

August 20, 2018

To the Board of Trustees
Charter Township of Flushing

We have audited the financial statements of the Charter Township of Flushing (the "Township") as of and for the year ended March 31, 2018 and have issued our report thereon dated August 20, 2018. 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 Related Informational Items

Section I includes any deficiencies we observed in the Township'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 Township'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 board of trustees of the Township.

Section III presents recommendations related to internal control, procedures, and other matters noted during our current year audit. These comments are offered in the interest of helping the Township in its efforts toward continuous improvement, not just in the areas of internal control and accounting procedures, but also in operational or administrative efficiency and effectiveness.

This report is intended solely for the use of the board of trustees and management of the Charter Township of Flushing and is not intended to be and should not be used by anyone other than these specified parties.

We would like to take this opportunity to thank the Township's staff, especially Karla Carpenter, for the cooperation and courtesy extended to us during our audit. Their assistance and professionalism are invaluable. The township board should feel very good about the capabilities of the staff that are entrusted with the accounting records at the Township. We found the staff to be very competent and diligent. We truly appreciate their efforts.

To the Board of Trustees
Charter Township of Flushing

August 20, 2018

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

Very truly yours,

Plante & Moran, PLLC

Handwritten signature of Pamela J. Hill in black ink.

Pamela Hill, CPA
Partner

Handwritten signature of Chrystal Simpson in black ink.

Chrystal Simpson, CPA
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, 2018, 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 a certain deficiency in internal control that we consider to be a material weakness.

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 deficiency in the Township's internal control to be a material weakness:

- During the audit, entries were identified to adjust balances related to disposals of capital assets, land held for resale, and unbilled accounts payable for sewer and water. The above-noted transactions were unusual and infrequent transactions for the Township and, due to the nonrecurring nature of the events, adjustments were proposed by Plante & Moran, PLLC to the Township to properly reflect these transactions. In the future, we suggest that the Township reach out to Plante & Moran, PLLC when situations arise that are nonrecurring in nature to ensure that the proper accounting treatment is being applied. Without these identified journal entries, the financial statements would have been materially misstated.

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 February 2, 2018, 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 meeting about planning matters on July 17, 2018.

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 fiscal year 2018.

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.

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

The most sensitive estimates affecting the financial statements were transactions related to the net pension liability and other postemployment benefit obligation. Management's estimate of the net pension liability and other postemployment obligation is based on valuations provided by a third party. We evaluated the key factors and assumptions used to develop the valuations of the net pension liability and other postemployment benefit obligation 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 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. Management has corrected the misstatement discussed above related to the land held for resale, unbilled accounts payable, and capital assets.

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 August 20, 2018.

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 Updates and Related Information

New Other Postemployment Benefits Standards (Retiree Healthcare Obligations)

In June 2015, the GASB issued two new standards addressing accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB, which refers to retiree health care). GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, addresses reporting by OPEB plans and was implemented this year by the Township. GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, addresses accounting and reporting by employer governments that provide OPEB benefits to their employees and will be implemented next year.

The Township will, after adoption of GASB Statement No. 75, recognize on the face of the financial statements its net OPEB liability. The Township is currently evaluating the impact this standard will have on the financial statements when adopted. GASB Statement No. 75 is effective for the year ending March 31, 2019.

Revenue Sharing

The FY 2018 budget recommendation includes \$1.27 billion for revenue sharing, broken down as follows:

Description	Final 2017 Budget	Final 2018 Budget
Constitutionally required payments	\$757.9 M	\$798.1 M
CVTRS	243.0 M	243.0 M
CVTRS - One-time payments	5.8 M	5.8 M
County revenue sharing	174.2 M	176.9 M
County incentive program	43.0 M	43.2 M
Fiscally distressed community grants	5.0 M	5.0 M
Supplemental CVTRS	0 M	6.2 M
Total	\$1,228.9 M	\$1,278.2 M

After a decline in the constitutionally required payments from 2016 to 2017 as a result of sales tax declines, local units will experience an increase in 2018 as the constitutional payment budget has been increased by \$40.3 million. The new budget for 2018 anticipates an increase of 5.3 percent. The FY 2018 budget also includes the “City, Village, and Township Revenue Sharing” (CVTRS) appropriation that was established in FY 2015, and that number remains flat at \$243 million. Each community’s overall increase will vary as each has a different mix of constitutional and CVTRS.

Section III - Legislative Updates and Related Information (Continued)

In order to receive the CVTRS payments in FY 2018, 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

The State has budgeted \$6.2 million for "supplemental CVTRS" payments in FY 2018. Any city, village, or township receiving CVTRS payments will receive an additional payment equal to its population multiplied by \$.081198 (rounded to the nearest dollar).

The "one-time" additional CVTRS payments that were reinstated in the 2017 budget are also part of the 2018 budget.

Public Act 530 of 2016 - Additional Legacy Cost Reporting

On December 31, 2016, the governor signed Public Act 530 of 2016, which amends Public Act 314 of 1965, also known as Public Employee Retirement System Investment Act (PERSIA). This act is effective March 29, 2017.

Under the existing act, communities were required to publish a summary annual report setting forth key information related to pension and retiree healthcare plans. The amendment requires that this summary annual report also be submitted to the Michigan Department of Treasury within 30 days of publication.

In addition, for any system (either pension or retiree health care) that is not funded at a level of at least 60 percent, the community must now post a report to its website indicating steps that are being undertaken to address the liability. In addition, this report must be submitted to the Department of Treasury within a reasonable time frame.

The legislation calls for the Department of Treasury to accumulate all of the reports and publish a summary of funding levels throughout the state.

Pension and OPEB Reporting Under 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 was a primary component 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.

The releases by the Department of Treasury included 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

The due date for completion of Form 5572 is January 31, 2018 for local units with a fiscal year ending on or before June 30, 2017. For local units with fiscal years ending after June 30, 2017, Form 5572 is due no later than six months after the end of your fiscal year.

Section III - Legislative Updates and Related Information (Continued)

In addition to submitting this new form to the Department of Treasury, a local unit must also post this information on its website, or in a public place if the local unit 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 health systems of the local unit is greater than 10 percent of the local unit of government’s governmental funds operations revenue.

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. The template for the waiver has not yet been provided by 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.

*Primary units of government are cities, villages, townships, and counties.

Questions should be directed via email to the Treasury offices at LocalRetirementReporting@michigan.gov or by visiting its website at www.Michigan.gov/LocalRetirementReporting.

Updated Uniform Chart of Accounts

In April 2017, the State released an updated Uniform Chart of Accounts and requires local units of government to comply with the changes beginning with June 30, 2018 year ends. On December 5, 2017, the State extended the deadline for compliance to December 31, 2018 to allow officials more time to convert to new accounts. Local units should begin evaluating this new chart of accounts to determine what changes will be necessary and set up a plan to achieve compliance. Some accounting software vendors have already been working with some local units on an automated remapping solution to the extent needed; this could be a possible solution for some. The changes in the chart of accounts are not voluminous, but will require some review. The new chart of accounts can be found at the following link: http://www.michigan.gov/documents/uniformchart_24524_7.pdf