

November 4, 2015

To the Mayor and City Council  
City of Davison, Michigan

We have audited the financial statements of the City of Davison (the "City") as of and for the year ended June 30, 2015 and have issued our report thereon dated November 4, 2015. 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.

Section II 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 management, 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**



Pam Hill, CPA  
Partner



Amanda Cronk, 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 April 7, 2015, 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. 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 25, 2015.

### **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 of Davison are described in Note I to the financial statements.

As described in Note 16 to the basic financial statements, in 2015, the City adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Accordingly, the accounting change has been retrospectively applied to prior periods presented as if the policy had always been used.

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 liability related to open Michigan tax tribunal cases, the net pension liability, and other postemployment benefit obligations. Management's estimates of the estimated Michigan tax tribunal cases, net pension liability, and other postemployment benefit obligations are based on probability of the settlement, the pension actuarial valuations, and the other postemployment benefit actuarial 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.

The disclosures in the financial statements are neutral, consistent, and clear.

#### ***Difficulties Encountered in Performing the Audit***

We encountered no 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 November 4, 2015.

***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**

### **Financial Outlook**

The City has completed one year of a modest financial recovery, following the 2008-2012 economic downturn. A review of your major revenue sources shows that:

- In many cases, property tax values are starting to inch up. Looking forward, we expect taxable values to continue to experience small or moderate increases. In monitoring this revenue source, we need to keep in mind that the future taxable value increases will be limited to the lesser of 5 percent or inflation; so even if home sales do increase at a faster rate, the property tax revenue will be held to this lower amount.
- State shared revenue is now experiencing modest increases. After significant reductions from 2001 through 2011, the new lower level of statutory revenue sharing seems to be increasing modestly each year.
- Building permits have rebounded somewhat, which may portend continued strengthening of the taxable value base.

During the economic downturn, the City resized its operations to fit the new lower revenue structure. The revenue improvements bring the City into a structurally balanced budget; however, the long-term fiscal sustainability will be dependent on the ability to hold cost increases (driven significantly by the cost of pension, retiree health care, and current employee health care) within the limits of expected revenue increases, which are predicted to be at or below the rate of inflation.

### **Legacy Costs**

Legacy costs and the challenge of funding them continues to be a topic of discussion. GASB pronouncements of late have placed even more focus on the net long-term liability arising from these benefit promises.

### **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.

Since the City does not currently administer the OPEB plan, GASB Statement No. 74 will not impact the City. The City will, after adoption of GASB 75, recognize on the face of the financial statements its net OPEB liability. The City is currently evaluating the impact these standards will have on the financial statements when adopted. GASB 75 is effective for fiscal year ending June 30, 2018.

**PA 298 of 2012 - Act 51 Performance Audits**

Public Act 298 of 2012 allows the Michigan Department of Transportation (MDOT) to conduct performance audits and make investigations of the disposition of all Act 51 state funds received by county road commissions, cities, and villages. The act states that these audits will be conducted by either an independent CPA or an employee of MDOT; however, recent communications sent to all cities, villages, and road commissions from MDOT indicate that you will need to have your CPA conduct the performance audit.

Based on this communication, the City will need a performance audit for its fiscal year ending June 30, 2017. These procedures will be focused on evaluating the procedures the City puts in place to ensure it complies with the requirements of Public Act 51, and we will issue a separate report for this engagement. We are currently in the process of writing programs to address the key compliance areas. It is not clear to us whether this will be an annual requirement, but we will keep you apprised as additional information is provided by the State.