

October 30, 2023

To the Honorable Mayor, Members of the City
Council, and Management
City of Farmington, Michigan

We have audited the financial statements of the City of Farmington, Michigan (the "City") as of and for the year ended June 30, 2023 and have issued our report thereon dated October 30, 2023. 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 Information 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 honorable mayor, members of the City Council, and management of the City.

Section II presents legislative and informational items that could have an effect on the City.

We would like to take this opportunity to thank the 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 honorable mayor, 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



David H. Helisek
Partner

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 August 3, 2023, 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.

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 on August 3, 2023.

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.

During the year, the City adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, which establishes criteria for reporting subscription-based information technology arrangements. This GASB statement was required to be adopted but did not impact the City's financial statements. 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.

The most sensitive estimates affecting the financial statements include the liability and expense associated with pension benefits, the asset and expense associated with other postemployment benefits (OPEB), and unbilled water and sewer charges.

Management's estimates of the net pension liability and net OPEB asset (and related pension/OPEB amounts) are highly sensitive to the various assumptions used by the actuary within the actuarial valuation. Those assumptions include the long-term rate of return, the discount rate, mortality assumptions, health care cost trend rates, and various other assumptions. While the actuary uses these assumptions to calculate the total pension liability and total OPEB liability, as management is ultimately responsible for the accuracy of its financial statements, it is management's responsibility to assess whether the assumptions made are supportable and appropriate based on the facts of its individual plan. Generally accepted accounting principles require that such assumptions be the best estimate as of the measurement date.

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

Management estimates the unbilled water and sewer usage at year end using subsequent billing.

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 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 was an uncorrected misstatement of the financial statements in recording revenue not within 60 days of year end totaling \$26,502, which resulted in deferred inflow of resources being understated and revenue being overstated. For the discretely presented component unit (DDA), there was no adjustment for cost to market for \$3,450 for the Oakland County Investment Pool, resulting in current assets being overstated and revenue being overstated. Management has determined that the effects of the misstatement are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Plante & Moran, PLLC agrees that these amounts are immaterial overall to the financial statements.

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 30, 2023.

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

Inflation Rate Multiplier for 2023

In January 2023, the Michigan State Tax Commission issued Bulletin 17 of 2022 regarding the inflation rate multiplier for use in the 2023 capped value formula and the Headlee millage reduction fraction formula. The inflation rate for property taxes as defined in Michigan Compiled Law (MCL) 211.34d has increased beyond the historical 5 percent cap to 7.9 percent for 2023. As a result, the inflation rate multiplier of 1.079 must be used in the calculation of the 2023 Headlee millage reduction fraction required by Michigan Compiled Law (MCL) 211.34d. As the inflation rate multiplier of 1.079 is higher than 1.05, the inflation rate multiplier to be used in the 2023 capped value formula is 1.05.

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 spring 2022 update and a link to previous fall and spring updates are available [here](#).

GASB Statement No. 99 - Omnibus 2022

This new accounting pronouncement has various effective dates. This statement addresses accounting and financial reporting requirements for specific issues related to financial guarantees, derivative instruments, leases, public-public and public-private partnerships (PPPs), subscription-based information technology arrangements (SBITAs), the transition from the London Interbank Offered Rate (LIBOR), the Supplemental Nutrition Assistance Program (SNAP), nonmonetary transactions, pledges of future revenue, the focus of government-wide financial statements, and terminology.

GASB Statement No. 100 - Accounting Changes and Error Corrections

This new accounting pronouncement will be effective for fiscal years ending June 30, 2024 and after. This statement enhances the accounting and financial reporting requirements for accounting changes and error corrections.

GASB Statement No. 101 - Compensated Absences

This new accounting pronouncement will be effective for fiscal years ending December 31, 2024 and after. This statement updates the recognition and measurement guidance for compensated absences under a unified model, requiring that liabilities for compensated absences be recognized for leave that has not been used and leave that has been used but not yet paid in cash or settled through noncash means. This statement also establishes guidance for measuring a liability for leave that has not been used and updates disclosure requirements for compensated absences.

Significant GASB Proposals Worth Watching

The GASB is working on two comprehensive projects that result in changes to financial reporting for state and local governments.

The Financial Reporting Model exposure draft was issued in June 2020, and the final statement is expected to be released in mid-2024. This standard proposes changes to many aspects of the City's financial statements, including the management's discussion and analysis (MD&A), proprietary fund financial statements, and budgetary comparisons. In August 2023, the GASB removed issues related to reporting of governmental funds from the scope of this project.

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

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 2025.

Plante & Moran, PLLC has spent significant time digesting these new proposed standards and recently testified to the GASB about our feedback. We strongly encourage the City to monitor developments with these standards, as the potential impacts are quite broad.

Attachments

Client: City of Farmington, Michigan
 Opinion Unit: General Fund
 Y/E: 6/30/2023

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Deferred Outflows of Resources	Current Liabilities	Long-term Liabilities	Deferred Inflows of Resources	Equity	Revenue	Expenses	Net Income Statement Impact
FACTUAL MISSTATEMENTS:											
A1	To report unavailable revenue						\$ 26,502		\$ (26,502)		\$ (26,502)
JUDGMENTAL ADJUSTMENTS:											
B1	None										-
PROJECTED ADJUSTMENTS:											
C1	None										-
	Total	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 26,502	\$ -	\$ (26,502)	\$ -	\$ (26,502)
PASSED DISCLOSURES AND FINANCIAL STATEMENT PRESENTATION ISSUES:											
D1	None										-

Client: City of Farmington, Michigan
 Opinion Unit: Discretely Presented Component Units
 Y/E: 6/30/2023

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

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FACTUAL MISSTATEMENTS:											
A1	Oakland County Investment Pool	\$ (3,450)							\$ (3,450)		\$ (3,450)
JUDGMENTAL ADJUSTMENTS:											
B1	None										-
PROJECTED ADJUSTMENTS:											
C1	None										-
	Total	\$ (3,450)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (3,450)	\$ -	\$ (3,450)
PASSED DISCLOSURES AND FINANCIAL STATEMENT PRESENTATION ISSUES:											
D1	None										-
D2											-