

October 22, 2019

To the Mayor and City Council  
City of Davison, Michigan

We have audited the financial statements of the City of Davison, Michigan (the "City") as of and for the year ended June 30, 2019 and have issued our report thereon dated October 22, 2019. 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 mayor and City Council of the City of Davison, 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. This section 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, especially Andrea and Julie, 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 mayor, the City Council, and others within 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 any of these or other questions that you might have at your convenience.

Very truly yours,

**Plante & Moran, PLLC**



Pamela Hill, CPA  
Partner



Chris Gilbert, 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 June 6, 2019, 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 of Davison, Michigan. 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 September 6, 2019.

### **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.

No new accounting policies were adopted, and the application of existing policies was not changed during the year.

We noted no transactions entered into by the City 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.

The most sensitive estimates affecting the financial statements were the estimated net pension liability and net other postemployment benefit liability. Management's estimates of the net pension liability and net other postemployment benefit liability are based on the pension actuarial valuations and the other postemployment benefit valuation, respectively. 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.

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

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 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 October 22, 2019.

### ***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 - Legislative and Informational Items

### Act 51 Report Due Date

The Michigan Department of Transportation has granted an automatic 60-day extension to cities and villages that are required to file the Act 51 report. The updated policy will extend the Act 51 report deadline to be due within six months of your fiscal year end date, which will align with the due date for the audited financial statements. For cities and villages whose most current fiscal year ends before July 1, the Act 51 report must be submitted by December 31 to be included in the snow payment calculation (if eligible and qualified).

This extension does not apply to counties. Counties are required to submit the Act 51 report to MDOT by May 1 every year, regardless of the fiscal year end.

### Updated Uniform Chart of Accounts

In April 2017, the State released an updated Uniform Chart of Accounts. Originally, local units of government were expected to comply with the changes beginning with June 30, 2018 year ends. However, on June 4, 2018, the State extended the deadline for compliance to "sometime in 2019." On September 18, 2019, the State issued a memo that sets an implementation date for fiscal years ending on September 20, 2021 and thereafter. In the coming months, the State has committed to releasing various tools to help local units with implementation. On October 31, 2019, the FAQs will be released along with clarification on what accounts should be used when implementing GASB 84. A significant revision will be issued on December 31, 2019 that will incorporate feedback that the Treasury has received. This revision will include significant changes to the expenditure accounts 700-999, which will now mirror the old approach that allowed for various numbers within certain ranges. Going forward, the Treasury will issue the following three documents for any future revisions: revised chart of accounts, a marked-up version of the chart showing the changes, and a summary of the revisions report. In addition, the FAQ will be a live document that will be updated as questions arise. Local units can sign up for alerts at this link: [https://public.govdelivery.com/accounts/MITREAS/subscriber/new?qsp=MITREAS\\_1](https://public.govdelivery.com/accounts/MITREAS/subscriber/new?qsp=MITREAS_1)

### Revenue Sharing

The fiscal year 2020 governor's budget recommendation includes \$1.4 billion for revenue sharing broken down as follows:

<b>Description</b>	<b>Final 2019 Budget</b>	<b>Final 2020 Budget</b>
Constitutionally required payments	\$835.3 M	\$886.5 M
CVTRS	243.0 M	262.8 M
CVTRS - One-time payments	5.8 M	0 M
County revenue sharing	177.2 M	184.8 M
County incentive program	43.3 M	43.3 M
County one-time payments	1.0 M	0 M
Fiscally distressed community grants	2.5 M	5.0 M
Supplemental CVTRS	6.2 M	0 M
<b>Total</b>	<b>\$1,314.3 M</b>	<b>\$1,382.4 M</b>

## **Section II - Legislative and Informational Items (Continued)**

For the third year in a row, local units will experience an increase in 2020 based on the governor's budget recommendation, as the constitutional payment budget has been increased by \$68.1 million over the 2019 budget act appropriated amount. The FY 2020 budget also includes the "City, Village, and Township Revenue Sharing" (CVTRS) appropriation that was established in FY 2015, and that number increased to \$262.8 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 FY 2020, 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 amount budgeted for distressed CVTRS has been increased from \$2.5 million in 2019 to \$5 million in 2020. The governor's recommendation has removed \$6.2 million for "supplemental CVTRS" payments in FY 2020.

### **Legacy Costs**

Legacy costs and the challenge of funding them continue to be topics of discussion. GASB pronouncements of late have placed even more focus on the net long-term liability arising from these benefit promises by requiring governmental financial statements to now reflect the net pension and OPEB liability. For many governments, these net liabilities are significant. In addition, Public Act 202 of 2017 has brought further focus on the funding level of these plans.

