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June 4, 2018

To the Board of Trustees
Charter Township of Brownstown
Wayne County, Michigan

We have audited the financial statements of the Charter Township of Brownstown (the "Township") as of and for the year ended December 31, 2017 and have issued our report thereon dated June 4, 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 - Required Communications with Those Charged with Governance

Section II - Legislative and Informational 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 board of trustees of the Charter Township of Brownstown.

Section II contains updated legislative and informational items 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 Charter Township of Brownstown 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 any of these or other questions that you might have at your convenience.

Very truly yours,

Plante & Moran, PLLC

Beth Bialy

Beth Bialy, CPA
Partner

Keith Szymanski

Keith Szymanski, CPA
Manager

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 March 21, 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 letter about planning matters sent on March 21, 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.

As described in Note 1, the Township implemented GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which primarily required additional disclosures related to the retiree healthcare plan.

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

The most sensitive estimates affecting the financial statements were the net pension liability, other postemployment benefit obligation, and the market value of land held for resale by the Downtown Development Authority. Management's estimate of the net pension liability and the postemployment benefit obligation is based on third-party actuarial valuations performed. The actuaries' calculations are based on numerous significant estimates, including future rate of return on investments, future healthcare costs, employee eligibility rates, life expectancies, and projected salary increases. Management's estimate of the market value of land held for resale is based on a previous appraisal by a third party. We evaluated the key factors and assumptions used to develop the estimates in determining that it is 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. We did not detect any misstatements as a result of audit procedures.

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 June 4, 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 II - Legislative and Informational Items

DDA Cash Balance

During the year, the Downtown Development Authority (DDA) paid off $3.3 million of long-term debt in advance of when it was due. As a result, the DDA finished the fiscal year with a negative cash balance of $875,000. For financial statement purposes, this amount has been reclassified as a borrowing from the Township's General Fund.

2018 Pension Contributions

For 2017, required pension contributions were $825,000. For 2018, the actuary projects this amount to be approximately $970,000. This is a significant increase and an additional burden on the General Fund budget. We wanted to ensure the Township was aware of this projection and planned for it accordingly. Pension contributions are likely to continue to increase until the funded status of the plan improves.

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 date 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

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 healthcare). GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans other than Pension Plans,* addresses reporting by OPEB plans whereas 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.

Along with the currently required statement of fiduciary net position and statement of changes in fiduciary net position, OPEB plans will now be required to include in the financial statements more extensive disclosures and required supplemental information related to the measurement of the OPEB liabilities for which assets have been accumulated. In addition, the Township will, after adoption of GASB Statement No. 75, recognize on the face of the financial statements its net OPEB liability. GASB Statement No. 74 was implemented by the Township in 2017 and GASB Statement No. 75 is effective in 2018.

Legacy Cost Impact - Pro Forma

A pro forma of how the reporting of these two liabilities is expected to impact the Township's government-wide net position is shown below:

	As Currently Reported	With Unfunded Health Care
Net position:		
Net investment in capital assets	$ 70,814,922	$ 70,814,922
Restricted	5,413,710	5,413,710
Unrestricted	(14,121,424)	(8,504,700)
Total net position	$ 62,107,208	$ 67,723,932

This pro forma indicates that the net OPEB liability to be recorded is less than the net OPEB obligation currently recorded. As a result, net position is projected to increase. The Township will likely still have a positive total net position while maintaining a significant negative unrestricted net position. This generally means that the Township has successfully funded the total cost of government services provided to date. The fact that the unrestricted portion is negative indicates that legacy costs earned to date have not been funded, but this is offset by the capital assets that have been funded in advance of their use. When viewed from a combined perspective, the residents have paid the cost of services received in total.

Revenue Sharing

The fiscal year 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 fiscal year 2018 budget also includes the "City, Village, and Township Revenue Sharing" (CVTRS) appropriation, which was established in fiscal year 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.

In order to receive the CVTRS payments in fiscal year 2018, qualified local units will once again need to comply with the same best practices as they did last year:

- 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 fiscal year 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.

Soft Launch of Michigan Community Financial Dashboard

The Michigan Department of Treasury is beginning a soft launch of the Michigan Community Financial Dashboard. This dashboard will provide you and your community members with easy-to-use visual data regarding your municipality. The data presented on the dashboard is pulled from the Annual Local Fiscal Report (F65) submitted by your local unit. The dashboard will present data from fiscal years 2010 through 2016. You can sign in and review the dashboard here: http://micommunityfinancials.michigan.gov/#!/dashboard/COUNTY/?lat=44.731431779455505&lng=-83.018211069625&zoom=5

New Legislation

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 healthcare) that is not funded at a level of at least 60 percent, the community must now post a report to their 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 timeframe. As of the most recent measurement dates, the pension and OPEB plans were 71 percent and 13 percent funded, respectively.

