

December 1, 2025

To the City Council
City of Swartz Creek, Michigan

We have audited the financial statements of the City of Swartz Creek, Michigan (the "City") as of and for the year ended June 30, 2025 and have issued our report thereon dated December 1, 2025. Professional standards require that we provide you with the following information related to our audit.

Section I - Required Communications with Those Charged with Governance

Section II - Other Recommendations and Legislative Items

Section I 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 City Council of the City of Swartz Creek, Michigan.

Section II 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 City 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. It also 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 City'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 City Council and management of the City and is not intended to be and should not be used by anyone other than these specified parties.

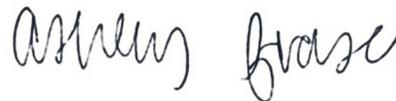
We welcome any questions you may have regarding the following communications, and we would be willing to discuss these or any other questions that you might have at your convenience.

Very truly yours,

Plante & Moran, PLLC



Pamela Hill, CPA
Partner



Ashley Frase, CPA
Principal

Section I - Required Communications with Those Charged with Governance

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated July 15, 2025, 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 City. 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.

Our audit of the City's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we are obligated to communicate certain matters that come to our attention related to our audit to those responsible for the governance of the City, including compliance with certain provisions of laws, regulations, contracts, and grant agreements; certain instances of error or fraud; illegal acts applicable to government agencies; and a material weakness in internal control that we identify during our audit. Toward this end, we issued a separate letter dated December 1, 2025 regarding our consideration of the City's internal control over financial reporting, which identified a material weakness in internal controls, and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

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 August 14, 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 City are described in Note 1 to the financial statements. As described in Note 1, the City adopted the provisions of GASB Statement No. 101, *Compensated Absences*. The implementation was insignificant to the prior year and, therefore, was applied prospectively and implemented for the year ended June 30, 2025.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus.

We noted 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 I - Required Communications with Those Charged with Governance (Continued)

The most sensitive estimates affecting the financial statements were the net pension liability and other postemployment benefit liability. Management's estimate for net pension liability was based on an actuarial valuation. The significant assumptions used in that calculation include future rate of return on investments, employee eligibility rates, life expectancies, and projected salary increases. The estimate for the other postemployment benefit liability was based on the use of the GASB 75 actuarial valuation for calculating the net OPEB liability, required contribution using health care premiums, personnel information, and interest rates. We evaluated the key factors and assumptions used to develop the estimates of the net pension liability and other postemployment benefit liability 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 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.

There were material misstatements detected as a result of audit procedures that were corrected by management with a city-wide impact of an approximately \$738,000 net increase to assets, approximately \$1.1 million net decrease to liabilities, approximately \$295,000 net increase to beginning fund balance and net position, approximately \$205,000 net increase to revenue, and approximately \$1.3 million decrease to expenses. There were also uncorrected misstatements of the financial statements for the component unit depreciation to increase depreciation expense and accumulated depreciation by \$2,351; for the Water Fund and business-type activities capital assets to decrease capital assets and increase expense by \$145,473; and for the General Fund and governmental activities payroll accrual to increase cash and increase accrued payroll by \$27,972. Management has determined that their 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 City, and business plans and strategies that may affect the risks of material misstatement, with management each year prior to our 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 of our retention.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 1, 2025.

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

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.

Section II - Other Recommendations and Legislative Items

Recommendations

During our audit, we noted areas where we believe there are opportunities for the City to further strengthen internal control or to increase operating efficiencies. Our observations on these areas are presented below for your consideration:

