



Baird, Cotter & Bishop, P.C.

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CERTIFIED PUBLIC ACCOUNTANTS

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October 18, 2019

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE AT THE CONCLUSION OF THE AUDIT

To the City Council
City of Ewart, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Ewart for the year ended June 30, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated September 3, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Ewart are described in Note I to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during 2018-19. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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 governmental activities were:

Management's estimates of the useful lives of depreciable capital assets is based on the length of time it is believe that those assets will provide some economic benefit in the future. Management's estimates of the liability of the payout of employee compensated absences are based on expected payout. Management's estimates of unfunded liabilities related to the Municipal Employees' Retirement System of Michigan are based on actuarial valuations. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures 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.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. We detected various material misstatements as a result of our audit procedures that were corrected by management. The material adjustments made were a result of converting the entity's records from cash to modified accrual.

Disagreements with Management

For purposes of this letter, a disagreement with management is 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.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 18, 2019.

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.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to 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 to our retention.

During the course of our audit of the basic financial statements of City of Ewart for the year ended June 30, 2019, we noted the following items which we feel deserve comment:

Budgetary Accounting

Expenditures in the Major and Local Street Funds exceeded appropriated amounts, as well as multiple line items in the General Fund. The City should continue to monitor its budgets on an ongoing basis and make budget amendments prior to incurring expenditures in excess of budgeted amounts. The City should adopt a budget for the Library Fund since it collects and disburses property taxes to the Library.

Internal Controls over Grant Reimbursement Requests

While examining the grant revenue and expenditures, it was discovered that the City had an overdraft request on their SAW grant. We recommend that the City implement a process to track the revenues and expenditures related to the grant requests.

Sales Tax Paid on Purchase

While examining credit and debit card transactions we found that it appears the City reimbursed sales tax on purchases made. Section 4 of the General Sales Tax Act [MCL 205.54(6)] and Michigan Sales and Use Tax Administrative Rule, 1979 AC, R 205.79, provide that sales to the United States government, the State of Michigan, and their political subdivisions, departments and institutions are not taxable when ordered on a governmental purchase order and paid for by warrant on government funds. We recommend that the City ensure that all of the vendors have a copy of the City's Michigan Sales and Use Tax Certification of Exemption.

Budgetary Accounting - Component Unit DDA

Expenditures exceeded appropriated amounts. The DDA should continue to monitor its budgets on an ongoing basis and make budget amendments prior to incurring expenditures in excess of budgeted amounts.

Payroll System - Component Unit DDA

During the course of our audit, we noted that the DDA's quarterly Form 941 did not match the annual Form W-3. The DDA may receive communication from the IRS. The DDA should implement a system to reconcile their annual payroll.

Board Policies - Component Unit DDA

During the audit, it came to our attention that the DDA does not have a credit and debit card policy. We recommend that a policy be drafted and adopted. We can provide an example if necessary.

Budgetary Accounting - Component Unit LDFA

Expenditures exceeded appropriated amounts. The LDFA should continue to monitor its budgets on an ongoing basis and make budget amendments prior to incurring expenditures in excess of budgeted amounts.

In addition, the LDFA did not adopt the budget timely. The budget should be adopted prior to the start of the new fiscal year.

Sales Tax Paid on Reimbursement - Component Unit LDFA

While examining reimbursements, we found that the LDFA reimbursed sales tax on purchases. Section 4 of the General Sales Tax Act [MCL 205.54(6)] and Michigan Sales and Use Tax Administrative Rule, 1979 AC, R 205.79, provide that sales to the United States government, the State of Michigan, and their political subdivisions, departments and institutions are not taxable when ordered on a governmental purchase order and paid for by warrant on government funds.

Capitalization Policy

We recommend the City adopt a capitalization policy, with a \$5,000 capitalization threshold. The original policy was not able to be located in the City's records or policy book.

Other Matters

We applied certain limited procedures to the Management Discussion and Analysis, the Budgetary Comparison Schedule, Schedule of Changes in Employer's Net Pension Liability and Related Ratios for Michigan Employees' Retirement System, and Schedule of Employer Contributions for Michigan Employees' Retirement System, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining financial statements and component unit's financial statements which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

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

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