The following are the funding levels per the funding valuations for the last three years for both pension and OPEB:

	<b>Pension - Union (Valuation Year)</b>	<b>Pension - Nonunion (Valuation Year)</b>	<b>OPEB (Fiscal Year 2019)</b>
2018	49.0%	86.3%	8.1%
2017	50.0%	83.0%	8.2%
2016	52.0%	85.8%	2.2%

Maintaining or even improving the funded status of the plans is dependent upon a number of factors, including the government's contribution policies, its amortization policy for funding the unfunded actuarial accrued liability, its benefit levels, and the ability to make future changes to the plan.

That said, the challenge here is significant. We are happy to assist you in thinking through alternative ways to manage this liability.

### **Legacy Cost Reporting**

#### ***Public Act 530 of 2016***

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 was effective on March 29, 2017.

## **Section II - Legislative and Informational Items (Continued)**

Under the prior 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.

### ***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.

On September 25, 2018, the Michigan Department of Treasury released the final uniform assumptions to be used for reporting requirements under the Act. Local units must begin reporting funded ratios and contributions in accordance with the uniform assumptions, starting with their fiscal year 2019 if their audited financial statements are based on an actuarial valuation issued after December 31, 2018. If their fiscal year 2019 audited financial statements are based on an actuarial valuation issued prior to December 31, 2018, the local units must begin reporting on the uniform assumptions starting with their fiscal year 2020. This means that the local unit may potentially need three valuations: a funding valuation (if the local unit chooses to have different assumptions for funding purposes), a valuation that complies with GAAP to be used for financial statement reporting, and a valuation that complies with the State's new uniform assumptions.

The releases by the Department of Treasury includes the letter titled "Public Act 202: Selection of the Uniform Assumptions," 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](http://www.michigan.gov/treasury/0,4679,7-121-1751_51556_84499---,00.html).

Form 5572 is due annually for both pension and OPEB plans provided by an employer no later than 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 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.

## **Section II - Legislative and Informational Items (Continued)**

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 pension systems of the local unit is greater than 10 percent of the local unit of government's governmental funds operations revenue.

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

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.

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.

For governments with OPEB plans, Section 4(l)(a)(i)(ii) of Public Act 202 of 2017 requires the local unit to pay retiree insurance premiums for the year, as well as the normal costs for the new employees hired after June 30, 2018. The actuary will likely need to calculate this number in order for governments to comply. In addition, if your community must essentially prefund this additional cost, those communities without a qualifying OPEB trust will need to consider where these contributions will go.

Questions should be directed via email to the Treasury offices at [LocalRetirementReporting@michigan.gov](mailto:LocalRetirementReporting@michigan.gov) or by visiting its website at [www.Michigan.gov/LocalRetirementReporting](http://www.Michigan.gov/LocalRetirementReporting).

### **Public Act 57 Consolidation of Tax Increment Authorities**

Public Act 57 of 2018, otherwise known as the Recodified Tax Increment Financing Act (PA 57), went into effect on January 1, 2019. PA 57 consolidated the ability to create and operate tax increment authorities (other than brownfield redevelopment authorities) into a single statute. All previously created authorities will remain; however, the following acts were repealed, and the corresponding authorities will now operate under PA 57:

- Downtown Development Authority Act (PA 197 of 1975)
- Tax Increment Finance Authority Act (PA 450 of 1980)
- Local Development Finance Authority Act (PA 281 of 1986)
- Nonprofit Street Railway Act (PA 35 of 1867)
- Corridor Improvement Authority Act (PA 280 of 2005)
- Water Resource Improvement Tax Increment Finance Authority Act (PA 94 of 2008)
- Neighborhood Improvement Authority Act (PA 61 of 2007)

Note that the above acts were repealed and recodified into PA 57. The acts listed below were repealed; however, they were not recodified:

- Historical Neighborhood Tax Increment Finance Authority Act (PA 530 of 2004)
- Private Investment Infrastructure Funding Act (PA 250 of 2010)

Any obligation, or refunding of an obligation, that was issued by an authority or by the municipality that created the authority, under a statute that was repealed by Public Act 57, will continue in effect under its original terms under the corresponding part of PA 57.

