



Baird, Cotter & Bishop, P.C.

SERVING YOUR PAST, PRESENT & FUTURE

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601 PHONE: (231) 775-9789 FAX: (231) 775-9749

www.bcbcpa.com

October 6, 2017

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, 2017. 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 1, 2017. 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. During its fiscal year, the City adopted GASB Statement No. 77, Tax Abatement Disclosures, which requires various tax abatements to be calculated and disclosed in the in the footnotes. No financial statement figures are affected by the adoption of GASB Statement No. 77. The application of existing policies was not changed during 2016-2017. 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, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information financial statements 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 except for an additional entries related to a prior period adjustment involving prior year pension related liabilities and various entries to reclassify transactions to proper accounts.

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 6, 2017.

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, 2017, we noted the following items which we feel deserve comment:

Budgetary Accounting

Expenditures in the Local Street Funds exceeded appropriated amounts, as well as several 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.

Equipment Rental

We test equipment rental during the year and found some instances during our tests where the equipment rental was not being charged at the correct rates. The City charged a lesser rate than the state allowable amounts. We recommend verifying the charged rates with the manual issued each year by the state.

Internal Controls over Information Technology (IT)

As a part of your on-going evaluation of internal controls, we recommend you carefully study your controls over Information Technology. The City should evaluate its response to potential risks related to manipulation of software programs themselves, manipulation of numbers within unmodified software programs, security of entity data to the external world, security over physical hardware, and the potential risk associated with personal use of hardware and software. In our assessment of the City's IT environment, we feel the controls in place are adequate for the time being, but in today's world, IT risks are always changing, and we encourage the City to review the controls periodically as necessary.

Component Unit LDFA

During the year, we noted that the LDFA Director is being reimbursed for health insurance each month. We have several recommendations related to this finding:

- We recommend the Board confirm this is allowable and in compliance with the Affordable Care Act.
- This is a taxable benefit to the Director and needs to be ran through payroll.
- There should be a written contract for the Directors annual salary, or at a minimum, noted in the minutes. Any benefits, i.e. cash in lieu of health insurance, should also be noted in the Director's contract, specifically stating the dollar amount to be reimbursed per year or per pay.

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.

We were not engaged to report on the other information, which accompanies the financial statements but is not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Restriction on Use

This information is intended solely for the 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.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.