

April 24, 2025

To the Township Board of Trustees
and Management
Charter Township of Highland

We have audited the financial statements of the Charter Township of Highland (the "Township") as of and for the year ended December 31, 2024 and have issued our report thereon dated April 24, 2025. 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 information 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

A handwritten signature in black ink that reads "Pamela L. Hill".

Pamela L. Hill, CPA
Partner

A handwritten signature in black ink that reads "Amanda Cronk".

Amanda Cronk, CPA
Principal

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 December 31, 2024, 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:

Accrual Adjustments - During the audit, it was identified that certain year-end accrual adjustments related to accounts receivable, grant and property tax revenue, deferred inflows, and unearned revenue were not made, which materially impacted the financial statements. The overall impact of these journal entries resulted in an increase to assets of approximately \$190,000, a decrease to liabilities/deferrals of approximately \$407,000, an increase in revenue of approximately \$613,000, and an increase in expenses of approximately \$15,000 collectively over all funds. We recommend that the Township review and enhance controls surrounding ensuring the balances indicated are reflected in the appropriate period, specifically at year end as a part of the year-end close process. We also recommend a year-end checklist to ensure all revenue entries are being accrued.

Account Reconciliations - During the audit, it was identified that investment accounts and the Flagstar tax account were not being reconciled to the general ledger monthly. While this did not result in a material misstatement to the financial statements, this would present a risk that assets could be misappropriated and not be detected timely. We recommend that the Township perform reconciliations at least quarterly for these accounts to ensure they are journalized correctly within the general ledger and then reviewed by someone independent of the process.

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 December 13, 2024, 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 February 7, 2025.

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.

As described in Note 1, the Township changed accounting policies as a result of adopting GASB Statement No. 101, *Compensated Absences*. However, the accounting change has not been retrospectively applied to prior periods due to the insignificant and immaterial impact to 2023.

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. There were no significant balances, amounts, or disclosures in the financial statements based on sensitive management estimates. 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.

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.

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

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 all such misstatements included in Section I.

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 April 24, 2025.

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

Grant Best Practices - As the Township continues to grow, additional revenue sources may be received, including federal grant funding. We recommend the Township review current tracking of federal awards and ensure that expenditures are being tracked to ensure that, if a single audit is required, the Township's controls are such to identify this, as well as to ensure that all federal requirements are being followed as it relates to the spending of those grant dollars.

Employee Benefits - The Township provides a number of benefits to employees, and we recommend the Township review current controls in place to ensure that all benefits are funded and done so timely. This could also aid in tracking changes made to those benefits if applicable.

Inflation Reduction Act (IRA)

Significant legislation was enacted in 2022 that has dramatically expanded the available tax credits, tax incentives, and other funding opportunities related to the green energy sector. Several of these are built on previously existing programs, but many are new and widely applicable. Additionally, new monetization options expand the benefits of tax credits for qualifying activities to public sector organizations like the Township. The breadth of qualifying activities is significant, including, in most cases, the production of electricity; production of solar, wind, and energy equipment; installation of energy-efficient upgrades to businesses and homes; and the acquisition of electric vehicles (EVs) and charging equipment. We are happy to discuss any questions or potential tax credit opportunities with you, and please also feel free to visit our IRA tax credits articles and webinars at <https://www.plantemoran.com/explore-our-thinking/areas-of-focus/inflation-reduction-act-tax-credits>.

Monitoring Lease, SBITA, and PPP Activity

GASB Statements No. 87, *Leases*; No. 96, *Subscription-Based Information Technology Arrangements* (SBITAs); and No. 94, *Public-Private and Public-Public Partnerships (PPP) and Availability Payment Arrangements*, were effective in fiscal years 2022 and 2023. Although significant analyses were performed to determine the applicability of the new standards and record any necessary adjustments, we want to stress the importance of implementing ongoing monitoring procedures over lease, SBITA, and PPP activity. When the Township enters into new leases, SBITAs, or PPPs; existing agreements are modified; or other facts and circumstances change, consideration must be given to the impact those changes will have on lease, SBITA, and PPP accounting. In order to do so, the Township must ensure there is a process in place to identify and appropriately account for new leases, SBITAs, or PPPs or changes to existing agreements on an ongoing basis or at least at the end of each year.

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 assessment of the system in order to verify that the control environment is working as intended is a key part 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.

Section III - Legislative and Informational Items (Continued)

OMB Revisions to the Uniform Guidance

In April 2024, the Office of Management and Budget (OMB) released revisions for the Uniform Guidance for federal grants and agreements, which are effective for fiscal year ends beginning on October 1, 2024 and after. The guidance clarifies the applicability of requirements and terminology and includes some relaxation and clarification of certain requirements that required prior approval from federal regulators. A few key changes include the following:

- Increase the single audit threshold to \$1 million from \$750,000
- Require the schedule of expenditures of federal awards (SEFA) to identify recipient of federal award for audits that cover multiple recipients
- Increase the *de minimis* indirect cost rate from 10 percent to 15 percent, effective for grants received on October 1, 2024 and after

The changes are included in more detail within the federal register at <https://www.federalregister.gov/documents/2024/04/22/2024-07496/guidance-for-federal-financial-assistance>, and we are happy to discuss these changes with you.

Capitalization Thresholds

The April 2024 Uniform Grants Guidance 2024 Revision described above resulted in the equipment threshold increasing from \$5,000 to \$10,000. This threshold applies to the value of equipment that at the end of the grant period may be retained, sold, or otherwise disposed of with no further responsibility to the federal agency. In addition to considering this Uniform Guidance threshold related to federal grants compliance, it may be a good time for the Township to reevaluate the capitalization thresholds. We are happy to assist you in thinking through considerations in evaluating these thresholds.

Other New Legislation

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 update and a link to previous fall and spring updates are available [here](#).

GASB Statement No. 102 - Certain Risk Disclosures

This new accounting pronouncement will be effective for fiscal years ending June 30, 2025 and after. This statement requires a government to assess whether a concentration or constraint makes the primary government or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. It also requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. If certain criteria are met for a concentration or constraint, disclosures are required in the notes to the financial statements.

GASB Statement No. 103 - Financial Reporting Model Improvements

This new accounting pronouncement will be effective for fiscal years ending June 30, 2026 and after. This statement establishes new accounting and financial reporting requirements, or modifies existing requirements, related to the following: management's discussion and analysis; unusual or infrequent items; presentation of the proprietary fund statement of revenue, expenses, and changes in fund net position; information about major component units in basic financial statements; budgetary comparison information; and financial trends information in the statistical section.

Section III - Legislative and Informational Items (Continued)

GASB 104 - Disclosure of Certain Capital Assets

This new accounting pronouncement requires certain types of capital assets, such as lease assets, intangible right-of-use assets, subscription assets, and other intangible assets to be disclosed separately by major class of underlying asset in the capital assets note. The statement also requires additional disclosures for capital assets held for sale.

Significant GASB Proposals Worth Watching

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 this new proposed standard and recently testified to the GASB about our feedback. We strongly encourage the Township to monitor developments with this standard, as the potential impact is quite broad.