## **Section II - Legislative and Informational Items (Continued)**

### ***Transparency and Reporting Requirements***

1. By April 1, 2019, each authority was required to submit its currently adopted development plan or tax increment finance plan to the Department of Treasury.
2. Annually, after January 1, 2019, each authority must submit a comprehensive annual report to the Treasury, the governing bodies of its related municipality, and each taxing unit levying taxes that are captured by the authority. This report must contain detailed information on the capture and use of tax increment revenue and is due concurrent with the authority's audit report due date (typically six months after the fiscal year end).
3. Within 180 days after the authority's fiscal year end, subsequent to January 1, 2019, the municipality that created the authority must give public access (either on its website or at a physical location within the municipality) to the following documents:
  - Minutes of all authority board meetings
  - Current authority staff contact information
  - Authority's approved budgets and annual audits
  - Currently adopted development and/or tax increment financing plans
  - Current contracts with descriptions
  - Annual synopsis of the authority's activity, which includes the following:
    - For any tax increment revenue not expended within five years of receipt, include the reasoning for accumulating the funds, their expected uses, and a time frame of when they will be expended.
    - For any tax increment revenue not expended within 10 years of receipt, include the amount of those funds, along with a written explanation for the reason the funds have not been expended.
  - For the immediately preceding fiscal year, a list of the authority's accomplishments, projects, investments, events, and promotional campaigns
4. The authority must hold, at a minimum, two informational meetings each year and give a 14-day advance notice to the public and to the governing body of each taxing unit. These meetings may be held in conjunction with other public meetings of the authority or municipality.

Any authority not in compliance with the above reporting requirements will receive a notice from the Department of Treasury. If the authority is still in noncompliance status after 60 days from receipt of the notice, the authority will be prohibited from capturing tax increment revenue in excess of the amounts needed to pay bonded indebtedness and other obligations of the authority during this period of noncompliance.

### ***Additional Information***

To view Public Act 57 of 2018, regarding the consolidation of tax increment authorities and additional reporting requirements, visit the State of Michigan's website: [http://www.legislature.mi.gov/\(S\(nhboq4doz1h4bwbqb0gctxqim\)\)/mileg.aspx?page=GetObject&objectname=mcl-Act-57-of-2018](http://www.legislature.mi.gov/(S(nhboq4doz1h4bwbqb0gctxqim))/mileg.aspx?page=GetObject&objectname=mcl-Act-57-of-2018).



## **Section II - Legislative and Informational Items (Continued)**

### **Upcoming Accounting Standards Requiring Preparation**

#### ***GASB Statement No. 84 - Fiduciary Activities***

This new pronouncement will be effective for reporting periods beginning after December 15, 2018. This statement provides criteria for state and local governments to use to identify whether an activity is fiduciary and should be reported as a fiduciary fund type in its financial statements. In addition, once identified as a fiduciary activity, GASB 84 also provides specific reporting requirements.

This statement has the potential to significantly impact what governments report currently as a fiduciary activity. Upon adoption, we anticipate that some governments' fiduciary activities will need to move to governmental funds, while other activities that never before were considered fiduciary will now be reported as such. It is also possible that certain pension and OPEB fiduciary funds will no longer be reported in a local unit's financial statements.

Given the potential to have a major impact on many governments, not only to its external financial statements, but also to its accounting system requirements and budget document, we encourage you to start analyzing the impact of this standard now. The first step to implementation is identifying the types of activities that should be analyzed and then running those activities through the lens of this standard.

#### ***GASB Statement No. 87 - Leases***

This new accounting pronouncement will be effective for reporting periods beginning after December 15, 2019. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

We recommend beginning to accumulate information related to all significant lease agreements now in order to more efficiently implement this new standard once it becomes effective.

Plante & Moran, PLLC will be providing trainings and other resources to our clients over the coming months in order to help prepare for the implementation of all these new standards. In the interim, please reach out to your engagement team for assistance in getting started.

#### ***GASB Statement No. 89 - Interest Incurred During Construction***

This new accounting pronouncement will be effective for reporting periods beginning after December 15, 2019. This statement eliminates capitalized interest and instead requires all interest expense, including the portion incurred during construction of a capital asset, to be expensed. Early adoption is encouraged.

**Section II - Legislative and Informational Items  
(Continued)**

***GASB Statement No. 90 - Majority Equity Interest***

This new accounting pronouncement will be effective for reporting periods beginning after December 15, 2018. This statement requires that governments analyze the holdings of legally separate organizations to see if the ownership of a majority interest in a separate legal organization qualifies as an investment or a component unit. Plante & Moran, PLLC will be providing resources to assist with this analysis.