- **Quarterly Balance Sheet Reconciliation** - We recommend that management implement a formal process to review the balance sheet on a quarterly basis. This review should include a detailed reconciliation of all significant balances to supporting documentation, with particular attention to identifying and investigating any unusual or unexplained variances. Ensuring that each balance ties to a specific detail, such as subledger reports, bank statements, or other source documents, will strengthen internal controls and improve the accuracy of financial reporting throughout the year. Additionally, periodic review and follow-up on discrepancies will also help prevent misstatements and ensure timely resolution of issues, as well as a likely smoother and more complete year-end closing process. We encourage management document the review process and maintain evidence of reconciliations and follow-up actions taken.
- **Information Technology** - During our review of the internal controls over information technology, we noted that, while the City has key controls in place for IT, there is not a lockout for incorrect passwords in place. We recommend, as a best practice, that the City implement a lockout after a certain number of incorrect password attempts to safeguard access to systems. Additionally, to improve the cybersecurity posture of the City and safeguard access to systems and sensitive resident data, we recommend the implementation of multifactor authentication (MFA) across all critical digital platforms. MFA adds a vital layer of protection by requiring users to verify their identity using two or more factors, such as a password, a mobile device, or biometric verification, before gaining access to systems. Given the increasing frequency of cyberthreats targeting local governments, MFA is a practical and effective control that helps prevent unauthorized access, particularly in cases of compromised passwords. We recommend prioritizing MFA for accounts with elevated privileges, remote access systems, and applications that store or process personally identifiable information (PII) to reduce the risk of unauthorized access. These types of recommendations for strengthening the system will also become more apparent if a risk assessment of the system is completed. These additional controls can assist the City to ensure IT controls are changing with the environment.

Legislative Items

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. The One, Big, Beautiful Bill (OBBB), enacted on July 4, 2025, introduced sweeping changes to those credits. However, the OBBB delayed the implementation of certain provisions - meaning that, with careful planning, the City can still take advantage of available credits. Additionally, the new monetization options from the original legislation that expanded the benefits of tax credits for qualifying activities to public sector organizations like the City remain unchanged from the OBBB. 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>.

Section II - Other Recommendations and Legislative Items (Continued)

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 City has hired third-party IT experts to continue 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 your vendor on this very important topic. If we can be of assistance in the process, we would be happy to do so.

Revenue Sharing

The fiscal year 2025 budget includes \$1.79 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.

The fiscal year 2025 City, Village, and Township Revenue Sharing (CVTRS) program includes the following types of payments:

- CVTRS-Standard payment based on fiscal year 2024 CVTRS total eligible payment amount
- 3-Factor Formula Payments:
 - Taxable Value Payment - Based on taxable values and populations for local units
 - Weighted Population Payment - Based on unit type population weight factors and populations for local units
 - Yield Equalization Payment - Based on an amount that is sufficient to provide the guaranteed tax base for a local tax effort, not to exceed 0.02

As provided in the September 2024 Department of Treasury letter on City, Village, and Township Revenue Sharing (CVTRS) Fiscal Year 2025 Detailed Guidance, there are no submission requirements to receive any of the 2025 CVTRS payments.

The CVTRS-Standard payments are paid in one-sixth increments, paid on the last business day of October, December, February, April, June, and August.

The 3-Factor Formula Payments are paid on February 28, 2025 in an amount of half of the estimated 2025 payment, and the remaining 2025 payment is paid on June 30, 2025.

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

Section II - Other Recommendations and Legislative Items (Continued)

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 City 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 City. 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. 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 (MD&A); 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. This statement requires that the MD&A be limited to the five topics noted in the standard and provides further guidance on how the MD&A should be written. For proprietary fund financial reporting, the statement defines nonoperating revenue and expense and introduces the concept of subsidies. It also requires new subtotals to present total noncapital subsidies and income or loss, including both operating activities and noncapital subsidies. The statement prescribes that the required budgetary comparison schedules be reported only in the required supplementary information section of the statements and dictates what variance information should be included. Next, the statement removes the option to present discretely presented component unit information as condensed information in the notes rather than in the statements. Lastly, the statement outlines how unusual or infrequent items should be presented separately on the financial statements.

GASB Statement No. 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 Proposal 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 2026.

**Section II - Other Recommendations and Legislative Items
(Continued)**

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 City to monitor developments with this standard, as the potential impact is quite broad.