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October 25, 2013

To the Members of the City Council
City of Northville, Michigan

We have audited the financial statements of the City of Northville, Michigan (the "City") as of and for the year ended June 30, 2013 and have issued our report thereon dated October 25, 2013. Professional standards require that we provide you with the following information related to our audit which is divided into the following sections:

Section I - Communications Required Under AU 265

Section II - Communications Required Under AU 260

Section III - Legislative and Informational Items

Section I includes any deficiencies we observed in the City's accounting principles or internal control that we believe are significant. Current auditing standards require us to formally communicate annually matters we note about the City's accounting policies and internal control.

Section II includes information that current auditing standards require independent auditors to communicate to those individuals charged with governance. We report this information annually to the City Council of the City of Northville, Michigan.

Section III 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.

We would like to take this opportunity to thank Sandi Wiktorowski and her finance team for the cooperation and courtesy extended to us during our audit. Their assistance and professionalism were excellent and much appreciated.

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.

To the Members of the City Council
City of Northville, Michigan

October 25, 2013

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

Douglas G. Bohrer, Partner

Christopher S. Jones, Partner

Kristin L. Hunt, Associate

To the Members of the City Council
City of Northville, Michigan

October 25, 2013

Section I - Communications Required Under AU 265

In planning and performing our audit of the financial statements of the City of Northville as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the City'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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 a certain deficiency in internal control that we consider to be significant deficiency.

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.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in the City's internal control to be a significant deficiency:

- **Information Technology General Controls** - During our information technology general controls review, we noted the finance director had full administrative access to the financial system and was also able to post transactions during the 2012-2013 fiscal year. The separation of these functions is considered a key internal control. We understand that the City has taken steps to correct this matter. The City began contracting with Northville Township for IT services during the 2012-2013 fiscal year. The IT administrative function was transferred to Northville Township's IT department shortly after the June 30, 2013 year end. It is our understanding that concurrent with this transfer, the City's finance director no longer has administrative access to the financial system.

To the Members of the City Council
City of Northville, Michigan

October 25, 2013

Section II - Communications Required Under AU 260

<u>Our Responsibility Under U.S. Generally Accepted Auditing Standards</u>

As stated in our engagement letter, 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.

<u>Planned Scope and Timing of the Audit</u>

We performed the audit according to the planned scope and timing previously communicated to you.

<u>Significant Audit Findings</u>

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, with the exception of the adoption of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. For the City of Northville, the impact of adopting this new accounting standard was simply a change in terminology in that “net assets” has become “net position.”

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 estimate affecting the financial statements was the other postemployment benefit obligation. Management's estimate of the other postemployment benefit obligation is based on a third-party actuarial valuation performed. We evaluated the key factors and assumptions used to develop the estimate 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 City, and business plans and strategies that may affect the risks of material misstatement with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 25, 2013.

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.

To the Members of the City Council October 25, 2013
City of Northville, Michigan

Section III - Legislative and Informational Items

Revenue Sharing

The State's FY 2013-2014 budget agreement has been reached and has put in place new requirements for CIP (County Incentive Program) and EVIP (Economic Vitality Incentive Program) compliance in the coming year. As you will note below, there are changes to each of the three categories with the most dramatic change to the newly titled Category 3: Unfunded Accrued Liability Plan. The agreement also provides for a 4.8 percent increase for CIP and EVIP. Below are the new requirements in effect for the upcoming year:

Category 1 - Accountability and Transparency - Due Date 10/1/2013

- Produce a citizens guide, including recognition of unfunded liabilities
- Produce a performance dashboard
- Publish a detail debt service listing which includes, at a minimum, the following:
  - Issuance date, issuance amount, type of debt instrument
  - Listing of all revenues pledged to finance debt service by debt instrument
  - Listing of the annual payment amounts
- Publish a projected budget report - include current and succeeding year and assumptions used

  Note: All four of the above items must be made available in the City Clerk's office or posted on a publicly accessible website. In addition, all items shall be submitted directly to the State Department of Treasury. The City did comply with this filing due date for 2013.

Category 2 - Consolidation of Services - Due Date 2/1/2014

- Produce a consolidation plan and make it readily available in the City Clerk's office or posted on a publicly accessible website, in addition to submitting it to the State Department of Treasury.
- If first-time filer of a consolidation plan:
  - Include any previous service cooperations, collaborations, consolidations, innovations, or privatizations with an estimated cost savings for each.
  - Include one or more new proposals to increase the level of cooperation, collaboration, consolidation, innovation, or privatization within jurisdiction or with others. The timeline to implement and potential savings are also required.
- For all other than first-time filers:
  - Must include an update on all previous initiatives addressing:
    - Whether the previously proposed plans were fully implemented
    - Barriers experienced in implementing the proposals
    - Estimated timeline of steps to accomplish the proposed plans
  - Include one or more new proposals to increase the level of cooperation, collaboration, consolidation, innovation, or privatization within jurisdiction or with others. The timeline to implement and potential savings are also required.
    - If no new initiatives identified, must address why it is not feasible to enter into any new consolidation efforts

Category 3 - Unfunded Accrued Liability Plan (UALP) - Due Date 6/1/2014

If the most recent audited financial report includes unfunded accrued liabilities for employee pensions or other postemployment benefits, a plan to lower all unfunded accrued liabilities must be completed with the following elements:

- Listing of all previous actions taken to reduce unfunded accrued liabilities. This should include an estimated cost savings.
- Detailed plan of how the previous actions will continue to be implemented and maintained
- A list of additional actions that could be taken
- In the event that no actions have been taken to reduce the liabilities, an explanation as to why this is the case and what potential actions could be taken
- Note that any actuarial assumption changes and issuance of debt do not qualify as a new proposal
- The plan shall be readily available in the City Clerk's office or posted on a publicly accessible website. In addition, the entity should certify with the Department of Treasury that the plan is publicly available.
- If there are no unfunded accrued liabilities, the unit must certify to the Department of Treasury by the deadline and explain why none exist.