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

For local units with fiscal years ending after June 30, 2017, Form 5572 is due no later the six months after the end of your fiscal year.

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 Treasury.

The 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 plan total 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.

Based on these parameters, neither plan will be deemed to be underfunded. In general, if, after submission of Form 5572, the Treasury determines a community to have underfunded status, it 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.

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 their website at:

www.Michigan.gov/LocalRetirementReporting

Proposed Legislation

(HB 4397) - This bill was recently introduced in the House and referred to the committee on tax policy. This legislation would require tax tribunal members to make their own independent determination and apply standard appraisal procedures when reaching their findings of facts and conclusions of law in larger property tax cases. In recent years, the MTT has used the "dark store" assessing theory even for fully functional big box retail stores. The result is much lower assessments since the property is compared to the sales of vacant structures that oftentimes have deed restrictions severely limiting their use.

(SB 578) - Senate Bill 578 has been introduced in response to the dark stores issue that has been occurring in Michigan. If passed, it would amend PA 136 of 1973, the "Tax Tribunal Act," by amending Section 3 (MCL 205.703), as amended by 2008 PA 125, and by adding Section 38. The bill would require that when a dispute regarding the true cash value of real or personal property is brought forth, the following must be done by the Michigan Tax Tribunal:

- Review comparable properties in the market that have similar "highest and best use" as the property under review
- Must separately state their conclusions of law and fact for those properties

Comparable properties should be determined as follows:

- Ensure that all information gathered on each property is verified for completeness and is accurate with regard to all noted disclosures, covenants on use of the property, private restrictions, the impact of such covenants and restrictions, sale terms, and the financing method.
- If one of the comparable properties identified has a private restriction or covenant in connection with the sale or rental of the property that causes the property to have a "substantially impaired highest and best use" as compared to the property whose assessment is under review or if the private restriction or covenant does not assist in economic development of the property, does not provide a continuing benefit to the property, or if the chance of vacancy or inactivity on the property is "materially" increased, such property should be excluded as a comparable.

Overall, the intent of the bill is to eliminate properties that are vacant (dark stores), inactive, or have certain restrictions or covenants from being used as a comparable in an assessment dispute.

Cybersecurity

It is every organization's nightmare - discovering your network and member data have been compromised. Whether sensitive taxpayer/employee records are disclosed, credit and debit card information is stolen, IT systems are out of service, or any other cybersecurity incident, the threat is all too real. In the current online environment, cybersecurity should be of critical concern for all governmental entities. The increasing use of mobile devices and mobile platforms (tablets, iPads, etc.) amplifies and creates new vulnerabilities. Hackers are becoming more sophisticated and better at targeting their attacks. In a large percentage of cases, it takes victims weeks to discover an intrusion and, often, the tip-off comes from an external, rather than internal, source.

However you crunch the numbers, the cost of a breach is painfully high. According to the 2015 Cost of Data Breach Study by the Ponemon Institute, the average cost of a data breach increased 23 percent since 2013 to $3.8 million. Compounding this is the significant damage done to an organization's reputation and brand when a breach occurs. This damage often creates mistrust in the minds of donors, members, employees, and partners. If there is a silver lining, it is that nearly all breaches are due to factors within an organization's control - weak infrastructure, poor end-user judgment, third-party vendor vulnerabilities, and technology advances, such as mobile and cloud use. Therefore, with proper strategies, organizations that successfully control these factors can minimize the potential for breaches.

Section II - Legislative and Informational Items
(Continued)

The first step in protecting the Township is to assume it is only a matter of time until the Township is attacked. The second step is to ensure you have good controls in place to quickly detect a breach and ideally prevent falling prey to it. During this process, we recommend you consider performing the following activities:

- Conduct an IT risk assessment to determine where the weak spots are
- Secure and test your network devices to ensure controls are operating as designed
- Test and strengthen user awareness to prevent inadvertent sharing of sensitive information
- Conduct due diligence with vendor supported services to ensure key vendors have adequate controls to protect the Township

Plante & Moran, PLLC has experts in cybersecurity who have worked with a variety of governmental organizations to ensure their information technology and cyber systems are properly designed to minimize risk. We would be happy to set up a consultation to discuss the Township's system and related risks.