.

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

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

Section III - 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'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 Township'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 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 III - Legislative and Informational Items (Continued)

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. 87 - Leases

This new accounting pronouncement will be effective for reporting periods beginning after December 15, 2019 (June 15, 2021 after extension within GASB Statement No. 95). This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

We recommend beginning to accumulate information now related to all significant lease agreements in order to more efficiently implement this new standard once it becomes effective.

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

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

This new accounting pronouncement will be effective for the Township's year ending March 31, 2024. 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, 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.

Section III - Legislative and Informational Items (Continued)

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 Township's financial statements, this proposed standard will most significantly impact the Township'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 Township to monitor developments with these standards, as the potential impacts are quite broad.