Personal Property Tax

The personal property tax was repealed by the passing of several bills during the Legislature's lame duck session in December. This repeal is contingent upon a state-wide vote in August 2014 to allow for a shifting of the use tax to a reimbursement fund. Key provisions of the act phase out the industrial portion of the tax over a nine-year period beginning in 2016. Also, businesses with less than $40,000 taxable value in industrial and commercial personal property in any jurisdiction would no longer pay the tax. For the July 2013 and December 2013 levies, it will be business as usual and communities will continue to levy as they normally have. However, for the July 2014 levy, this will change. Communities will not be able to levy businesses with less than $40,000 taxable value in industrial and commercial personal property. If, during the state-wide vote in August 2014, the proposed personal property tax legislation fails, for future levies the less than $40,000 taxable value rule will no longer be in effect. If this is the case, the communities will not be able to recover the amounts that were not levied in the July 2014 levy for the taxable values less than $40,000 for industrial and commercial personal property - this will just be lost.

As for the impact on local communities, in short, those local governments that would lose at least 2.3 percent of their property tax base as a result of the changes would be eligible to be reimbursed at 80 percent of the revenue the personal property tax currently provides. This reimbursement would come from the Metropolitan Area Authority, a newly created entity led by five members appointed by the governor. This authority would be responsible for distributing the use tax collections as well as monies generated from expiring tax credits.

In addition, local governments would have the option to assess a special assessment on industrial property (referred to as essential services assessments). This assessment would not require local voter approval and would reimburse police, fire, ambulance services, and jail operations to ensure they receive 100 percent of the funding that they now get from the personal property tax.

When working through upcoming budgets and longer-term projections, please keep these items in mind. The final act has not yet been published by the State.

The City of Northville's personal property tax currently brings in approximately $150,000. The Michigan Municipal League has developed a tool to aid communities in calculating the potential impact of the personal property tax cuts:

http://www.mml.org/advocacy/inside208/post/PPT-calculation-spreadsheet-available.aspx

Retro-pay Prohibition

Public Act 54 of 2011, which was signed by the governor on June 7, 2011, prohibits retroactive pay on an expired contract and calls for employees working under an expired agreement to bear the cost of any increased healthcare costs until a new contract is in effect. During that period, the public employer is authorized to make payroll deductions necessary to pay the increased cost of maintaining those benefits.

Recently, the House Local Government Committee held a second hearing on a new bill introduced this past summer that would amend PA 54 of 2012, the law prohibiting retroactive wage increases, to exempt police officers and firefighters. This proposed legislation did not pass during the lame duck session in December and will most likely be reintroduced in 2013.

Michigan Qualifying Statement Revisions and Changes to Filing Process

Bulletin 6 was recently issued by the State Department of Treasury and is effective beginning May 1, 2013. The bulletin details out the revisions made to the form, changes in the electronic filing process, and provides information on the new process to submit a reconsideration request.

The qualifying statement is now Form 5047. The new form and link to the online filing are available at www.michigan.gov/municipalfinance. You can also find Bulletin 6 by following this same link.

Several minor changes have been made to the form including the following: additional question asking for the municipality's six-digit municode, information buttons to provide added instruction, and elimination of the requirement to include SEV and population. In addition, changes were made to help ease the completion of the form such as the elimination of certain questions which were duplicative of information that the Department of Treasury already had at its disposal (i.e., audit filing date) as well as separating out compound questions to ease the process of responding to them.

The more significant change, however, is with the electronic filing process. Starting May 1, 2013, there is only one way in which a qualifying statement can be submitted, as follows:

1. The form is now a PDF that can be downloaded and saved. The form is fillable allowing preparers to type in responses and save the form with answers intact.

2. The PDF will be uploaded via the Department of Treasury website. The upload page is www.michigan.gov/municipalfinance. Once you are on the webpage, choose the Online Qualifying Statement link.

3. The State has a set naming convention that should be used for each uploaded file. The file should be named as follows: municipality's six-digit municode + fiscal year + the words "QStmt" (example: 7830402012QStmt). Please note, the system will only accept one qualifying statement per fiscal year per municipality.

4. Municipalities will not be able to use the same username and password that they used for filings prior to May 1, 2013. The State has directed each municipality to call the Local Audit and Finance Division at 517.373.3227 to obtain a new username and password.

The Bulletin also allows the qualifying statement to be filed by an individual other than the chief administrative officer (CAO) as long as the CAO is made aware and takes full responsibility for the filing. The filer will be asked to indicate whether they are the CAO or the designee at the time the qualifying statement is filed.

Upcoming Accounting Pronouncements

In June 2012, the GASB issued two new pension standards, GASB Statement No. 67, *Financial Reporting for Pension Plans,* and No. 68, *Accounting and Financial Reporting for Pensions*. These new standards significantly revise the current accounting and reporting for pensions, both from an employer perspective as well as from a plan perspective. Employers providing defined benefit pensions to their employees must now, under these new standards, recognize their unfunded pension benefit obligation as a liability for the first time and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised and expanded note disclosures and required supplemental information (RSI). Statement No. 67 is required to be adopted for 2014 and Statement No. 68 one year later.

35th District Court

During the year, the City wrote off the interest (approximately $50,000) in the 35th District Court as it was determined that there was no definable equity interest. The write-off impacted the government-wide statements only and had no effect on the fund statements.