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October 29, 2026

To the Honorable Mayor, the 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, 2026 and have issued our report thereon dated October 29, 2026. 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 communicates significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process.

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 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

Timothy St. Andrew
Partner

Joshua Yde
Principal

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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 30, 2026, 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 meeting about planning matters on September 8, 2026.

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. As described in Note 1, the City changed accounting policies to adopt the provisions of GASB Statement No. 103, *Financial Reporting Model Improvements*, which resulted in changes to certain financial statement presentation and disclosure requirements. The City also adopted GASB Statement No. 104, *Disclosure of Certain Capital Assets*, which did not have any impact.

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 include the liabilities, deferred outflows and inflows, and expenses associated with pension benefits and other postemployment benefits (OPEB).

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.

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.

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 29, 2026.

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

Cybersecurity and Information Technology Controls

Cyberattacks are on the rise across the globe, and the cost of these attacks is ever increasing. Because of these attacks, municipalities stand to lose their reputation, the ability to operate efficiently, and proprietary information or assets. Communities potentially can also be subject to financial and legal liabilities. Managing this issue is especially challenging because even a municipality with a highly mature cybersecurity risk management program still has a residual risk that a material cybersecurity breach could occur and not be detected in a timely manner. We understand that the technology department continues to monitor and evaluate this risk, which are critical best practices. Additionally, periodic assessment of the system in order to verify that the control environment is working as intended is a key part of measuring associated business risk. We encourage administration and those charged with governance to work with the technology team on this very important topic. If we can be of assistance in the process, we would be happy to do so.

Artificial Intelligence (AI)

Artificial intelligence continues to be an emerging area of focus across all industries, including governmental organizations, and its use is expected to increase as software applications, analytics tools, and enterprise platforms evolve. While AI may create opportunities for increased efficiency, enhanced data analysis, improved service delivery, and automation of routine functions, it also introduces new risks related to data privacy, cybersecurity, accuracy, transparency, bias, records retention, and oversight - risks that are amplified when AI tools rely on sensitive information or operate without adequate policy and a trusted data foundation. Because AI is only as reliable as the data beneath it, strong data governance - clear ownership, data quality, classification of sensitive information, documented policies, and ongoing monitoring - is a key foundation for responsible adoption. We understand that the City continues to monitor and evaluate emerging technology risks, which are critical best practices, and we encourage administration and those charged with governance to periodically assess policies, procedures, system access, vendor arrangements, data management practices, and internal controls related to AI in coordination with the technology team. If we can be of assistance with AI readiness, governance, policy development, or AI risk assessment, we would be happy to help.

Transportation Funding

In October 2025, the State passed a new Transportation Funding Package that is effective beginning in the State's fiscal year 2026 and will continue through fiscal year 2030 and beyond. The package includes the following four items that have an impact on local units:

- Amendment to the Motor Fuel Tax Act to increase the motor fuel tax rate from 31 cents per gallon to at least 51 cents per gallon beginning on January 1, 2026
- Amendment to Act 51 to create the Neighborhood Roads Fund (NRF) and the Infrastructure Projects Authority Fund and prescribe the distribution of money from each fund
- Creation of a new act to impose excise taxes on certain sales or transfers of marijuana tax revenue and deposit the revenue into the newly created NRF
- Amendment to the Income Tax Act to, among other things, repeal the $600 million in income tax revenue currently redirected to the Michigan Transportation Fund (MTF) and generate additional revenue from the corporate income tax to the NRF

MTF distribution payments will continue monthly and will be separate from NRF distribution payments. Subsequent guidance issued by the Michigan Department of Treasury (the "Treasury") and the Michigan Department of Transportation indicates that NRF revenue is dependent on collections of corporate income tax and wholesale marijuana tax revenue and is subject to certain statutory distribution requirements before funds are available for NRF distributions. The Treasury has indicated that, before corporate income tax revenue can be deposited into the NRF, $1.2 billion must first be deposited into the State's General Fund and $50 million into the Michigan Housing and Community Development Fund. As a result, NRF distributions attributable to corporate income tax revenue may be delayed to the second half of 2026 or later.

Based on guidance and revenue projections currently available from the State, the City/County experienced a reduction in MTF distributions resulting from the repeal of the $600 million income tax earmark to the MTF. While the NRF is expected to provide additional transportation funding, the amount and timing of NRF distributions remain dependent on actual revenue collections and statutory distribution requirements. Accordingly, the timing and magnitude of future NRF receipts remain subject to change.

Further details of this Transportation Funding Package are available at https://www.michigan.gov/mdot/business/local-government/act-51/michigan-transportation-fund.

Revenue Sharing

The fiscal year 2027 budget includes approximately $1.68 billion for revenue sharing. Further details of the breakdown of this amount are available at https://www.michigan.gov/budget/budget-documents/final-signed-budget-bills. Constitutional revenue sharing is projected to decrease from 2026 by an estimated 2.3 percent.

The fiscal year 2027 City, Village, and Township Revenue Sharing (CVTRS) program maintained the 2026 formula and funding, which includes the following CVTRS-Standard and 3-Factor formula payments, as well as added Public Safety Revenue Sharing:

- CVTRS-Standard payment based on fiscal year 2026 CVTRS total eligible payment amount
- 3-Factor formula payments:
    - Taxable value payment - Based on taxable values and populations for local units
    - Weighted population payment - Based on unit type population weight factors and populations for local units
    - Yield equalization payment - Based on an amount that is sufficient to provide the guaranteed tax base for a local tax effort, not to exceed a factor of 0.02

The CVTRS-Standard payments are paid in one-sixth increments, paid on the last business day of October, December, February, April, June, and August.

The 3-Factor formula payments are paid on the last business day in February in an amount of half of the estimated 2027 payment, and the remaining payment is paid on the last business day in June.

Other New Legislation

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 update and a link to previous fall and spring updates are available here.

GASB Statement No. 105 - Subsequent Events

GASB Statement No. 105, *Subsequent Events*, is effective for the City's fiscal year ending June 30, 2027. This statement defines the subsequent events time frame as concluding on the date the financial statements are available to be issued, which is the date the financial statements are complete in accordance with generally accepted accounting principles (GAAP) and when approvals necessary for issuance have been obtained.

To define the end point of subsequent events, the City will need to proactively evaluate and clearly define which approvals constitute those necessary for issuance, as there is diversity in government procedures with respect to issuing financial statements. In many cases, a governing board or council may be required to take formal action described as approval. However, that action may actually be acceptance of financial statements already approved and finalized by management, rather than an approval process that allows for changes prior to issuance. In other cases, a governing board or committee may have been charged with the responsibility to review and finalize the financial statements before those financial statements can be issued.

The City should begin the process now to fully understand the requirements of their specific approval processes, document the nature of the approvals, and determine which approvals constitute those necessary for issuance. The financial statements are not considered available to be issued, and the auditor's report cannot be dated, until all approvals considered necessary for issuance are obtained; as such, the City may need to consider whether any policy and/or procedures changes are needed to avoid unintended delays in issuance and audit report dating.

Significant GASB Proposal Worth Watching

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 in two phases - one in late 2027 and another in 2028.

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